

# Q2-2011 Results

## 2<sup>nd</sup> Quarter Results

**Laurent Mignon**  
CEO

Good morning. We are here to present the second quarter results of Natixis. I will thank you for attending this conference call in the beginning of August in this tough environment. As we do every quarter, I will start off the presentation, with the large numbers and so on. Luc-Emmanuel Auberger, who is sitting next to me, will then go through the performance of each of the business divisions of Natixis.

Globally, this quarter is again showing that the business model that we have put in place for two years, which is a much more reduced risk profile model that is much more geared toward the client business, has proved its resilience within a tough market environment. The net profits amount to €505 million in Q2. This is down 3% versus Q2 2010. However, the tax rate has normalised to 32.6% versus 7.3% in Q2 2010. If we exclude the fair value adjustment on own senior debt after tax, the net profit stands at €515 million, up 4% on the comparable numbers for 2010. Overall, the first half saw €1 billion of profits, excluding thenon-operating items, which are in fact only the fair value adjustment on own senior debt. We can say that core business revenues are growing in the second quarter compared to last year and compared to the first quarter, underlying the resilient business model that we have put in place and that we were discussing a few minutes ago. We can underline the good performance of the CIB business in a much more difficult environment, solid capital market activities thanks to market share gains in key businesses, and a very positive momentum in Investment Solutions and Specialised Financial Services.

The cost of risk is under control, including €15 million of provisions of impairment on our Greek sovereign debt, which is fully located in the insurance companies of Natixis. Return on equity of Natixis for the first half and for the quarter is over 10%, excluding non-operating items. Strong growth in equity method consolidation from retail thanks to a good performance of the retail business. Growth is up 14% compared to the first quarter. Compared to last year, it is a very sharp increase but last year there was a high level of non-recurring items in the retail business that had a negative impact on its performance. This was due to the finalisation of the merger of the companies of BPCE.

Finally, last but not least, this is a way to illustrate what we have seen: we had a very strong increase in Natixis' core Tier 1 ratio. It now stands at 8.6% up 50 basis points versus the first quarter and up 220 basis points on the year, underlying our ability to generate earnings while maintaining low risk weighted asset consumption. This is an illustration of the low risk business model that we have developed. Risk weighted assets have continued to decrease during the quarter.

If we go quickly through the numbers, pro forma from the acquisition we are making in the SFS division and excluding non-operating items, we can see the underlying trend of the businesses. Net

revenues are up 4%, and core businesses are up 3%. Costs are up 10% but the basis of comparison with the second quarter of 2010 was very low with exceptional items, in particular on value added tax where we had benefits of the pro-rata of value added tax. If you look to expenses compared to the first quarter we are on a flat evolution; that is, the situation is well under control. Provisions for credit loss amount to €76 million, slightly up compared to the first quarter and down from last year. This includes €15 million for impairment of Greece. Regarding the increase in cost of risk, we said in the first quarter that the zero cost of risk for the CIB was not a sustainable situation. We are now back to a more normal cost of risk. This also includes a slight increase in net consumer credit risk. We are here talking about €2 million-€3 million overall.

Net income amounted to €519 million versus €582 million. You can see that GAPC is €4 million negative compared to €85 million, that is, it is well under control and that has been the case quarter on quarter. Overall, net income amounted to €515 million compared to €496 million, that is, up 4%. The cost to income ratio is 66.9%, the effective tax rate is 32.7%, and the return on equity is 10.4%.

We keep an eye on Natixis' evolution since the first quarter of 2009. You can see that Natixis profits, excluding non-operating items have consistently increased, quarter on quarter. €691 million is the figure for the second quarter compared to €644 million in the second quarter of 2010 and €665 million for the first quarter 2011. Non-operating items are now very small. They have an impact when you compare on the percentage level but, overall, in terms of magnitude they are small. The GAPC no longer has an impact on the earnings of the company since the second quarter of 2009 when we made the appropriate level of reserve analysis on the basis of the review by Blackrock and active management since then to reduce the overall risk weighted assets of this activity in run off.

