Q1 2022 Results

Thursday, 5th May 2022

Q1 Results

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Introduction

Good afternoon, everyone, I am happy to present these Q1 results for Credit Agricole S.A. and the Group.

Let me start directly with page four on the presentation, where you can see that the net profit that we publish for the Group globally comes in at €1.3 billion in the stated format, and the underlying net income Group share is at €1.5 billion – difference this year between stated and underlying figure is mainly explained by a specific provision that we have taken on Ukraine, but I will go back on this later on.

CASA key figures

On the following page for CASA figures, what you can see is that we have a good revenue dynamic. Revenues are up 7.5%. We have also an increase in the gross operating income, close to 5% increase quarter-on-quarter, Q1-on-Q1. We then have a cost of incurred risk which is very low, and it is indeed reducing as compared to Q1 2021. And then, playing in the other direction, we have a significant increase in our contribution to the Single Resolution Fund, +25%, and we have some specific provisions that we take in relation with the Russia-Ukraine crisis, but we will detail that a little bit later on.

Credit Agricole S.A. Results – Summary

If I go now on page seven, we have specific information provided precisely on this Ukraine and Russia situation. We remain with what we did just after the outbreak of the crisis end of February. In Ukraine, we started to support materially and financially our employees and their families. Those employees, I want to really thank them for this, have since that date done a wonderful job in continuing to support their own customers. As a matter of fact, even as of now on a daily basis, almost two-thirds of our branches remain open regularly. In Russia, we stopped since the beginning of the crisis all new financing to Russian counterparts, and we have also stopped all commercial activity in our Russian entity.

In terms of risks, the proven risk on Russian and Ukrainian counterparts is very low. Actually, this quarter, we have had €43 million of provisioning – bucket three, I would say provisioning on Russian counterparts – and €20 million directly within our Ukrainian subsidiary books. However, we have been much more conservative in taking additional provisions. On Ukraine, we have booked €195 million of additional provisioning in CASA's books, which is leading actually to a full write-off of the value of the equity that we have in our Ukrainian subsidiary. Thus, we can say that after the booking of this provision, all our potential risk regarding Ukraine is now fully covered.

As far as Russian counterparts are concerned, we have added close to €350 million provision – bucket 1 and bucket 2 provision – on Russian-performing exposures.

When it comes to the management of the credit exposure book that we have regarding Russian counterparts, the overall size of this book, including all different compartments, I would say of exposure that we may have, has declined by around €600 million since end of last year. When we published our press release beginning of March, we gave end of December figures. Actually the decrease since the outbreak of the crisis is even higher, it is minus €1.1 billion of reduction of the global size of the book.

Strong business momentum in Q1

On page eight, just a few additional comments on what happened during this quarter, besides I would say what I just commented regarding Russia and Ukraine. We have had very good momentum commercially with a net customer capture which was significant and a continuation of an increase in all activities, be it credit, be it savings inflows, be it insurance equipment, and so on and so forth. This is leading to the financial figures I already gave and which I will detail a little bit later on.

Sustained commercial activity

Page nine, again, this high level of customer capture, more than 500,000 new customers this quarter for our retail banks in France, Italy and Poland. Since the inception of the medium-term plan that we are going to finish this year, it is around 6 million new customers that we have managed to attract in our different retail banks. This is of course leading or explaining that all, I would say, quantity or magnitude indicators are up also significantly. It is the case for the production of new loans in our retail banks. It is case for the premium income coming from P&C insurance activities. It is also the case for the development of the production of consumer and leasing in the quarter.

Revenues

Let me go now to the revenues on page ten. What you can see is that first the revenue, the top-line is increasing quite significantly 7.5% over the quarter, plus €421 million of additional revenues. Second point, it is spread across all business divisions. Third point, this revenue increase is triggered both by organic growth and by inorganic growth, because pro forma the acquisition of Creval and Lyxor that took place in the middle and in the end of last year, the revenue increase continued to be significant, plus 4.1%. Even excluding the Corporate Centre which is more volatile, and it is not really a business centre by definition, the increased pro forma the acquisition is at 4.3%. Last point on this page, this revenue increase is not new for us. It comes within a series of regular increases since at least five years, quarter after quarter, as illustrated on the right-hand side of this page.

Expenses

Let me go now to the cost evolution. So there has been a significant cost evolution this quarter, plus 9.5%, plus €300 million. However, excluding the acquisition of Creval and Lyxor the increase is much more muted, 5.4%. And excluding the Corporate Centre, it is even lower, plus 4.2%. The overall increase of the cost base by €300 million is explained for €130 million by the increase linked to Lyxor and Creval by €180 million it is organic growth out of which €50 million is explained by the Corporate Centre, mainly due to technical, I would say, intra-group restatement effects.

Gross operating income

Let me go now to the gross operating income. What you can see on page 12 is that the gross operating income is improving again across all business lines. The increase is plus €150 million over the quarter, plus 4.9%. And excluding the Corporate Centre it is even plus 7%. The cost-income ratio that we published this quarter, at 59%, continues to be comfortably below the ceiling of 60% that we had set as a target for the present medium-term plan.

Risks

Let me go now to the risks side. What you can see on page 13 is two elements. First element, the incurred effective proven risk is very low, and actually even decreasing both as compared to Q1 2021 and to Q4 2021, and it is indeed at a very, very low level. The second element is that of course we have been increasing quite significantly this cost of risk because of our very conservative approach on Russia outside Ukraine, which is restated and so which is not included in those figures because of its very specific characteristics.

