Q2 2024 Results

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2024 Results Presentation

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Good afternoon. Or should I say hello? It's more simple considering the time at which we are talking. Hello, everyone. Happy to present these results for the second quarter and for the first half of 2024 for Crédit Agricole SA. Just to put it in a nutshell, and we are going to start directly on page four. We are posting indeed for the quarter and for the first half of the year very good results. For the first half, you see the figure here, €3.7 billion of net profit and €1.8 billion for the quarter, which is apparently down 10% as compared to Q2 2023. And of course, we'll dig a little bit into these numbers later on.

But if you restate the basis for 2023 from exceptional elements, and if you read across the numbers of 2024, which includes some also exceptional elements, all in all, it's a stability of the net profit at Crédit Agricole SA for the quarter at the high level of €1.8 billion. Therefore, as we did already in the last quarter, we fully and confidently confirm our capacity to reach and to exceed €6 billion of net profit for the full year, which is, again, the results that we've initially forecasted for 2025 and that we now intend to meet one year ahead of schedule.

Maybe two or three additional elements on this page, this high result for the quarter is, again, reached thanks to a high level of revenues. And we will, of course, analyse a little bit the origin of this revenues. We continue to post a very efficient cost income ratio, 53.4% for the first half of the year and even 53.2% for the quarter. And maybe two last points, the return on tangible equity is above 15%, 15.5%, to be clear. So for the first half of the year, it's a very high return on tangible equity and significantly above the target of 12% we had for the medium-term plan. And lastly, the CET1 ratio at 11.6% is down 20 bips as compared to end of March. And we will explain the reasons why. But definitely, it's above and far above the target we had for the plan, which was and which is 11%.

If I go to the next page, the following page, you have all the figures for the first half and for the quarter, for the Group and for Crédit Agricole SA. At Group level, clearly, we are having a very good first half of the year with a net profit, which is up €4.4 billion. It's up 6.5% almost. Revenues up and gross operating income up. If we dig a little bit into CASA's numbers, as I've said, very high level of profit for the first half, €3.7 billion, it's up plus 14% and €1.8 billion for the quarter, again, apparently down 10%. But restated from the different exceptional elements I was referring to, it's more or less stable as compared to Q2 2023. Revenues are up both for the first half and for the quarter and the gross operating income is up for the first half. And we will show it a little bit later on is also up on a comparable basis for the quarter. And liquidity and solvency are at very high levels. I've already mentioned the solvency for CASA at group level, it's 17.3%, also down 20 bips for the same reasons and the liquidity is very high, has even improved over the last quarter.

If I go on the following page, some indications regarding the activity of the group and its different businesses over the course of the last quarter and the first half of the year. All in all, we are having a very good level of activity in retail banking businesses with good level of customer acquisition, customer capture both in France and in the other retail banks of the group in Europe. We continue to see an increase in the customer deposits this quarter in France and Italy. There is, to a certain extent, a stabilisation of the home loan activity in France. It's clearly a level that is much lower than the one we've had before the rates started to increase, but it is stabilising, which is a good signal. And we are having a slight increase in the production of new corporate loans in France. When it comes to other retail businesses abroad, the production of new loans is up quite significantly. And lastly, for consumer finance loans, especially for the financing of cars, we continue to have a production of new loans at a very high level, around €12 billion over the quarter.

When we come to the other activities, starting with insurance, we are having a very good quarter in the insurance activities with significant growth inflows in life activities, and we continue to see a steady growth in premium income in P&C and personal insurance protection businesses over the quarter with penetration rate or equipment rate of our customer basis continuing to grow in all our retail banks in France and Italy. For the asset management activity, you've seen Amundi's numbers last week, which were very good. And indeed, it's been a good quarter in terms of inflows and in terms of the level of assets under management, which have reached a record level. Lastly, but not leastly, I would say CIB activities were very good again this quarter with a record half year for CA-CIB, and you have a series of figures on the right-hand side of this page that illustrate this very good level of activity across the board.

If I go now to page eight, we are going to dig a little bit in the evolution of the revenues at CASA. So the stated level of revenues is up 1.8% Q2 2024 over Q2 2023, plus €120 million of increase. But definitely, we have to restate Q2 2023 figures from exceptional elements of revenues, mostly revenues in connection with the reshuffling of our agreements with Stellantis, which generated a one-off, positive one-off of close to €300 million of revenues. And you may remember also that we had booked in Q2 2023 some exceptional revenues in connection with the final settlement of a litigation, which was called "*echange image cheque*", check image exchange. And so we've been able to recuperate close to €60 million of revenues, 40 million in the corporate centre. And also, if I remember correctly, around 20 million at the LCL.

So restated from these elements, Q2 2024 increase is closer to 6.7%. So it's a little bit more than €400 million of revenue increase in this quarter as compared to Q2 2023. And you see, on the right-hand side of this page the steady increase that we've been able to post quarter-over-quarter since at least 2017 and since 2017, it's indeed an increase of 50% of the top line at CASA for the second quarter of the year, despite the fact that we've transitioned to IFRS 17 in 2023, which of course, generated, as you know, a one-off decrease of the level of revenues overall.