There was a slight increase in revenues in the second quarter versus last year: 3% for core businesses. If we consider the core businesses, business line by business line, SFS reached 7% and this was a very dynamic quarter for that business. This demonstrates the revenues synergies that are being achieved with BPCE, with Banques Populaires on one side and Caisses d'Epargne on the other. We are really delivering on the plan there, consistently quarter on quarter. There was an 8% increase in Investment Solutions with good performance from Asset Management especially in the US but also in the insurance industry. The figure was -2% for CIB. If we take away the CPM and the one-off we had on the equity business last year, which I disclosed to you (I think it was €27 million), CIB underlying business is up 8% quarter on quarter. This is a fairly remarkable achievement in this environment. Again, it illustrates the lower volatility of our earnings which are less dependent on trading and more on client business. It also illustrates the gain in market share that we have achieved thanks to the teams. Financial Investment is improving thanks to the good development of Coface. The Corporate Centre is down compared to last year because of the own debt revaluation. The difference is significant: own debt revaluation was +€49 million last year while it is -€15 million this year.

The cost of risk was low. Even though it was slightly higher than in Q1, there is nothing of concern here. The core businesses cost of risk is at €45 million, excluding Greece, with €14 million additional with Greece. The cost of risk amounts to 22 basis points of loans outstanding. The first quarter was exceptionally low as we stated.

Regarding sovereign debt, we have been very clear from the beginning. Natixis has very low exposure to sovereign debt and very low exposure to Greek sovereign debt in particular. You have

all the details here, including the €15 million in provisions. That is, 21% of all maturity ending before 2020. What matures after 2020 amounts to €31 million, which is really insignificant.

Regarding the cost to income ratio, the comparison to the second quarter of 2010 is unfavourable because we had some one-offs. For example, I have already mentioned the improvement in VAT pro-rata which was a one-off of €30 million in the second quarter of 2010. There are no longer any restructuring costs and everything is now embedded in the cost to income ratio. The cost to income ratio has in reality improved on a quarter to quarter basis. If you compare business line by business line you can see that the developments are in line with the plan. Nevertheless, they are compatible with what we do, which is a reasonable investment in our business. We are developing our platform in CIB in Asia. At the same time we are developing our international business on Asset Management, which has proved to be very successful. That is something we will continue to do, in a reasonable and well-monitored manner.

The core businesses and retail banking networks showed strong performance. The pre-tax profit of core businesses and retail is increasing: €618 million last year and €674 million for the second quarter of 2011 – a 9% increase. The contribution of retail has doubled but, again, the comparison base was very low. Luc-Emmanuel Auberger will come back on the performance of the retail business later on. SFS had a 1% increase, which is impacted by the provision made on Greek debt as the Compagnie Européenne de Garanties et Cautions had some Greek debt in its investment portfolio. If we take that away, it would have increased 9%, a better increase than the net banking income. Investment Solutions had a very good contribution, and there was a slight decrease in CIB mostly linked to the difference in CPM between the two quarters. Regarding the Corporate Center and Financial Investments, I will make the same comment. Coface on the one side, and the revaluation of the own debt which was significant last year and is slightly negative for this second quarter.

Very importantly, the other quarters already illustrated something that is now being consistently illustrated: the business model developed is successful. We are developing our client base in all of Natixis' three business lines. That is true in the CIB business, with very successful transactions with clients and with achievements in terms of league tables. It is also true in Investment Solutions where US Asset Management has record inflows of business. Loomis is extremely successful in terms of performance. Harris has also been very successful over the years. In Specialised Financial Services, we have chosen two examples. First, factoring, where we have a 14.4% market share, coming from 13.9% a year ago. Second, employee benefits, where we have significantly developed in the market and have taken an 11.8% market share in the Chèque de Table business, a 1% increase.