Nevertheless, if I take into account this provisioning on Russia, we continue to have a cost of risk on the basis of the last four rolling quarters which remain in line, and even a little bit lower than the assumption that we had made for the present medium-term plan, which were as you remember 40 basis points for CASA and 25 basis points for the Group globally.

In terms of asset quality, we continue to have very good figures. The NPL ratio at a CASA level stands at 2.4% and at a Group level at 2%. And considering the significant new provision that we booked this quarter the coverage ratio continued to increase significantly; 77.5% for CASA and close to 90% for the Group globally. You may see that we have decreased a little bit the volume of loan loss reserves that we have in our balance sheet but it is pretty technical. It is due to the fact that we have declassified our entity in Morocco because of the signature of a sale agreement in the last days of April.

Net income Group share

Let me go now on page 15, where you have the explanation of the evolution of the underlying net profit between Q1 2021 and Q1 2022. What you can see, again, another way of putting things together, is that the evolution is explained by two positive elements and two negative elements. The two positive elements are the increase in the level of gross operating income, plus €114 million, and a decrease in the incurred cost of risk or effective cost of risk, a reduction of €227 million. Then two negative elements. The increase in the contribution to the Single Resolution Fund, plus €126 million, and a significant increase in the cost of risk linked to Russia plus €389 million. All in all, this is leading to this decrease in the underlying net profit from €932 million down to €756 million, minus €176 million or minus around 19%. However, nevertheless, if you compare the Q1 2022 figure, it is above the Q1 2020 figure by around 12%.

Profitability

On page 16, you have the return on tangible equity, which comes in this quarter above 11.5%, which is a high level for Q1, which is, as always, earmarked by the IFRS 21 accounting constraint.

Credit Agricole S.A. – Business Lines

Asset Gathering and Insurance

And we can go now a little bit more in-depth into the different business lines, starting with the Asset Gathering and Insurance division. Globally, for this business division, on page 18, two elements which are important to have in mind. There has been very good commercial momentum in all activities across the board. Actually, assets under management globally are significantly above what they were one year ago. Over the quarter the decrease is explained only by the market and forex effect and the net profit of this business division is significantly up +11.5%.

Insurance – strong business momentum, increased income

Specifically, the insurance activities have had a very good commercial quarter in all businesses; life, P&C, and protection. Revenues are sharply up and net profit of the business division is also sharply up +17%.

Asset Management – strong results driven by solid business

Amundi and the Asset Management division, positive net inflows in medium- and long-term assets that offset more or less the outflows in treasury funds, money market funds, and a good level of revenues, and a good level of profit, which is increasing as compared to Q1 2021, which was already very significant.

In addition to that, the integration of Lyxor is going on very well. We continue to develop the business of Amundi Technology.

Large Customers – dynamic activity, provisioning of country risk for Russia

Large Customers division starting with CIB. A good level of revenues overall for CACIB this quarter, which is probably the highest level for a first quarter since 2016, thanks to a very good performance in the financing activities. A little bit more muted in the fixed income activities. However, nevertheless, almost compensated by a very strong performance in investment banking and equities market. On the cost base, a quarter of the increase is explained by forex effect. The cost of risk outside the Russian provision is very low. Indeed, we had a reversal of loan-loss provision outside the €389 million of provision regarding Russian counterparts.

RWAs increased quite significantly this quarter at CACIB, more than half of the increase being in connection with the very strong increase in the risk weighting of the Russian exposure.

When it comes to CACEIS, we have had very good level of activity at CACEIS. There is a sharp increase in the revenues and a sharp increase also in the contribution to the Single Resolution Fund for CACEIS as well as was the case for CACIB this quarter.

Specialised Financial Services – strong business momentum and increase in earnings

Going now to the Specialised Financial Services division and the Consumer Credit business. It has been a high level of production of new loan in Q1 2022 at CACF, especially driven by Agos and by the rest of the international activities. When it comes to car financing, it is a little bit more muted in Europe, but very dynamic in China. The managed loan book is increasing, and if you assess the P&L outside the effect in the connection with the CACF Netherland, which is, as you know in a run-off mode, we are almost flat in terms of revenues, in terms of cost, and in terms of cost of risk. In terms of revenues actually what we see is that we have had an increase in the refinancing cost which is not yet fully passed through to the customers.

Regarding leasing and factoring activities, again, a very good commercial dynamic. We are presently integrating Olinn, which was purchased the end of last year. This is for the time being adding up marginally a 100% cost-income ratio to CALF. However, of course, we are working on the cost base of Olinn. Nevertheless, revenues are significantly up, cost of risk is significantly down, and the profit at CALF is sharply up.

French Retail Banking – LCL – strong business momentum, strong increase in earnings

LCL, on page 23, has had also a very good quarter. Very good from a commercial point of view with the development of the customer base, the development of the loan book, strong inflows in customers savings, and an increase in the equipment in the different insurance products of the customer base. Financially, revenues are sharply up. Partially led by the development of the business and the development of the balance sheet and marginally by some one-offs, positive one-offs, especially in the net interest margin.

Operating costs are almost flat outside the contribution to the Single Resolution Fund and the French Guarantee Fund. The cost of risk is down. Thus, all in all, this is linked to a very sharp increase in the net profit at LCL.

International Retail Banking – Italy – strong increase in net income, Creval integration continues

Italy is working on the integration of Creval. And indeed, the legal merger between Creval and Credit Agricole Italy took place end of April, so just a few weeks ago. The market globally is a little bit more muted in Italy. It has been the case also for Credit Agricole Italia. However, nevertheless, thanks to the integration of Creval, we have a sharp increase in the level of revenues, a sharp decrease in the cost of risk, thanks to all the decisions that we have taken last year, and, all in all, a very significant improvement in the net profit of Credit Agricole Italia.