On page nine, some elements regarding the evolution of the cost base. So obviously, if you take only the stated figure, the increase is quite significant. Plus €400 million plus 12.5%, around 12.5%. But of course, you have to dig a little bit into this number in order to understand where it comes from. The first element is that more than €150 million of additional costs come from the scope effect because this quarter compared to Q2 2023, we have a full quarter of RBC activities and we have one month of Degroof Petercam activity the month of June. So all in all, this represents around 150 plus, €156 million of costs, which has to be restated if you want to assess the organic underlying evolution of the cost basis.

The second element is that in Italy, we had to book this quarter the yearly contribution to the local Deposit Guarantee fund, the DGS for an amount of €58 million. Previously, we booked this contribution in the fourth quarter of the year. So it's not exceptional in the sense that it takes place every year, but it's exceptionally booked in the second quarter. Whereas previously it was booked in the fourth quarter of the year. So restated from these two elements, the increase of the cost base Q2 on Q2 is limited to €180 million, which is an increase of 5.7%.

And again, if we dig a little bit into this €180 million of increase, you end up by acknowledging that we have around €130 million of increase of the staff cost and around €50 million of increase of the IT investment costs. When it comes to IT investments, it's clearly linked to the development of our activities and also, to a certain extent, to the development of the different requirements from the regulator across the board, I would say, that requires us to continue to develop some tools in order to better report some information to the different supervisors.

But if we zoom a little bit on the staff costs, out of the €130 million of increase, you have around €40 million of additional provisions for variable compensation, both at CA-CIB and at Amundi. So it's an increase of this amount as compared to what it was in Q2 2023 and it's clearly linked to the very good financial and commercial performances of those two businesses. So definitely, it's not an amount that has already been spent. It's reserved and it's going to be used or not at the end of the year, depending on the final yearly performance of those two businesses.

And the last point comes on the fixed remuneration basis. So the remainder of the €130 million or around €90 million. And you may remember that last year, in this inflation context that we had in Europe, we accepted to grant general salary increases in the middle of the year with an effect beginning of July, which is adding up to what we normally do, which is a series of individual salary increases that take place in the beginning of the year, so in January.

So it means that if you compare Q2 on Q2, you have the effect of both salary increases even the one that took place in July and the one that took place in January. Of course, as soon as we will assess Q3 numbers, we will be left only with the effect of the January salary increases. So much more modest evolution to foresee for the third quarter of the year on this element of the cost basis. So all in all, a perfectly understandable evolution of the cost basis leading to a cost income ratio slightly above 53%. So very, very significantly below the ceiling of 58 that we had set for the medium-term plan.

On the following page, some elements regarding the cost of risk. To put it in a nutshell, it's very stable as compared to the previous quarters, be it as compared to Q2 2023 even to the average of the last four quarters. So definitely, a situation which is not showing any kind of significant deterioration of the quality of our loan books. And this is illustrated also by the fact that the level of NPLs is also very stable at 2.2%, whereas the coverage ratio continues to be very high.

I was mentioning the 2.2%, excuse me, for the group and 2.5, slightly down for Crédit Agricole SA, and the coverage ratios, both for the SA and for the group continue to be very high and even slightly up this quarter as compared to Q1. So definitely, even though we have to monitor closely the risk situation everywhere, no sign of deterioration and a cost of risk, which for the perimeter of Crédit Agricole SA, continues to be below the assumption that we had made for the medium-term plan.

On page 11, you have the wrap-up of all these elements regarding the P&L. So what you can see on the right-hand side of this page is that on an underlying basis and excluding the contribution to the Deposit Guarantee fund in Italy, we are posting this quarter an increase of the gross operating income, modest increase at this stage, but an increase. And of course, if you look back at the acquisitions that we've made, we are not yet there in terms of extracting all the benefits of those acquisitions. So the marginal cost income ratio of those acquisitions is not yet where we want it to be when the integration is going to be fully completed. The other elements are not significant, even though the tax level is above the one we had back one year ago. And all in all, this is leading to this stability of the net profit of Crédit Agricole SA between Q2 2023 and Q2 2024.

If I go to the next page and if I give you some comments on the solvency at Crédit Agricole SA, I've mentioned the ratio, CET1 ratio 11.6%. It's slightly down minus 20 bips as compared to the end of Q1 2024. It's, of course, very significantly above our SREP requirements, 300 bips. Actually, what you can see on the bar chart on the left-hand side of the page is that post distribution or post reserving of the dividend, we've generated 22 bips of capital, but we've consumed 35 bips of capital due to the effective closing of two M&A transactions this quarter. The Degroof Petercam acquisition for 28 bips and the Alpha Associates acquisition by Amundi for an additional five bips. So definitely, this is why we are posting a slight decrease of the CET1 ratio, but nothing worrying in terms of capacity of generating organically significant level of additional solvency every quarter above what we need to fuel the organic growth of the business lines.

This is more or less the same story at the level of the Group globally, where you have also a slight decrease of 20 bips of the CET1 ratio, 17.3%. Obviously, very, very significantly above any regulatory requirements, 760 bips over the SREP level. The leverage ratio, which is stable at 5.5%, and the other ratios also vary significantly above any requirements.