More importantly you can see how this translates in terms of revenue synergies with BPCE networks. Those synergies are gaining momentum and are in fact ahead of plan. We will continue to see a good development here. Consumer credit is now starting to develop with Banques Populaires conforming to the plan. We have good growth in CEGC with Caisses d'Épargne. Factoring is developing in both networks, and insurance has been very resilient with the Banques Populaires. All of that illustrates that the level of synergies that we have stated is now going through the P&L.

Regarding the financial structure, the strategy to reduce RWA is consistent. We were at €139 million RWA excluding CCI one year ago. We are now at €104 million today, an overall decrease over the period of over 25%, consistent with the reduction in Natixis' risk profile. We have done that while net banking income has increased, and we will keep on doing that this quarter. We still

have some potential for improving the return we achieve on risk weighted assets. This is the full logic of the strategy that we have been developing in the past two years. I think we are well on track to achieve that and deliver on that. This is generating a very sharp improvement in the Core Tier 1 ratio, which now stands at 8.6%, up 220 points from 6.4% one year ago, which means that we are very confident of achieving our targets in terms of the Core Tier 1 ratio under Basel 3. The Tier 1 ratio is 11.6% and the book value per share is €5.3.

Liquidity is done through a common pool with BPCE. The global refinancing programme is at 77%. If we only focus on BPCE for Natixis, Caisses d'Epargne and Banques Populaires, and we take Crédit Foncier as a separate issue and entity, BPCE's own programme of refinancing is at 95% achievement of the programme. We are really well on track in terms of achieving the full year programme of long-term financing. The Group perception by investor has significantly improved. While there was some tension on the credit quality perception of the financial industry, specifically the banking industry, BPCE has remained very stable and has continued to improve its image towards investors and broaden its investor base. That is why you see that our own debt impact has been negative in the quarter.

I will now pass the floor to Luc-Emmanuel Auberger for the business divisions.

## **Business Division Results**

### **Luc-Emmanuel Auberger**

As Laurent Mignon stated, CIB had a one-off of €27 million last year in the equity business. In comparison, CPM was €46 million positive last year and is negative €4 million this quarter. If we adjust for that, on the right hand side of the chart, you can see that revenues at €814 million increased 8% versus the second quarter last year. Capital markets represent 47% of CIB revenues versus 44% one year ago. The cost income ratio remains low. The second quarter last year was a very low level for Natixis in general because of some one-offs on costs. The ROE for the quarter amounts to 19.3% despite a cost of risk that is higher than in the previous quarter where it was zero. We therefore have 19 basis points of cost of risk in the second quarter.

The second quarter was very active for Structured Financing. Revenues were up 17% versus the first-quarter. There was strong performance for all the business lines that compose Structured Financing, with good commercial momentum and several significant deals in the second quarter. Total revenues for Structured Financing amounted to €328 million compared to €281 million in the first quarter. For Commercial Banking, revenues decreased slightly from the previous quarter (€105 million compared to €110 million). This is in line with our policy to reduce the final takes we have on the deals and to limit plain vanilla lending to cases where we have clear cross-selling opportunities. The RWAs for that business continued to go down during this quarter. The new production on Structured Financing was very high in the second quarter with €5.8 billion, the highest level in the last five quarters.

In Capital Markets, revenues globally were up 9% versus Q2 last year. If we look at Interest Rates, Foreign Exchange, Commodities and Treasury, we can see that revenues are up 27% versus last year but down 25% versus the previous quarter which was very high on a comparison base. Globally, net revenues reached €231 million compared to €183 million in the second quarter last year. This was due to the resilient performance of all business lines within FIC-T, mainly driven by client business. The debt platform contribution was again growing significantly, at 48% versus Q2 last year. In Equities and Corporate Solutions, revenues amounted to €157 million, an increase of 12% vs. 1Q11. If we correct the one-off on equity derivatives in Q2 last year, revenues were up 6%, which is quite a good performance in the current market. That performance is being driven by the client trading business. Natixis is N°1 in Convertibles in France in 2011.