International Retail Banking – Excl. Italy – income increase in Poland and Egypt; disposal of Serbia, Morocco disposal pending

The rest of the international retail banking activities is a little bit more difficult to read across this quarter, so let me just divide it between the different entities.

In Poland and Egypt, a good quarter with a good evolution of the revenue and decrease in the cost of risk, so a significant improvement in the profitability.

In Ukraine, of course, the financial figures for the bank are penalised. However, nevertheless, the Ukrainian subsidiary is foreseeing a slight net profit this quarter.

We sold the Serbian entity and the closing was made on 1st April this year, so no consequences in terms of RWA in the figures of the first quarter. You will see that in the second quarter. And we signed on the 27th April an agreement on the sale of our subsidiary Maroc. The closing is expected to take place before the end of this year. We have declassified Credit du Maroc this quarter. It is now accounted for under IFRS 5.

Corporate Centre – stability of underlying net income Q1/Q1

Corporate Centre nothing much to say. There is always a little bit of volatility in the Corporate Centre. Nevertheless, if I assess all in all the net impact, it is close to what it was last year.

Credit Agricole Group

Regional banks – strong business momentum and solid results

Let me go now to the Regional banks of Credit Agricole. On page 28, you will more or less the same trends as the ones I have just commented regarding LCL; a good level of customer capture, a good evolution of the loan book, which is sharply up +6%, customer assets as well, and revenues are up a little bit less significantly than at LCL, because the portfolio revenues within the regional banks were a little bit weaker in Q1 2022 than what they were in Q1 2021. Nevertheless, the revenues are up close to 2%. Cost of risk is slightly down. However, actually the biggest part of the cost of risk is made of bucket one and bucket two provisioning again within the regional banks, so the incurred cost of risk is indeed very low. And the net profit is up globally 10%.

Financial Strength

Solid capital position

Let me go now on page 30, in terms of solvency, at Group level first and then at CASA.

At Group level, we have a decrease of 50 bips of the solvency ratio, which comes in at 17%, 810 bips of margin above the Pillar 2 requirement. This 50% decrease is the combination, of course, a significant level of profit after distribution, but a significant impact of the RWA evolution in connection with the Russian crisis. Again, as I said, at CACIB, we have had an increase of close to €6 billion RWA simply by the increase in the risk weighting of our Russian exposures. Also, significant organic growth of RWA at Group level. The OCI impact within the insurance activities linked to first a significant decrease in the equities market but also, and more importantly, a significant increase in the level of rate that is decreasing the unrealised capital gains at the level of Credit Agricole Insurance. Then we have a regulatory effect which is mostly due to the fact that, despite the fact we challenged this, the ECB has requested the French banks to again deduct from the solvency their commitment provided to the Single Resolution Fund to pay some contribution. This is linked to an impact of 17 basis points at the level of the Group.

Translated at the level of CASA, the overall evolution is more important. It represents globally 90 bps, but the explanations are exactly the same. We end up at 11%, which is again, and I remind it, because it seems that sometimes it is a little bit difficult to accept, but it is exactly our target, and it is more than 300 bps above our Pillar 2 requirement.

Comfortable level of reserves and liquidity indicators

In terms of liquidity, nothing much to say on page 31. The liquidity reserves are very ample. They are boosted by the TLTRO drawings. However, even if we restated from the TLTRO drawing, we continue to have a very comfortable liquidity position. And this has been also fuelled, on page 32, by the fact that our market funding programme is well on its way. It has completed 84% at the level of CASA end of April. At the level of the Group, globally, we have raised close to €18 billion end of March. A very significant effort, which is paying off. Because, actually, since that, the credit spreads have quite significantly increased on the market.

I think I can stop now and we can go to the questions if you wish.

Q&A

Jerome Grivet: Hello, Omar.

Omar Fall (Barclays): Hi Jerome, thanks for taking my questions. The first one is just if you could highlight what remaining impacts on capital, whatever they might be, we should anticipate for the rest of the year, you know, whether there is anything left on TRIM. I think on the disposal side, Credit du Maroc is 10 bps, and then Serbia was announced last year, but that is pretty immaterial. Just any of the other moving parts aside from earnings we should expect?

Jerome Grivet: The two main elements that we can precisely identify, even if it is not possible for Credit du Maroc to give the precise date, is the disposal of Credit du Maroc, a little bit more probably than 10 bps. We will see exactly the amount when the closing takes place. Then the trim, last layer of trim impact, which is going to take place in the second quarter, and which is going to represent an additional €5 billion or €6 billion RWA at CACIB. . These are the two main elements that you can have in mind with the precise quantitative impact.

Moreover, we have moving pieces on which we are not able to give precise amounts. However, as a reminder, every year in the second quarter you remember that we have the dividend payment that is coming from the different subsidiaries of CASA up to CASA. When it is from a banking subsidiary to the banking mother company there is no impact. However, when it is from the insurance activities to the banking mother company, it has a significant and positive, of course, impact. This is going to take place every year in the second quarter and, of course, we have the capacity to fine-tune the amount of this dividend up to the end of the quarter.

These are the main pieces that can be identified as, I would say, specific and one-offs. For the rest, of course, this is going to be the normal course of business, so there is going to be the organic evolution of RWAs in the different business lines. When it comes, for example, to CACIB, what I can tell you is that most of the increase that CACIB is able to do for the full-year has been done in the first quarter, and this explains why we have seen such a high level of results and revenues in the Financing division at CACIB. And then of course, there is the retained earnings quarter after quarter that are going to fuel, of course, the capital ratio of CASA and of the Group.