I'll finish with simply providing you some additional information of the liquidity situation of the Group, which obviously, continues to be very satisfying. Liquidity reserves have even slightly increased over the quarter, close to €480 billion of different categories of reserves. LCR and NSFR ratios far above the requirements. And for the LCR ratio, 146% with only €700 million of TLTRO to finally repay before year-end. We've repaid 5 billion of TLTRO in June and a stable resources position, which is close to €200 billion, which is thus a far above our, I would say, target in terms of steering. Lastly, customer deposits continued to be high and actually, grew a little bit over the course of the quarter with, as always, a significant proportion, around two-thirds of these deposits coming from individual and SMEs.

And maybe one additional comment I can make on the breakdown of the customer deposits is that when it comes to retail banking activities in France, we've started to see this quarter a slight increase of a slight rebound of sight deposits. You know that in the last two years, we've seen a strong decrease of sight deposits with switches onto regulated savings accounts or term deposits and now we see again sight deposits slightly increasing. So we'll have to check in the coming quarters if this is the confirmation that the breakdown of customer deposits is now fully stabilised.

I think I will stick here simply by summarising again, the numbers I've just commented by the fact that with €3.7 billion of net profit over the first half of the year, we are well on track to meeting our targets for the full year. Thanks very much and ready to take your question now.

Q&A

Operator: Thank you. This is the conference operator. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. To remove yourself from the question queue, please press star and two. Please pick up the receiver when asking questions. Anyone who has a question may press star and one at this time. The first question is from Tarik El Mejjad with Bank of America. Please go ahead.

Tarik El Mejjad (Bank of America): Hi. Good morning, Jérôme. This is Tarik from Bank of America. Just a couple of quick questions, actually. The first one, maybe it's not fair to ask you that soon, but there was some headlines or some news in the La Repubblica about potentially new solidarity levy for Italian banks and actually insurance as well this time. Do you have any comments on that? Is there certainly anything that's been discussed before? It looks like this time it will be more kind of consultation with banks before coming with proposals on how that will be calculated. Any views?

And second question you commented on some Crédit Agricole being willing to be active on consolidation in Europe. Were you referring mostly to the kind of deals you've done so far in the wealth management and other smaller bolt-ons or you're thinking something bigger? And maybe I'll add a quick one on Degroof Petercam and if you can give us some update on potential impacts post full integration, if you have any updated ones from the ones that you gave us pre-consolidation. Thank you.

Jérôme Grivet: Thanks, Tarik. New bank levies in Italy, I don't have any view on this point. You know that the banks are an easy target for governments that want to impose taxes and to raise public money. The main point for us is that competition has to be maintained. So if there is something new in Italy, which is not something I can confirm, it would apply to all banks. And so it would simply mean a change in the conditions under which we operate in this country, which is going to hit all banks. So it's not necessarily good news, but it's not something which is a game changer. So definitely, we remain very cool about that.

Consolidation, we continue to stick to the same motto. First point, we do not believe that consolidation in large commercial or retail banks in Europe can take place cross-border, simply because there's too many headwinds. And we continue to think that there might be some room for further consolidation in specialised business lines. We've been able to seize opportunities in the past. I think we've been able to seize them whilst maintaining a very good financial discipline on those operations, and we'll continue to do so going forward.

Lastly, on Degroof, maybe two or three elements. The first element is that it's very new for us because we've started only beginning of June to take control of Degroof Petercam. So it's rather new. Second point, we continue to target an additional contribution to our net profit that would be between €150 and €200 million by 2028, which I have said already in the first quarter call.

This quarter, we've booked two elements of cost related to this acquisition. The first one is integration costs that started by a modest €5 million because, again, the group is with us only since the beginning of June. And we've booked also but it's not on the cost line, we've booked some acquisition costs, €12 million. So it's hitting the net profit, but it's not on the cost line.

And then maybe one last comment, which is that we've taken all the solvency impact of this acquisition this quarter. By end of June, we have only 65% of the capital of Degroof, but we are going to have 80% by end or close to 80% by end July. So definitely, this is going to represent an increase in our stake, but we've taken the full solvency impact of that, even we've taken also the solvency impact of the potential acquisition of the last 20 plus percent on which the minority shareholder has a lock up and then they have the capacity to remain in the long run. But definitely, we've taken the full impact of that. So no additional impact in terms of solvency that is going to come from Degroof.

Tarik El Mejjad: Thank you.

Operator: The next question is from Giulia Aurora Miotto with Morgan Stanley. Please go ahead.

Jérôme Grivet: Hello, Giulia.

Giulia Aurora Miotto (Morgan Stanley): Yes. Hi. Good morning, Jérôme. My first question will be on capital. Can you please remind us of the impacts coming, especially from the regulatory front and now that FRTB has been postponed? So that's a simple numbers question. And then secondly, French retail, you seemed encouraged by the development inside of deposits. Can you give us some outlook on how you expect that revenue line to develop for the rest of the year? And I have a very quick one on slide 21 where you comment large customers. Basically, the slide says good level of activity supported by structured equities. And my question is just what do you mean by structured equities? Because I know this was a strong quarter for equity derivatives. That's what we heard from every bank that has reported before you. But I didn't think that was a big area for Crédit Agricole at all. So, yeah, I'm surprised by this comment. Thank you.