We have improved rankings in the quarter in all euro bonds, where we are now N°7. In French corporate bonds we are first in this area. Globally, you can see that, in the second quarter, revenues for Capital Markets increased by 9%; revenues for Financing decreased by 4%. Pre-tax profit amounted to €337 million for the quarter, and €720million for the first half of the year, up 12% compared to last year.

During the second quarter we had further improvement in the business mix in Asset Management. As you can see on the chart, in the breakdown by asset type, non-money market assets now represent 88% of total assets under management compared to 85% one year ago. There were strong net inflows in the US (5.1 billion this quarter). In Europe, there was a positive net inflow of 1.2 billion if we exclude monetary funds. Globally, assets under management stand at €533 million, very close to last year's level but we have a dollar effect of negative €4.6 billion.

The US saw a very strong performance of the multi-boutique organisation, with \$11.1 billion of net inflows for the first half of the year. Loomis contributed \$5.6 billion of net inflows in the first half of the year, with total assets under management totalling \$162.3 billion. Harris contributed \$5.8 billion in inflows, with assets under management totalling almost \$70 billion at the end of the quarter.

Insurance and Private Banking had a good quarter, with a high level of net inflows in private banking (€1.2 billion this quarter), mainly thanks to some large institutional investors. Globally, the contribution of Investment Solutions amounted to €125 million, with pre-tax profit up 7% versus last quarter.

SFS had good performance with revenues up 7%. You can see that Financial Services revenues were flat compared to last year. In Specialised Financing, revenues increased, €153 million compared to €132 million last year. Pre-tax was up 9% excluding Greek impact. The cost income ratio is improving, at 67% versus 69.6% in the second quarter last year.

I will not comment in detail on the various indicators. Except for Securities Services, where the environment is very difficult, the indicators for the other businesses grew in this quarter compared to last year. The contribution of SFS is up 1% versus the second quarter of last year. However, as we mentioned, the provision for credit losses amounted to €22 million, which includes about €6 million on exposure on Greece.

Regarding retail banking networks, we have a comparison base effect, as Laurent mentioned, on Caisses d'Epargne due to the merger that was finalised from an accounting standpoint in Q2 last year with a negative impact of €66 million on the pre-tax profit last year. That had an impact on

revenues and on the cost of risk of the Caisses d'Epargne last year. Despite this comparison base, we have good performance of the two networks with the total contribution amounting to €170 million in this quarter. Revenues increased, as we will see on the next slide. Operating expenses were stable, as was the cost of risk. Combined net profit rose by 42%. Regarding the business indicators, we should note the increase in savings outstanding in this quarter. Balance sheet customer deposits increased 10.4% in the Banques Populaires and 8.2% in the Caisses d'Epargne. Revenues of the Banques Populaires show a 10% increase. You also have some comparison base in terms of IFRS volatility but the underlying revenues are strong for the quarter for the Banques Populaires. The minus 5% figure for Caisses d'Epargne is linked to the one-off last year, which I mentioned. If we correct that, revenues were up 1.5% versus last year.

If we move to Coface, it is important to note that in this quarter turnover increased by 9% versus the second quarter last year. This shows a strong commercial momentum, especially in credit insurance. The loss ratio, which had increased slightly in the first quarter to 53%, is now down to 47%. This is totally in line with our expectations on average. Globally, Financial Investments (including Coface) contribute a pre-tax profit of €34 million this quarter. Provisions for credit losses include a small impact on Greek exposure in Coface.

GAPC had a minimal impact on net income, and we continue with active management. The impact on net income after tax was €4 million negative in this quarter. The impact of the guarantee was €16 million. The net negative contribution is less than the operating expenses. Weighted assets are slightly down (€6.5 billion compare to €6.6 billion in the previous quarter), and down 68% compared to the situation one year ago, when there was €20.2 billion in weighted assets in GAPC.