Omar Fall: Thank you. Just a quick follow-up, and it is a separate point, which is just on the interest rate sensitivity in the annual report that you have put some detail on that, on slide 40. You have not given this to us before as a multi-year period, so I just have a couple of clarifications. I think you used to say the sensitivity to rates at the Group was low. However, I mean, this looks like 100 bps is like a quarter of last year's earnings, so maybe you can give some colour there, especially because it is strange that your sensitivity does not increase over future years like most of your Northern European peers. Thanks.

Jerome Grivet: Well, actually, it increases over the year, over the time. However, there is a technical effect and I think it is explained on this page 40. The impact is on the first year and the way you see it can impact the way you see the global impact of this increase. If the TLTRO premium ending end of H1 and also the Livret A level increase that took place at the beginning of this year were not taken into account, you could actually look at the plain bar on the bar chart, €0.4 billion on the first year, then €0.7 billion, then €0.8 billion. There is a progressive increase of the spreading of the impact within the P&L.

Omar Fall: Thank you.

Jerome Grivet: Thank you.

Guillaume Tiberghien (Exane): Good afternoon. Thank you very much. A question on capital as well. I understand that your target is 11%, but next year, we are going to have potentially the IFRS 17, potentially it is a bundled insurance joint venture, and so my question is what would be the floor at which you would accept to operate on, even if I understand the target is 11%?

Jerome Grivet: IFRS 17 is going to be somehow financed by the insurance activities themselves. What we have in mind, is that actually, especially in the context of the increase in rates that we are seeing now, an increase in rates is at the same time producing a significant improvement of the solvency of the insurance activities - it is the Solvency II capital requirement standard that produces this effect - and at the same time, it reduces the OCI results and reduces the solvency of the banking mother company. Thus, we are going to work on the level of leverage that we can inject within our insurance activities in order to more or less offset the IFRS 17 impact in terms of solvency at Group level. We consider that we can absorb that without having to incur or at least not significantly an additional hit on the solvency at CASA.

You've mentioned also potential additional bank insurance agreement with third-party, for example, in Italy. Again, this would not be performed directly by CASA but by our insurance activities. Translated in terms of solvency impact at the level of CASA, it would certainly be whatever happens really in terms of those partnerships. It would not translate into a significant hit on the solvency of CASA.

This is to answer to your two specific points regarding IFRS 17 and potential new bank insurance partnerships.

Then, going back to your more general question about 11% target, and so on and so forth. 11% is the target. This is what we are aiming at. Thus, of course, we like to be at 11%. We like to be possibly at 11% comfortably. However, there is no need for us to be at or above 11%. Again, when we are at 11%, like is the case now, we have 310 bips of margin above the Pillar 2 requirement. We have 300 bps of excess above the minimum distribution amount. There is absolutely no stress for us when we are at 11%. If we were to be at 10.9% in the coming quarter, which is not what I foresee, this would not be an issue, because again 11% is the target, it is not the floor.

Guillaume Tiberghien: But, what floor would you accept to fall to?

Jerome Grivet: It is a target. We have, of course, our internal management buffers, and so we monitor our activities in order to be and to be able to continue to aim the target, but we are not going to disclose a precise figure which will be a floor. We disclose a target. We want to be comfortable in terms of our capacity to distribute and this is why we are happy to have this 300 bps margin above the MDA threshold. What I can tell you, but of course I am not going to disclose the figures, is that I regularly every quarter update my capital trajectory. What I can tell you is that in my central scenario my capital trajectory is going to translate into a slight increase of our solvency over the rest of the year. However, again, it is in the central scenario and 11% is a target, and the target is a target.

Guillaume Tiberghien: Very clear. Thank you.

Jerome Grivet: Thank you.

Delphine Lee (JP Morgan): Hi. Good afternoon. Thank you for the clarifications on capital. I just wanted to come back on the interest rate sensitivity that you provide in the annual report. What kind of assumptions are you making on deposits and Livret A rate when you provide the sensitivities is that 100% increase in Livret A rate, or what are you assuming for site deposits and the rest? I am just trying to understand what the deposit assumption is for that number.

Also on capital, just on the sensitivity, is there a way to provide a sensitivity on capital from rates on OCI reserves, how much OCI gains you still have? Just trying to think about what the impact would be rates. Thank you very much.

Jerome Grivet: On interest rate sensitivity you know it is something which is very academic, because actually the reality is never taking place exactly at the sensitivity scenarios are playing. Thus, we have to make certain assumptions. The first assumption is about what we call the pass-through rate, i.e., the capacity of passing to the customer on the asset side the increase in rate, and we have provided two different assumptions, one with 50% of pass-through rate and another one with 100%.

The second assumption, the second strong assumption is that it is based on the constant balance sheet structure, so it means there is no specific assumption regarding a migration from liabilities from one bucket to another one.

The third assumption is, of course, that the increase in rate is of course translated to the different categories of assets and liabilities that are rate-sensitive. It means that on the Livret A side, for example, it is taken into account. Actually, the increase, and this is what I explained rapidly when I answered to Omar a little bit earlier the increase of the Livret A in February is taken in the central scenario, so it is in the base scenario, and then the further increase that may take place in August is taken in the sensitivity.