Jérôme Grivet: Okay. I can start directly with the last question. We have a small activity regarding equities, be it equity capital market, be it equity derivative and be it also different categories of structured financing of equity acquisitions. So the comment is related to all these equities' businesses. It's a slight business for us. If you are looking at this slide on page 21, it's included on the light blue element on the top of the bar chart. So it's, all in all, and it's combined with also investment banking revenues. So definitely, it's not a very significant amount, but we wanted simply to mention the fact that, as was the case for much bigger players in the field of equity derivatives, we've had a good quarter in this business.

On the capital front, what we can tell you is that ahead of us, first point, we have the last five points of the phasing out of IFRS 9. So this is going to take place in 2025 and then we will be done with IFRS 9. Then we have Basel IV. Again, I confirm that globally, Basel IV is going to be more or less neutral for Crédit Agricole SA, but unfortunately, it's going to be neutral in several steps. So we'll have a negative step in Q4, which is the strengthening of the requirements for leasing activities.

So this is going to represent around 13 bips of solvency for CASA in Q4 this year. Then we will have the bulk of Basel IV that is going to take place beginning of 2025, which is going to be globally positive and positive by more than 13 bips, probably 15 or 16 bips. Many, many elements : operational risk, strengthening of the requirements on some categories of credit risks. But in the other direction, the easing of the constraint on the carrying value of the insurance activities. So this is going to, all in all, be positive probably by 15- 16 bips.

And then FRTB, which since from today is going to bite only in 2026. And as of today, what we think is that it's going to represent a negative impact of a few bips. I don't know exactly how many bips, but probably five or six bips, seven bips. But quite uncertain at this point. So all in all, more or less neutral, but unfortunately, in several steps.

And then maybe the last point I can mention without stating any precise figures is the fact that we have announced the transaction between Amundi US and Victory Capital. What we expect is that at CASA level, this transaction is going to free a little bit of capital but it's not possible at this stage to quantify precisely how many bips of additional solvency it's going to generate. And probably the closing of this transaction is going to take place in Q4. So precisely, at the time when we'll have to take the leasing impact of Basel IV. So it's going to reduce probably a little bit the headwind for Q4.

Giulia Aurora Miotto: Thank you. The French retail outlets?

Jérôme Grivet: Excuse me, the French retail. Absolutely. I was forgetting this question. I should not because I know that this is permanently a question in our calls even though French retail is in the scope of Crédit Agricole SA, not a massive component of the revenue generation. What we've seen in this quarter is that we've had a good level of NII, boosted actually by some one-offs. So it's difficult to tell exactly what would have been the NII evolution without the one-offs, but probably in the low single-digit evolution, which is definitely positive, but not as much as the plus 11%, 10.9% that we are posting formally this quarter.

What we see, as I've said in my introduction, is that there is a stabilisation of the breakdown of the customer assets, which is positive because, of course, and even a slight rebound of side deposits, which is definitely going to be positive, if this is confirmed, for the overall weighted cost of customer liabilities. The second point, which may help going forward, is the progressive reduction of the cost of the regulated savings accounts. So starting from August the 1st, as of today, there is a reduction from 5% to 4% on a specific category, which is called Livret d'Épargne Populaire. At LCL, it's not significant, it's €2–3 billion of deposits.

But at the level of the regional banks of Crédit Agricole, it's much more significant, around 25 billion, if I remember correctly. And then possibly beginning of next year we'll see the reduction of the Livret A rate because normally, if we believe in the forward, we should see an average between short-term rates and inflation rates around 2.5% next year. So this would apply definitely on a more significant customer deposit basis. So that would be also positive for the average cost of the customer liabilities.

Then when it comes to the yield of the loan book, it is still difficult to tell exactly the pace at which it will continue to improve because it fully depends on the production of new home loans. And it's clear that even though the production of new home loans was a little bit up in Q2 as compared to Q1, it's difficult to tell if in the present environment of political uncertainties in France, it will continue to catch up in Q3 and in Q4. So definitely, continue to have a lot of uncertainties, but the real good news is the stabilisation of the breakdown of the customer deposits.

Giulia Aurora Miotto: Perfect. Thank you.

Jérôme Grivet: Thank you.

Operator: The next question is from Delphine Lee with JP Morgan. Please go ahead.

Jérôme Grivet: Hello, Delphine.

Delphine Lee (JP Morgan): Yes. Hi, Jérôme. Thanks for taking my questions. I just have really two quick ones. First of all is on insurance, to just get a bit of colour on the strength of this quarter, if there's anything that you can highlight in terms of pricing or product mix or anything on P&C or life insurance that you can just help us sort of understand better. And my second question is on capital. You previously talked about sort of optimising a bit RWAs, if I remember this correctly. I mean, you still have the 4 billion of TRIM impact, I think, coming maybe in 2025. Just wondering what we should expect, because organic growth was relatively strong this quarter. And also just a very quick one on the capital increase for employees that you're doing in Q3. Do you intend like last year to offset this dilution with a buyback? Thank you.

