S&P Global Ratings

Press Release

Bulletin: Crédit Agricole Reports Resilient Performance In The Second Quarter Amid COVID-19

PARIS (S&P Global Ratings) Aug. 7, 2020--S&P Global Ratings today said that the €1.5 billion in net income (group share) Crédit Agricole group (A+/Negative/A-1) reported in the second quarter demonstrates the group's resilience, supported by its diverse business model and well-entrenched franchises. But it also highlights the severe operating conditions and credit risks that large European banks are facing. While the underlying cost-to-income ratio was stable at just above 65% (including the contribution to the Single Resolution Fund), the net income (group share) reported for the first half was €2.4 billion, down from €3.2 billion in the same period of 2019.

Those results are in line with our expectations set in April, when we revised the outlook to negative from stable (see "**Outlooks On Credit Agricole Banking Entities Revised To Negative On Economic Impact Of COVID-19; Ratings Affirmed**," published April 23, 2020).

As we said in April, we think that Crédit Agricole entered the COVID-19 pandemic in a position of strength, notably when considering its business model, leading franchises (retail banking, insurance, and asset management), and solid capitalization and liquidity reserves. However, as underpinned by the results in the second quarter, we also continue to see downside risks to earnings and asset quality if an economic recovery is significantly delayed. The degree to which economic activity recovers in second-half 2020 and 2021 in France, as well as in the wider eurozone, will determine whether the damage to Crédit Agricole's performance from the pandemic is temporary or if there are longer-lasting effects.

Illustrating the group's resilient performance, despite the low interest rates and weak business sentiment, the year-over-year decreases in reported revenue and gross operating income (GOI) in the second quarter were limited to 4.6% and 7.0%, respectively. This reflected mixed trends across activities. At the regional banks, quarterly new loan generation increased year over year when including state guaranteed loans. However, and despite a sharp rebound in June, new loans were down in the specialized financial services (SFS) segment and in the French retail LCL network. While the GOI regional banks generated was up 7.1%, supported by very resilient revenue and positive jaws effect (the differential between growth rates in revenue and costs), the international retail banking and SFS segments reported a decrease in revenue of more than 10%. Finally, the large customer activities (corporate and investment banking, and asset servicing) delivered a 16.3% increase in GOI.

That said, net income (group share) was down by 18.2% year over year in the second quarter, as the group added to its credit reserve. The consolidated cost of risk reached €1.2 billion, following €0.9 billion in the first quarter. This corresponded to a 45 basis points (bps) cost of risk over the first half of the year, which is well above the approximate 25 bps average achieved over the past five years. Compared with the first quarter of the year, the cost of risk was a stable 23 bps in the second quarter for the regional banks, but it increased in all other businesses segments. Noticeably, of the €1.2 billion reported in the second quarter, 35% was for prudential provisioning of performing loans--that is, in stage 1 and stage 2, in accordance with the International Financial Reporting Standard No. 9. At the end of June, Crédit Agricole reported a ratio of nonperforming loans to total customer loans of 2.4% and a high 84.5% coverage by loan loss reserves. Although we believe that the group has good asset quality, we expect cost of risk to remain well above long-term trends in the coming quarters.

Net income reported in the asset gathering division (asset management, insurance, and wealth management) was stable.

The group also noted that the reported revenue in the second quarter was altered by the specific support it provided to its SME (small and midsize enterprise) and small business customers insured against business interruption, with mutualistic insurance support totaling €239 million.

The Crédit Agricole group's balance sheet is solid, with a reported common equity Tier 1 ratio of 16.1% and total loss-absorbing capacity ratio of 23.8%, not including senior preferred allowance, which was well above the 19.5% minimum regulatory requirement at the end of June.

At that same date, the Crédit Agricole S.A. group maintained excess Tier 1 capital--above the minimum that would trigger potential regulatory restrictions on paying the coupon on additional Tier 1 instruments (maximum distributable amount)--of €13 billion. Divided by regulatory risk-weighted assets, this buffer represented 382 bps.

Also, an increase in Central Banks drawings and a large inflow of customer deposits benefited liquidity.

Related Research

- **Outlooks On Credit Agricole Banking Entities Revised To Negative On Economic Impact Of COVID-19; Ratings Affirmed**, April 23, 2020
- **How COVID-19 Risks Prompted European Bank Rating Actions**, April 23, 2020

This report does not constitute a rating action.