Delphine Lee: And –

Jerome Grivet: Regarding the OCI, well to put it in a nutshell, if there is an increase of 100 bps in interest rate and in the yield curve globally, then what we can say is that it would translate in terms of impact on the CET1 of CASA by around probably 20 bips of impact all in all. Thus, of course, you need to assess exactly how it is taking place, is it going along with a decrease or an increase in equities, and so on and so forth. But, this is globally the magnitude that we have in the first quarter of this year, and so we have an increase of around 100 bps of the interest rate and there has been an impact linked to the OCI reserve depletion of 20 bps on the CET1 of CASA and this continues to remain the sensitivity.

However, again what I want to mention, because it is not maybe perfectly known by everyone, if there is an increase in rate, it is improving the solvency of Credit Agricole Assurance under Solvency II. Because you know how the solvency requirement is calculated for the insurance activity, it is based on the series of scenarios. Of course, every time the scenario is taking an assumption of increase in rates, it is improving globally the solvency going forward the insurance activities. This is giving us additional margin of manoeuvre in the capacity of upstreaming or downstreaming capital between the insurance activities and CASA.

Delphine Lee: Understood. Thank you very much.

Jerome Grivet: Thank you.

Jacques-Henri Gaulard (Kepler): Good afternoon – two questions. The first one is going back on cost. It is not the first time that basically the company missed a little bit against consensus. Question for you was how you manage the cost base? Is it the case to say okay, we are below 60% target therefore it does not matter if the operating leverage is not as good as it could be, because the target it 60% and I need to be below 60%? Is it the way you are doing it, or is there something else?

The second question is on the CVA impact of the Russian counterparty on your CIB business. If you could give us the number that would be helpful, because I assume that is not going to come back in the forthcoming quarter. Thank you.

Jerome Grivet: Thank you. Well, on the cost base maybe we can go on page 11 of the document. Again, globally what is interesting is to analyse a little bit the evolution of around €310 million of the cost base that we have had, excluding the contribution to the Single Resolution Fund over the quarter. Two main components – scope effect, Lyxor and Creval, €130 million about, and the rest €180 million Inside the €180 million, two categories – Corporate Centre, around €50 million, mainly explained by technical accounting intra-group restatements, so it is not really an increase in the running cost base; it is technical €50 million. And the rest for the business clients is €130 million.

Maybe we can do an exercise that would consist in taking all business lines and seeing how much did they increase their cost base and what is the explanation.

The biggest increase is CACIB €40 million – €10 million of forex effect and €30 million of IT expenses in connection with different projects and developments. Then you have Credit Agricole Assurance €20 million of increase roughly. It is mainly development. When you see year after year the development of the business in the insurance activities, it is money that is well invested.

Consumer Credit CACF, €20 million again. It is almost only scope effect, the effect in connection with CACF Netherland you know that we have deconsolidated it under IFRS 5, and then reconsolidated because we have finally chosen to run it off, so this is producing an effect between Q1 2021 and Q1 2022. And also a second scope effect, which is the integration of SoYou, the Spanish subsidiary. Almost no organic growth at CACF.

Then LCL €20 million, almost totally explained by the contribution to the French Guarantee Fund (Fonds de Garantie des Dépôts), so no organic growth or almost no organic growth.

Then, Amundi €50 million, outside Lyxor. It is mainly driven by Amundi Technology and the development of the Alto project.

Then you have the leasing and factoring activities, again €50 million increase, outside of which Olinn, which is the new integration, is representing about half of the increase.

Then you have the Wealth Management business €10 million increase, mainly explained by projects and developments inside Azqore, which is the subsidiary dedicated to servicing third-party private banks.

Then you have CACEIS, around €5 million. It is totally explained by the fact that CACEIS is going to move from its present location to a new location and for two or three quarters they have to pay two rents, two terms.

When you see exactly where we have been increasing this quarter the cost base, it is perfectly explained. It is not skipping you across the board. It is really made of different decisions that are perfectly acceptable from our point of view and compatible with what continues to be a very important priority for us, which is to monitor the overall cost base and to keep it under the 60% ceiling. Clearly, I was saying that 11% is a target. 60% is not a target, it is a ceiling that we want to respect. We continue to manage this cost base in a decentralised manner, i.e., each head of business is responsible of managing his or her own cost base in accordance with the potential of generating revenues.

I don't know if I have been clear?

Jacques-Henri Gaulard: It is fantastic, Jerome. Thank you so much for being that precise.

Jerome Grivet: If this was worth getting up this morning?

Jacques-Henri Gaulard: Indeed. On the CVA, if you can just reply to that quickly?

Jerome Grivet: Yes, excuse me. On the CVA, we have had around €35 million CVA impact this quarter. Whereas, in Q1 2021, we had, I think, €15 million or €20 million positive reversal of CVA. The difference between Q1 2021 and Q1 2022 is about €50 million roughly. I am not sure that I agree with your opinion that it is not going to written back someday. If you remember back in 2020, in the midst of the pandemic crisis, when in the beginning there was an intense tension on the market, we have had up to a much higher amount of CVA that has been progressively written back and is now completely recovered. The CVA is normally here to be recovered.

Jacques-Henri Gaulard: Thank you so much.

Jerome Grivet: Thank you.

Giulia Miotto (Morgan Stanley): Yes. Hi, good afternoon. Two questions for me, please. The first one on Ukraine. There is a one-off provision of €195 million, which is the same level of the equity. Is there a scenario where you can lose more than the equity actually, or what is the outlook essentially for your exposure to Ukraine?

Secondly, on Russia, could you maybe give us some sense around, first of all, the maturity of the loan book, if you just keep it on run-off, by when will you be free from it, but also according to your best assessment what the worst-case scenario in terms of losses? That would be very helpful.