Jérôme Grivet: I'll start directly with the last question because the answer is clearly yes. So no surprise on this front. There is going to be a capital increase that is going to be probably acknowledged by end of Q3 but offset in Q4 by a dedicated share buyback operation. In insurance activities, what we see is clearly a very good commercial momentum, which is, with all the complexity of IFRS 17, more or less translated into the evolution of the revenues and into the evolution of the net profit. But definitely, the starting point is that we've had a very good quarter commercially. In terms of life activities, a significant level of gross inflows. In terms of P&C and protection, a good level of premium income. And in terms of P&C, rather, I would say normal level of sinistrality, which is also helping in terms of revenue generation. So all in all, again, with all the complexity coming from IFRS 17, a good level of activity this quarter. Markets that were okay from an insurance point of view. And so this is leading to a good translation in terms of revenues and profits.

RWA optimisation, we continue to work on the capacity of optimising our RWA. Maybe two or three additional precisions regarding your question. The €5 billion of TRIM impact that we've been talking about since now many quarters, is part of the day one Basel IV impact I was referring to for the beginning of 2025. So no additional cost to integrate taken into account in here plus 15 or 16 bips of solvency created by the implementation of Basel IV beginning of 2025.When it comes to RWA consumption by the business lines, it's been a dynamic quarter at CA-CIB with a specific element, a technical element that is a partially, probably reversible, which is the fact that we've had a slight modification of the rules to update the rating, internal rating of our different counterparts. The position of the ECB up to now that we had one month after the 12-month period, that is compulsory to adjust, and now this additional one month is off the table. So this is leading to a few or several million euros of additional RWAs this quarter that we are going to try to get rid of in the coming quarters. But definitely, a good level of activity at CA-CIB is indeed translating into a higher level of RWA, which is normal. And again, you perfectly have in mind that if we think that it's going too fast from an RWA point of view, we are able to use securitisation or different techniques in order to out stream RWAs, even if it's at a cost.

Delphine Lee: Great. Thank you very much.

Jérôme Grivet: Thank you.

Operator: The next question is from Guillaume Tiberghien with BNP Paribas. Please go ahead.

Guillaume Tiberghien (BNP Paribas): Thank you very much. Two very small questions in French retail. Number one is on the current account deposit. You say that you see possibly tentative signs of improvement. Could it be due to the last three weeks of June, where people were a bit paralysed because of the elections and they decided to put money, even if it doesn't remunerate much on very liquid deposits? The second question is on trying to quantify, because you don't give it, the one-off in NII in French retail. And I noticed that the tax rate is only 22% in French retail instead of normally 25%. So can I work it backwards and basically say that this is a roughly 35 million untaxed private equity gain in there? Thank you.

Jérôme Grivet: Guillaume, I always appreciate how cleverly you can work out figures. So definitely, it's a good path to acknowledge this level of private equity. No, what I was mentioning is that probably restated from all the one-offs, the positive evolution of the NII in French retail should have been in the lower single-digit levels. So definitely, a positive, but definitely, far less than the +11% that we are posting.

In terms of sight deposits, the reasoning you're making is precisely the reason why I am a little bit cautious before confirming the full stabilisation of the customer deposit breakdown in French retail. We have seen the latest GDP figures for the French economy that were published two days ago. And what we have seen is that, surprisingly, the level of the GDP growth for the quarter was good, 4.3%, but was not reached with a good level of consumption, which we were expecting, actually. So there is certainly some *attentisme* [wait and see] in the consumer spendings. This *attentisme* may be linked to the political situation. It's probably also linked to some more, I would say, conjunctural elements like the weather.

Definitely, what we hear on the ground is that many, many restaurants and bars that were planning to have outside offers suffered a lot in June because of the rain - that's unfortunate, that's the case. And there is also this point that probably French customers have not yet fully acknowledged that indeed, in average, they are gaining in consumption power because salary increases beginning of this year were overall higher in average than the level of inflation.

So there is indeed an increase in purchasing power by the French consumers, but it's not fully acknowledged yet. And the narrative regarding the difficulties of the day-to-day life for the French citizen is also probably triggering this caution before spending. So we have to see exactly where it goes and we'll have to see also if this triggers some outflows from the sight deposits if the consumption starts to rebound. So we'll talk about it in the course of the coming quarter.

Guillaume Tiberghien: Thank you.

Jérôme Grivet: Thank you.

Operator: The next question is from Stefan Stallman with Autonomous Research. Please go ahead.

Stefan Stallman (Autonomous Research): Hi, Jérôme. Thanks for taking my questions. I wanted to ask first about the insurance business, please. I think this is the first time in probably five years that you had net inflows into Euro life policies. Do you think there's a more permanent, maybe an early sign of a more permanent switch of clients who actually never quite liked the unlinked and now have an opportunity to go back into Euro policies, given the better rates environment? And if that is in fact the case, what do you think this means for, let's say, solvency and capital management in the insurance business in the medium term, if anything?

And the second question is on your dividend plans or the payout plans. The accrual rate that you apply every quarter seems to be a bit uneven, it's now 54% of EPS for the first half. So it's close to your 50, but not exactly at 50%. How should we think about the accrual for the second half of the year? Is it going to follow just 50% of EPS? Are there other considerations? And what does this all mean for the dividend for the full year if anything? Thank you.