### **Laurent Mignon**

Thank you, Luc. A few final words. As I mentioned, this was a very active quarter with good commercial momentum in all business lines, in line with the New Deal plan we developed two years ago. Net profit in the first half amounted to slightly below €1 billion, despite a difficult market and a normalisation of the tax rate. We had a strong contribution from retail banking. Despite the change in the comparison base, retail banking made a good contribution. The cost of risk is under control, with limited impact from Greek sovereign debt linked to the limited exposure to sovereign risk globally. Natixis has very limited exposure to all sovereign risk today. There was an improvement in the Core Tier I ratio, showing that the path to Basel 3 is in line with our expectations and projections. Natixis' ROE has shown good performance business line by business line and, overall – globally speaking – the Group had a 10% ROE for the first half.

Thank you for listening. We are now ready to answer your questions.

## **Question and Answer Session**

### **Guillaume Tiberghien, Exane**

Good morning. I have a few questions. First, I am surprised to see a positive market effect within assets under management and I would like slightly more granularity on why that is. Second, regarding risk weighted assets, I was wondering if you could provide some flavour as to when you think they might stabilise and at what level? Third, regarding the dividend, I want to ensure that I understand how you accrue this. Is it correct to assume that in Q1 you accrued 50% of a cash dividend and that, for the first half as a whole, you accrued a 50% pay out with 74% scrip? In effect, there was therefore a positive effect in Q2 solvency due to dividend accrual. Lastly, regarding the revenue outlook for Corporate and Investment Banking, you suggested there were quite a few large deals in Structured Financing in Q2. Could you provide what you think is a reasonable run rate for this activity?

### **Laurent Mignon**

Regarding your first question on the positive market impact in assets under management, we are referring to the situation quarter on quarter and not year on year. In March compared to June we have a positive market impact of €3 billion. I have not made the calculation between the stock-market and the bond market but, overall, it was a positive impact. If you want, we can provide the detail of whether it is equities or bonds, but overall the value of the assets went up, mostly in the US.

Regarding risk weighted assets, was your question when it will start to grow?

### **Guillaume Tiberghien, Exane**

When will it stop going down and at what level?

### **Laurent Mignon**

Our strategy is to improve the efficiency of risk weighted assets. It will go up mechanically with Basel 2.5 and then Basel 3, which is included in our projections in terms of the management of our core Tier 1 ratio obviously. However, if we take away the methodology of calculation, our continuous trend is to improve the net banking income to risk weighted assets ratio. We will continue to do that and ensure that we have much more efficient use of our risk weighted assets. We will continue to do that and it will continue to improve, as that is the strategy we have been pursuing for the past year.

Regarding the dividend, we did not change the methodology between Q1 and Q2. We continue to do this through 50% pay-out, and an expectation of 75% for scrip dividend, I believe. We had a slight positive impact in Q2 in terms of solvency because the result of the scrip dividend was slightly higher than our expectations – I believe we had 85% scrip dividend versus an expectation in our calculations of 75%. That is the only difference, and there was no change in methodology.

Regarding revenues in Structured Financing, we had significant transactions but we explained that the run rate in the first quarter was lower compared to our expectations. The second quarter is in line with our expectations. There were no particularly exceptional transactions in terms of revenues. There were important transactions such as the Lactalis acquisition of Parmalat. That was a very significant transaction in terms of commercial success. However, in terms of revenues, there is little of it in the second quarter. In terms of revenue streams within the quarter, we do not have one or two or three exceptional operations that would explain that; it is only the run rate of the development of the activity and we are confident that we can continue on that path. This illustrates the work that has been done in the past two years in order to be efficient in terms of developing our activity in the Structured Financing business.

### **Pascal Decque, Cheuvreux**

A few questions if I may. On the provision increase that we saw in Q2, what part comes from the real new files you saw on the non-performing side, and what part comes from the comfort zone that you would have taken for the future? Second, regarding the tax rate, should we understand that the normalised level will not be 30% but will be closer to 33%? On the dividend policy, to ensure that I understood you properly, will you maintain your 50% pay-out ratio in 2011 with a hypothesis of 72% in scrip? What would be your dividend policy in 2012 and 2013? I will add a follow-up to Guillaume's question in order to better understand the evolution of the 50 basis points on the increase in the Core Tier I. Could you provide some figures on the forex, on the impact of the dividend take-up which was higher, and on the risk-weighted assets in terms of basis point evolution?