Jerome Grivet: Ukraine to start with actually it is the combination of the €20 million loan loss provision taken locally within the books of Credit Agricole Ukraine, plus the €195 million, that altogether more or less represent the value of the equity. Nevertheless, it is a detail.

Can we lose more than that? The only possibility to lose more than that would be a situation where we would decide, voluntarily, to inject additional equity within our subsidiary before losing all of it. Because, as of today, the only possibility, if we do not add-up any additional capital in Ukraine, would be a complete write-off of this asset and then there would be almost no additional effect, with one detail, which is that we have a forex reserve in our books that would then be recycled through P&L(it is around €200 million). So,there is no effect, neither in cash, nor in solvency, because of course it is already deducted from our solvency as of now. But, if there would be somehow termination of our activity in Ukraine, we would have to recycle this reserve through P&L without any effect again, neither in cash, nor in solvency, and of course not also in dividend, because of the substantial effect in solvency. Thus, this would be the only additional effect, unless, again, we decide voluntarily to inject additional capital in Ukraine.

When it comes to Russia, first the maturity of the different exposures, you have them on the slide 38. What you can see is that actually when it comes to the on balance sheet offshore exposure, two-thirds of the revenue maturities are below three years. When it comes to the off balance sheet portion, be it on- and offshore, it is 70% with a remaining maturity of less than one year. It is a rather, I would say, short- to medium-term portfolio.

Giulia Miotto: Thank you.

Jerome Grivet: A worst-case assumption, I do not know. What I can tell you is that when we assess each of the counterparts that we have, they are almost all of them in a very good economic situation. In terms of pure credit risk, there is no threat regarding the different exposures. The only threat that we have is a political/legal/sanction stress. But, economically the level of credit risk that we feel in these different exposures is and continues to be very low.

Giulia Miotto: Perfect. Just to follow-up on the Ukrainian exposure, by when would you expect to decide whether you put more equity or not in this division?

Jerome Grivet: The question is not raised. I was just addressing it, I would say theoretically. However, as of now, the bank locally is perfectly solvent. As I said, it has been able to post a very tiny but positive profit for the first quarter, so there is no reason why this question should not be asked.

Giulia Miotto: Okay. Thank you.

Jerome Grivet: Thank you.

Stefan Stalmann (Autonomous): Yes. Good afternoon, Jerome. I have two questions, please. The first one regarding your Russian subsidiary. Given that you have taken a provision on the equity value of your Ukrainian subsidiary and the prospects in Russia are probably not that much better, or maybe worse, do you expect that you may have to take or want to take provision there as well at some point?

Then a second question is maybe I have missed it, but are you disclosing an update of the solvency ratio of Credit Agricole Assurance in the first quarter and also the policyholder participation results? Thank you very much.

Jerome Grivet: Okay. As far as the Russian subsidiary is concerned the situation is not really the same as in Ukraine. First, there is no war in Russia, as contrary as is the case in Ukraine. Second, it is a much smaller entity with a total asset of around €700 million, so it is half the size of the Ukrainian bank, and more than half of this exposure is simply made of deposits within the Russian central bank, so it is only a customer of money that we have put back at the Russian central bank instead of lending it to local counterparts. The real credit loan book locally is, I think, between €200 million and €300 million. It is a very small portfolio and half of it is related to a Russian subsidiary of multinational companies and we have the guarantee of the mother company regarding these exposures. Thus, definitely the situation is not the same, absolutely not the same and so we have no intention as of now, to take the same stance on the Russian entity as the one we have taken on the Ukrainian entity.

The solvency ratio of the insurance activities stood at 244% end of last year. We have not published the figure end of Q1. What I can tell you is that it has increased since this level, again because the increasing rate is positive solvency-wise for an insurance company.

When it comes to the participation reserve for the customers, for the policyholders, it is a little bit above €13 billion and it is up close to €500 million this quarter as compared to end of last year.

Stefan Stalmann: Very clear. Jerome, could you maybe give us a general sensitivity of the solvency ratio, let us say, for a hypothetical 100 basis point increase in rates, what would that typically do to the solvency ratio?

Jerome Grivet: I do not have that precisely in mind. It is a good question that we are going to address more formally in the course of the preparation of the communication going forward.

Stefan Stalmann: Great. Thank you very much.

Jerome Grivet: Make a note of it.

Stefan Stalmann: Will do. Thank you.

Jerome Grivet: I feel it is not completely linear.

Kiri Vijayarajah (HSBC): Hi there. A couple of questions on French retail. The increase in the Livret A rate has been helping giving us the impact on NII However, my question is more to what extent you are starting to see some sort of impact on customer behaviour, for instance, moving back into some of those regulated savings products out of some of the other things and investment vehicles you guys offer?

Then still on French retail, more on the asset side and French mortgages, the volume growth is still pretty robust but I wondered how the pricing is shaping up at the moment? The funding curve has been moving up. Have you been able to pass that on in terms of the mortgage rates you are offering? Are you sensing the customers are willing to pay up a little bit at the moment and lock-in lowish rates in anticipation of the rate increase, is that helping you put some of that price increase through? Just some colour there on the pricing dynamic on French mortgages, Jerome.

Jerome Grivet: First question on the liability side. For the time being, but of course it is not going to last forever, especially if rates continue to increase, especially in connection with the level of inflation, because, as you know, the Livret A yield is partially linked to inflation. As inflation continues to increase since the beginning of this year, what we think is that the Livret A is going to increase, the rate of the Livret A is going to increase in August at the next reset date, and probably it is going to be a significant increase again. So, probably at a certain point in time, there is going to be a modification of the behaviour of customers in terms of allocating their cash between a side deposits with a remuneration that is zero and Livret A or whatever. For the time being there has been nothing significant but it can take place going forward, and between Livret A and other products, we have also term deposits, we have also unregulated savings accounts,we have a whole series of products that can be used. Of course, the idea for us is to continue to monitor the weighted average cost for liabilities in a manner that is as efficient as possible.