Jérôme Grivet: Let me start with the second question. Actually, we should dig a little bit into the numbers because we are accruing exactly 50% of the attributable or payable or distributable results. So I don't know exactly what is the difference between the 54% that you've calculated and the 50% that we are indeed accruing. So there should be some technical explanation, which I do not have in mind now. So we'll check that and we'll revert to you in order to give you the explanation. But the intention is clearly to stick to the 50% payout on what we deem normal to distribute. So there is probably a technical explanation. On the second –

Stefan Stallman: Oh, sorry, there was about a 200 million negative AT1 FX effect, I think, in the first quarter. And I'm not sure how you treated that for your payouts, but maybe you looked through that.

Jérôme Grivet: Yeah, exactly. So I was suspecting it was coming from the AT1 because when it comes to the result, there's nothing that needs to be restated. So it's elements that do not feed into the P&L that indeed are playing a role. And probably, it's coming from the AT1, I agree.

Stefan Stallman: Okay. Understood.

Jérôme Grivet: Second point on insurance, it's clear that there is at the same time, more attractivity for Euro products and less attractivity for UL because, you know, that the strong growth in UL products in the last two years was coming from a fixed income unit linked products that we've generated with bonds issued by the group and wrapped into unit linked products. And considering the fact that long-term rates have peaked, that credit spreads have shrunk a lot we are no longer in a position to propose the same type of remuneration for these UL products.

So at the same time, you have Euro products that seem to be more attractive and UL products, which are less attractive. So indeed, this has triggered this positive inflows for Euro products over the quarter. But definitely, we are talking about less than €1 billion of net new inflows over the quarter. So we do not see that as a danger for the capital solvency monitoring of the insurance activities. It's positive for our customers. We are happy with that. We are proposing a remuneration, which is taking into account the reality of the assets that we can have in the portfolio, and we do not see this slight level of positive inflows as a threat to the management of our capital position in the insurance business.

Stefan Stallman: Great. Thank you very much.

Jérôme Grivet: Thank you.

Operator: The next question is from Joseph Dickerson with Jefferies. Please go ahead.

Joseph Dickerson (Jefferies): Hi. Thank you for taking my question. Can you just discuss the strength in the consumer finance business because it stood out versus your peers quite strong? I think last quarter you talked about some of the front book margins now starting to pick up and I suppose that might accelerate with whatever happens with interest rates coming down over the rest of the year. So I guess what's the outlook for that business and what are the drivers there because that was quite a standout performance versus peers? Thank you.

Jérôme Grivet: Actually, the business is at the same time in a profound transformation in terms of breakdown of activities, because we've invested a lot in order to develop what we call mobility financing, i.e., all the business of financing cars, which is developing much more rapidly than the rest of the business. You can see on page 23 that it's growing at a pace of close to 14% in terms of outstanding, whereas the rest is more in the region of around 4% to 5% of development. So that's one point.

And the second point is that indeed, we are now slightly improving and we continue to improve the average margin because we continue to benefit from a reduction in the refinancing costs while trying to continue to pass to the customers the past increases in rates that we had to withstand. So definitely, it's a business that is developing well from a commercial point of view and that is improving from a strictly financial point of view.

And last point maybe, we've seen a stabilisation and even a slight improvement in the cost of risk of this business. So this is also a last point, which is positive for the business.

Joseph Dickerson: Thank you very much.

Jérôme Grivet: Thank you.

Operator: The next question is from Jacques-Henri Gaulard with Kepler. Please go ahead.

Jacques-Henri Gaulard (Kepler Cheuvreux): Yes. Good morning. Two questions which are linked, really. The first one is about the increase in the stake of the regional banks into CASA, which is now at 62.8. So the question is, can you remind us where they are bound if they've communicated of where they can actually go up to? And the second question, which is linked to that clearly, and we're back a bit to acquisition. You clearly have and that's a tribute to what you're done with Xavier and Philippe over the last ten years, your multiple has more or less doubled, which is not necessarily the case of every French bank. You have a tool to basically buy something maybe not big, not talking about big consolidation, but you have an optionality to use that multiple to actually develop. Is it something that might be considered or it's not at all on the cards? Thank you.

Jérôme Grivet: Thank you, Jacques-Henri, for the appreciation of what we've been doing. Starting with the stake of the regional banks, their only communication is that their intention was not to go above 65%. So theoretically, they have room to go from 62.8% up to 65% without having to modify their formal communication. And obviously, if they want to go above 65%, the only condition besides the technical conditions is simply to state that they have a new internal target of steak. But I haven't heard anything about modifying this 65% target.

When it comes to using our multiple in order to finance M&A operations, what I would say, I do not want to rule out or to confirm any kind of significant operation. What I just want to say is that any potential M&A transaction has to be looked at, firstly for its own strategic and financial merits. And then, if it makes sense from a strategic and financial point of view, we have to check what is the best way to finance it.

But definitely, the starting point is to check if the operation makes sense from a strategic point of view and if it meets our financial criteria. And then, of course, when it comes to how we fund the operation, we have a series of options. Up to now, what we've done, and it was the most efficient ways of doing things was simply to use our capital generation capacity above distribution and above the organic growth of the business lines. In the last three, four years, that was exactly what we did. It doesn't mean that we have to stick to that for the future. But up to now, it's exactly the best way to do things.

Jacques-Henri Gaulard: Thank you very much, Jérôme.

Jérôme Grivet: Thank you.