### **Laurent Mignon**

Regarding provisions and the cost of risk, I advised last quarter that throughout the cycle we think that a zero percent cost of risk for CIB was not sustainable. I think everyone would agree with that. We have a few files that we thought needed additional provision. These were existing files that needed additional provision, which we have now done. Effectively, whenever you add some provisions you increase your comfort level. However, that does not mean they are undue provisions; they reflect what should be a reasonable cost of risk within the CIB business. If you look to the non-performing loans covered, you can see that it is stable. Slide 57 shows that the overall provision to non-performing loans is 87% in line with where we were last quarter. We therefore have a similar level of comfort overall for the CIB business.

Regarding the tax rate, this will depend on where revenues come from and how they evolve because we have a slightly higher tax rate in the US and a slightly lower one in Europe. Overall, for the past two quarters we have been at roughly 32%. Our guidance was more 30% overall. The higher the weight of the US in our earnings through the asset management, the higher the tax rate, but roughly it is between 30% and 32%.

Regarding the dividend policy, 50% is the dividend policy that we have stated for the next year, and we will adhere to that. I do not do any long-term perspectives but, unless there are significant changes, I do not see why we would change. Scrip dividend is there in order to keep consistent with our past in terms of increasing our Core Tier 1 ratio. However, this is not something that would be sustainable in the long term and, at some stage, we will move from scrip to fully cash dividend.



Regarding the ratio, the impact of forex is very limited. It is €400 million on the risk weighted assets and also on the capital base. It therefore has a very limited impact overall. The fact that we had higher scrip dividend than expected represents an improvement of six basis points; the rest is due to the improvement in earnings and risk weighted assets.

### **Mr. Chédeville, CM-CIC Securities**

Good morning. First, regarding expenses, you stated that the one-off in 2010 partly explains the increase in expenses. Apart from this one-off, it would appear that the increase remains at +10%. Could you provide some colour on what this increase would be without investment, in particular investment in Asset Management? What would be the trend in terms of the increase in expenses? Do you feel that you will have a negative scissor effect in the coming quarters? If that is the case, what would be the level of this negative scissor effect? Second, regarding the credit side, you talked about the increase in revolving (+15%). I was slightly surprised by that evolution because, under the Lagarde law, I thought that revolving credit was not a particularly attractive product for banks. Lastly, regarding the insurance business, this may be simply a technical accounting issue but it is difficult for me to reconcile the fact that sales are at +2% and that net banking income is at +149%. Could you explain that distortion? Thank you very much.

### **Laurent Mignon**

Costs did not increase by 10%. You have to take into account the fact that the parameters have changed. On a pro forma basis it is 10%. However there was a one-off last year. Therefore, if you correct for that one-off from last year, the run rate of the increase in costs is 4%. This is really where we are. 4% in cost increases, and net banking income is increasing, overall, by 3%. However, if you take the underlying growth in net banking income, we are more around 7%, if you take away CPM and things like that. What I am trying to say is that there is no negative scissors effect going on; there is no deviation in costs at Natixis at all. Nor should we expect any negative scissor effect. 4% is the real run rate growth of costs today at Natixis.

In terms of consumer finance, we are not at all doing consumer finance away from the banking agencies. What is within the target of Ms. Lagarde's law was revolving consumer credit undertaken at the sales point. That is what is decreasing. Doing some revolving business with banks based on consumer credit with the appropriate consumer discussions and the appropriate knowledge of the client is not at all under the scrutiny of the law. We are doing that very properly in line with all the legal guidance, and this is developing. It is developing, first, because we did not have our natural market share within that business. It is developing because our clients are doing less with other actors, and Caisses d'Épargne is also doing less with others. Overall, we are therefore taking market share in that. There is an increase in terms of cost of risk and we pay very close attention to that. Our knowledge of the risk of this business and its development is fully under control. That is why we are developing consumer finance there. We will develop that even further because Banques Populaires was not doing any of this and we will start to do that in the coming quarters. We already have four Banques Populaires working with the consumer finance business, and we will extend that to all of them throughout the year.