Then I am going to your second question, the idea is, of course, that progressively the increase in the cost of our liabilities is going to translate into an increase in the yield of our assets. Up to now the increase has been quite modest in the pricing of new loans for at least two reasons, I would say.

The main overall reason is that the competition continues to be quite fierce in France, and of course nobody wants to lose ground on this market. However, besides this element, you have two more technical elements that explain why it is lagging significantly as compared to the evolution of market rates.

The first point is that between the moment you set the rate of the home loan and the moment the loan is in place, it can take a certain amount of time, and sometimes several months. So, what we are now putting in place is loans that were negotiated a few months ago. Thus, it is only progressively that the rate increase is going to bite and to produce effects on our yield.

The second point is that in France, you know that we have got a regulation regarding usury rates and so this is also slowing down the evolution of the pricing of new home loans, because for different categories of loans, mainly for different buckets of maturity, there is a regulation that imposes not to go above four-third of the average rate on the market that was effective in the previous quarter. Thus, it means that on a single quarter there is a cap that is set on the possibility of increasing the customer rate.

Kiri Vijayarajah: Okay, that is helpful. Thanks, Jerome.

Jerome Grivet: Okay, thanks.

Matthew Clark (Mediobanca): Good afternoon, can I ask you a couple of questions on Banco BPM, please? I guess the first question is, can you rule out ever making an offer for a controlling stake? The follow-up is, if so, why? I just really want to get a firmer view on our intention there. Thank you.

Jerome Grivet: Your question is, do we rule out the idea of launching an offer on BPM? Is that the question, the line was not very good?

Matthew Clark: Yes, that was it.

Jerome Grivet: Well, we have been quite clear in the communication. We have said that we had not requested the approval that we need to get from the ECB, if we want to go above 10%, so it is quite clear.

Matthew Clark: It is clear in a backwards-looking way. It is not clear in a forward-looking way. Can you give a forward-looking, rather than a backward-looking way?

Jerome Grivet: We have also explained that the purpose of this stake was to reinforce our co-operation within the different specialised business lines between our Group and BPM. We have stated first the level of stake that we have taken. Second, the fact that we have not requested the possibility of going above 10%. The reason why we did that I think it is self-explanatory and self-supporting. There is no need to provide additional comment on this. It is very clear.

Matthew Clark: Okay. Thank you.

Jerome Grivet: Thank you.

Guillaume Tiberghien (Exane): Yes, thanks. Just a follow-up on the mortgage margin in France. I understand the lag between the time you commit and the time you actually land, so let me ask the question differently. The government bond today is 1.5%, the ten-year in France. So you should now commit to lend at roughly 2.5% for your new business. Is that what you are doing, or you are still well below 2%?

Jerome Grivet: You perfectly know the answer, Guillaume. The market rate is around for the new loans that we grant, and you know that new loans are usually on average close to or even above 20 years of maturity. You perfectly know that we are lending on the basis of a rate that is closer to 1.20%. Thus, definitely, for the time being, it is not matching with the ten-year swap rate or the ten-yearOAT . However, again, there is going to be a certain amount of time before progressively we are in a more normal situation where, because in terms of duration a 20-year amortising loan is more or less in line with a ten-year bullet bond, the reference rates that you have in mind for the home loan is relevant. However, it is going to take time before we are able to reach this level.

Guillaume Tiberghien: Why do you not stop lending altogether until the margin is comfortable and buy government bond instead?

Jerome Grivet: Because we are not a hedge fund. We are simply a bank. We have customers. We need to keep our customers, and to increase our customer base, and to entertain a long-term relationship. That is the difference.

Guillaume Tiberghien: When will it move faster? I understand that the view can be that that it is temporary. However, right now it should not be temporary. It's your time, I'm sorry but the world has changed. That is normal, and in some countries, we see that. In the Netherlands banks are lending 100 bips more than at the beginning of the year.

Jerome Grivet: Yes. However, the way we do bank in France is not the same as the Dutch banks are behaving. In France, all banks do not behave exactly the same way. You know that within our Group, we have a DNA that is really build around preserving, developing, enhancing permanently the relationship with our customers. If we were simply financial investors, we would certainly arbitrate between bonds and loans regarding only the financial conditions. However, we are not a pure financial investor. We are a bank and a relationship bank.

Guillaume Tiberghien: Okay, fine. Thanks.

Pierre Chedeville (CM-CIC): Yes. Good afternoon, can you hear me?

Jerome Grivet: Yes, Pierre.

Pierre Chedeville: Okay. Sorry, I have many problems with my phone, I do not know why. First question, I remember that Philippe Brassac in an interview, and I do not remember exactly, showed quite a real ambition regarding development of P&C insurance towards corporates and particularly SMEs, and I wanted to know where you stand here in terms of development regarding these types of products and customers?

Second question is regarding LCL. You have quite impressive, very impressive production numbers and I was wondering if it was only the fact of the catch-up towards 2021, knowing the fact that in 2021 you add the catch-up of 2020. Thus, I was wondering when the catch-up would stop, if it is a question of catch-up or if it is a question of a marketing campaign on Q1, because when you see such impressive growth in production, it raises questions.