Operator: The next question is from Flora Bocahut with Barclays. Please go ahead.

Jérôme Grivet: Yes. Hello, Flora.

Flora Bocahut (Barclays): Yes. Hello, Jérôme. Two questions on my side. The first question is actually regarding the ECB rate cut that happened at the end of the quarter in June. I find when I look at your business mix at Crédit Agricole that rate cuts may actually benefit a lot of your businesses. So I was just wondering, obviously, it was only a month and there's been noise elsewhere. But have you seen any impact, whether on your businesses, on your clients' behaviour, on the way your competitors reacted across the market post the ECB rate cut?

The second question is regarding your net profit guidance for this year. You did obviously a very strong H1 - you've achieved now 3.7 billion of net profit in H1. I know you don't like to change that target too often, but the question is simply is there anything that we need to expect in H2 beyond the normal seasonality that would explain why we keep that guidance and change despite the strong H1? Thank you.

Jérôme Grivet: Thank you, Flora. On the first point, for the time being, the cut was very modest and it took place in the middle of June. So it hasn't had time to really change, neither from a direct mechanical point of view on our numbers, neither on the behaviour of the customers. I would say that the area in which it has triggered a reaction that shouldn't have taken place was the pricing of home loans. Because definitely, home loan pricing in a country where the home loans are granted on a fixed rate long-term basis shouldn't be impacted by a short-term rate cut by the ECB. but it was. I would say from a psychological point of view, it created some kind of momentum to an increased competition between banks and it has played a role in this decrease that we've seen. For the time being, it's manageable, but nevertheless, it's the decrease from the pricing of new home loans. So what we need to check in the coming quarters is first, is the ECB really going to stick to what we have in mind, i.e., two other rate cuts up to the end of the year and then another two or three cuts next year in order to reach a neutral rate that we see around 2.5% in an environment where then there would be a normalisation of the rate curve over all the maturities, because for the time being, we are still in an abnormal situation. But for the time being, it hasn't had a very significant impact on us.

Net profit journey for 2024, yes, we are a little bit ahead of the curve at the end of June in order to reach the 6 million plus target before year-end. There is a normal seasonality. And so you all know that in certain of our businesses the summer is a weaker period of time. It's the case for CIB activities, clearly, and there is another seasonality in December. If the year has been good, then everybody stops working beginning of December. So this is triggering potentially a weaker level of revenues in some activities, both for Q3 and Q4. But besides this normal classical level of seasonality, there is nothing bad you should expect in the second part of the year.

Flora Bocahut: Okay. Thank you.

Jérôme Grivet: Thank you.

Operator: Next question is from Anke Reingen with RBC. Please go ahead.

Anke Reingen (RBC): Yeah. Thank you very much. Just two small questions. The first is on the underlying cost growth of the 5.7% year-over-year. Just confirming that this is sort of like should be almost like a peak as your second half last year was already a higher cost base, or should it be continuing to run a bit at this rate, considering inflation as well as potential investments? And then secondly, I was just wondering if you have anything to add on the ECB review of the leveraged finance exposures and what if you're happy to provide any indication about the size of the exposure that would be in scope at your bank? Thank you very much.

Jérôme Grivet: The cost base is not peaking and it's not growing rapidly. I tried to explain why actually we have had an increase this quarter, which was triggered by the scope effect significantly, probably 40% of the whole cost increase. And so the scope effect, it's not the peak, it's a new step that we've went up. And this is also leading to a new step that we have to go up in terms of revenues. But definitely, inside our cost basis, we will have starting from now, the full scope of RBC and starting in Q3, there is no longer any kind of scope effect because it was already present in Q3 2023. And it's going to be the same for Q3 2024.

When it comes to Degroof Petercam, there is going to be a new increase in Q3 as compared to Q2 because in Q2, we had only one month of Degroof, and starting in Q3, we'll have definitely three months' worth quarter of cost base of Degroof. But besides, there is no project of massively increasing the cost basis. We think that the inflation is now significantly curbed, and we are no longer in the mood of granting general salary increases in the middle of the year contrary to what we did in 2022 and in 2023. And so we are going to monitor classically the cost basis with budgets that foresee the level of costs that we deem acceptable for the coming year. And then, of course, the capacity to react in the course of the year, because the main KPI that we keep in mind is the cost income ratio and especially a cost income ratio that is differentiated by business line. So this is going to be, as was the case in the past, the main driver of the management of the cost basis within the group.

When it comes to the ECB review of the leveraged finance, we hear a lot of the concerns of the ECB about leverage finance. We are regularly monitored by the ECB from different point of views, including the leverage finance portfolios. We expect nothing significant from the different reviews that took place in the past or that may take place in the future concerning this category of loans. So no significant worry and nothing significant to expect on this aspect.

Anke Reingen: Thank you.

Jérôme Grivet: Thank you.

Operator: The next question is from Chris Hallam with Goldman Sachs. Please go ahead.

Chris Hallam (Goldman Sachs): Yeah. Thank you for taking the questions. So first one just on Italy, on the volume side, clearly a bit of a change I guess in approach to mortgages. Production was trending down 13% in the first quarter and now it's up 40% year-over-year in Q2. NIM is stable I guess Q2 versus Q1. I think it was also stable Q1 versus Q4 last year. So just looking through the rest of the year for Italy, how do you expect that business to sort of trend, both in terms of volumes and in terms of margins?

And then secondly, and maybe just a bit of a broader question on M&A, and perhaps it's a bit of a follow up to Jacques-Henri's question earlier, but you've done quite a few transactions now like Alpha, Degroof Petercam, RBC, Worldline. How confident are you in your process and your team in identifying targets, assessing potential value creation, delivering the integration? Is that machine now pretty much as well-oiled as it can be and does that give you greater confidence in doing something bigger than perhaps you would have felt comfortable doing beforehand?

Jérôme Grivet: That's a very ample question that you're asking on this second point. How confident are we that we are able to access to the different opportunities? I would say that all the colleagues in investment banks are here to make sure that we do not miss any opportunity. So if I could show you the number of blue books I receive regularly, you would be perfectly reassured on our capacity to access to all possible opportunities. And our job is much more to dig into them in order to really choose the best operations rather than having access to the deal flow.

More seriously, yes, we have a very seasoned team in order to assess and to evaluate and to negotiate these operations. And I'm fully confident that we will continue to be able, even if the number of operations increases or even if the size of the operations increase. But definitely, we've done in the past quite significant operations in terms of size. So absolutely, no doubt that we have this capacity to continue to be very disciplined in the management of the transactions themselves.

Then there is, of course, this very important question regarding integration and the capacity of really taking advantage of the acquisitions in terms of enhancing our scope of activities and accelerating our organic growth. And this is clearly in the hands of the heads of businesses. And this is why I'm making sure permanently, that at the same time, one head of business is not working on too many subjects of this kind because clearly, succeeding in an integration is a matter of management dedication. And we need to make sure that if the management of a specialised business line is working on a transaction, it is not, I would say, disturbed by the prospect of a new transaction that is coming too fast. So we are really very, very cautious about that.

Italy, it's clear that the production of new loans has been positive this quarter. We've accelerated a little bit and we've accelerated, especially in home loans. That's true. Pricing like in every country, it's a matter of competition. And I guess that the big players in retail banks in Italy are also working on being competitive in this field. So we do not expect pricing to grow and to improve massively. But we are finding our way and considering that we are not so big in the Italian market, we have the capacity to remain selective whilst having a certain level of organic growth and whilst keeping a good level of margin. So we are positive on the development of the activities in Italy going forward.

Chris Hallam: Very helpful. Thank you.

Jérôme Grivet: Thank you.

Operator: The last question is from Pierre Chédeville with CIC. Please go ahead.

Pierre Chédeville (CIC): Yes. Hello, Jérôme. Follow-up question on consumer credit and insurance. Consumer credit, you mentioned a decrease in production and you mentioned China. Could you explain exactly what happened there? Is it something, which is a heavy trend, or is it something punctual there? And concerning insurance, you mentioned, of course, the good commercial dynamism, but you also mentioned technical gaps of experience. And I wanted to know what is the part of these gaps in the growth of revenues compared to the growth of revenues due to commercial dynamism? And last question, you also mentioned a good development of creditor insurance at the international level. I wanted to know what you mean by international. Is it Italy, which is actually your second home market or other countries? Thank you very much.

Jérôme Grivet: Thank you for your very precise questions, Pierre. So on consumer credit, it's clear that in Italy, in China, excuse me, in China, you know that we have a joint venture with GAC, which is a big Chinese car maker, and it's clear that in the beginning of this year GAC is having some weakness, I would say, in the development of the production of new loans with possibly two elements.

One element which is the fact that in China, as in every country, there is a competition between car loans and leasing, and our business is only car loans. And then there is also a general context in China, which is that consumption has been weak in the last several quarters. And so we are suffering from that also. But definitely, the point is that we are not in all channels of distributing car financing in China with our partner because we are working only, for the time being, on car loans and not on leasing. And again, leasing is taking a significant part of the business.

In insurance, I will not be able to be very specific in terms of how much of the revenue increase is triggered by what we call the experience gap if I have the right wording in English Operating variance, Cécile is telling me.

Pierre Chédeville: Yeah. Exactly.

Jérôme Grivet: So I'm not able to tell exactly what is the proportion of the revenues coming from that. Maybe just a simple point is that at the same time, we have a positive element coming from operating variance, but we have also some unfavourable impact of market movements. And so we have a negative impact on this quarter on the CSM coming from market elements. So I don't know exactly how this balances the other elements, but it's not only one way, I would say.

And then the last question was regarding creditor insurance, if I remember correctly, and your question was what are we talking about when we are talking about international activities? So credit insurance activities in Crédit Agricole Assurance is the operation that we have in Dublin that is working across all Europe alongside with our consumer credit business. So it's not specifically Italy, it's across all Europe. It's in Germany with Creditplus. It's in Portugal with Credibom. It's in several other countries. So it's definitely a pan-European business.

Pierre Chédeville: Okay. Thank you very much.

Jérôme Grivet: Okay. I understand it was the last question. So it's for me the opportunity to wish all of you a very happy and resting summer. On my side, I think it will start quite soon now. And I'm very happy to discuss with you again in three months' time or so. Bye-bye. Have a good day.

[END OF TRANSCRIPT]