My subsidiary question is what is the philosophy behind your financial communication when we can say that you are one of the sole big European banks that is not giving any guidance on the cost of risk? I understand that giving guidance is always something tricky, but when we are in particular times and that we see that all, as I said, big banks in Europe give such guidance, why you do not give any guidance on this subject? Thank you very much and I am sorry once again for the line.

Jerome Grivet: No problem. No problem, Pierre. P&C insurance for businesses, you know, SMEs and corporates, it has been launched already and it is developing but it takes a long time. The good news is that we are patient. We have launched, for example, collective group insurance policies for protection businesses about five or six years ago. It now represents a few hundred million of premium on a yearly basis, but it took five or six years to reach this level, so it is going also to take time for the development of P&C insurance for businesses. But, clearly, it is already live and it has been developed with several regional banks already, and it has started at the very end of 2020. We now have a little bit more than a full year of, I would say, test and learn on this business.

LCL, we do not want to put a brick in the development of the customer base of LCL and the equipment of the customers of LCL with different products and services, so we are very happy to see the development of the loan book. We are very happy to see the progression of the equipment in different P&C and protection in French policies. All that is very positive. Of course, when we grant new loans, we continue to stick to the same credit standards. We do not want to relax the credit standards, of course. However, as long as we are inside our standards, we are happy to see the development of the production. I think that what you see in terms of dynamics is the result of the fact that LCL is a bank that is fully-focused and dedicated on its own market which is to be a retail bank on the whole territory in France.

In terms of cost of risk and guidance, I do not know exactly what you mean by guidance. What we say what we do is that we set assumptions on the medium-term and we say that our financial targets are coherent with those assumptions. You know that the assumption that CASA is an average cost of risk around 40 bips. What I told you and what I showed you in my presentation is that including the very specific provision that we have taken regarding Russia, we are more or less at the target. In addition to that, what I can say is that the incurred cost of risk, because most of the Russian provision is not on incurred risk exposure, it is purely prudential. If I take only the incurred cost of risk it is a very low level, it is around – I do not have the precise figure in mind - but it is much lower than the 40 bips assumption.

For the time being, we do not see any sign of significant deterioration of the asset quality of our exposure and what we say simply is that ahead of us there is a lot of uncertainties and possibly there is a possible deterioration of the situation. However, we are not seeing as of now a sign of significant deterioration in the different credit exposures that we have across the board.

Maybe the last point, but it is important to keep it in mind, we have very significantly increased our bucket one and bucket two provisions since the beginning of the pandemic back in 2020, and we have now around €2.5 billion of bucket one and bucket two provisions at CASA. Excuse me, we have increased our bucket one and bucket two provision at Group level by €2.5 billion and we have increased our bucket one and bucket two provision at CASA by €1.3 billion since the beginning of the crisis, so it is a very, very significant level.

Pierre Chedeville: Okay. Thank you very much.

Jerome Grivet: Thank you.

Flora Bocahut (Jefferies): Good afternoon. I wanted to ask you a few questions on the financing business in the CIB. The first one is on revenues. You had a very good quarter here in Q1 on the rating growth. I think you made a comment early on this call that CACIB has already used most of the capital that was allocated for the year. Just wanted to check here, whether this could mean that the organic growth in financing for the rest of the year could be constrained by this capital growth that we saw just in Q1?

The second question is still on financing but then going to provision. You made the point that you actually saw write-back this quarter, if we exclude the provision on Russia, and I understand because obviously you had a high NPL coverage, but the timing is a bit of a surprise in the sense that I would say the risks have probably increased for large corporates, when we look at higher inflation, higher raw material prices, the disruption in supply chain in some of the sectors. I wanted to better understand the move here on the provision write-back in financing and any concern or actually lack of concern on the underlying risk there.

Jerome Grivet: On the financing activities, the development of the revenues is not linked to a permanent increase in the size of the loan book. The development of the revenues is linked to the activity, and the activity is made of granting new loans but also distributing assets, covering assets, and making room to grant new loans. It is a permanent move, and what I just say is that in terms of the capacity of expanding the size of the loan book and the size of the RWA, and this is regularly the case in the first quarter of the year, there is within the budget a new assessment of the development capacity. Of course, as the loan book is generating revenues over time, it is generally important to try to take advantage of opportunities in the beginning of the year in order to generate revenues across the full year and not only progressively. However, the revenue within the financing activities is not only linked on the carry of the book. It is linked on the transaction, and the capacity to undertake new transactions is also connected with the capacity of distributing, making room and then taking new operations, and CACIB is very agile in this viewpoint. So the capacity of CACIB to continue to develop its business is, of course, constrained, but it is not nil in the coming quarters.

Then when it comes to provisions and write-backs, it is not discretionary. We cannot just say, well, we feel like taking new provisions and we feel like writing back provisions. It simply is the fact that in the first quarter of this year, if I take out the Russian exposures, the behaviour of the credit exposure of CACIB was such, the improvement of the quality was such that the write-back was absolutely relevant and necessary considering all our models and all our provisioning rules internally. That is the point. When you have a provision on the loan that was defaulted and that intimately is repaid, you have nothing to do than writing back the provision.

All in all, we have not written back a bucket one and bucket two provision at the level of CASA. We have even slightly increased, again outside the Russian provision, we have even slightly increased the level of bucket one and bucket two provision over the quarter at CASA.

Flora Bocahut: Okay. Thank you.

Jerome Grivet: Thank you.

Thanks a lot to everyone and we are waiting to meet you on 22nd June, and I think this time it will be in-person, I guess. I hope at least for most of us. Until then, have a good end of the day and see you soon. Bye-bye.

[END OF TRANSCRIPT]