Regarding insurance, the second quarter last year was very low. Life insurance had a very low second quarter in terms of profits. We stated that during the conference call last year: that we had an

exceptionally low contribution from life insurance last year. This year is more in line with the overall yearly run rate of profit for life insurance. If you compare the second quarter contribution of life insurance to the year you will see that it is totally disconnected. Net banking income is moving in line with the development of the activity. It is therefore really the comparison base. The run rate of the insurance business is in line with what we can expect for the full year. We have seen a good development in life; it is stable and we have been able to manage it well. The other part of life insurance – personal protection – is also developing very well.

**Mr. Chédeville, CM-CIC Securities**

My question was more concerned with the fact that I assume the NBI includes the efficiency of the business. For example, do you observe in your business any improvement in the value of your business or a difference in the mix of products towards Health and Protection instead of ... ?

**Laurent Mignon**

As I mentioned, Health and Protection is seeing the fastest development for the time being.

**Mr. Chédeville, CM-CIC Securities**

How is evolving the value in your new business?

**Laurent Mignon**

New business value is slightly improving but is in line with what it was in the full year of last year – not with respect to the second quarter which was low in terms of contributions, but in terms of new business value it is positive. We had good development of the unit-linked business during the first half, which is obviously improving new business value done by the life business. Euro-denominated contracts are slightly reducing in terms of proportion of profits; we were above 20% of unit linked during the quarter.

**Pierre Flabbée, Kepler**

First, regarding Coface, where does it stand regarding the re-focusing plan and related costs? Where is Coface's pricing level relative to where it was pre-crisis, for example, in 2007? What is the total exposure of Coface now compared to that period of time? Second, regarding GAPC, can we consider the second quarter costs as a run rate or can we expect the current increased market volatility to re-create some stress in Q3? Third, regarding sovereign exposure on Italy and Spain from the trading books, is there any risk that, due to the current situation, we could see a negative impact on the results for the coming quarters?

**Laurent Mignon**

The Coface re-focusing plan is well on track. You know that we are re-focusing Coface on the credit insurance business, going out from part of the non-linked to credit insurance services activities, and exiting part of the factoring business which was active in 26 countries. We are focusing that on only two countries. The plan is ongoing. We can say that we have put an additional provision of roughly €8.6 million during the second quarter to cope with some losses that we will have to incur by closing down of some activities of Coface in some countries, on activities that were not consolidated. The pricing level was very strong last year. It is lower this year, at least in the first half. The increase in Coface's turnover is more linked to the development of the activity and the activity of the clients themselves – their own turnover. The impact of pricing is slightly neutral in the first half; most of the increase is coming from the development of the activities of clients. While the impact of the price increase was significant, we do not see a negative impact of the price increase. The price impact during the quarter was slightly close to zero.

Regarding GAPC, from what I know and see, and the current market evolution – which is really linked to concerns about sovereign debt, and the ability of States to pay back their debt and to be able to sustain economic growth – this should have some impact on GAPC assets. We have no reason to change our guidance. Our run rate in terms of charges is €30-35 million, and we will keep that on a quarter to quarter basis. For the rest, we think we are adequately reserved and we do not expect the active management we are doing should generate any significant volatility in the earnings.

Regarding exposure to Italy and Spain, everything is in the trading books and there is no banking exposure. It is volatile in terms of the amount because we are primary dealers in those countries. The current exposure to those countries is much lower than it was on 30 June, and we have gone through that quite nicely. Yes, it is volatile, but it is in the P&L and well under control overall.

**Thibault Nardin, Morgan Stanley**

Good morning. I have three questions. First, regarding Structured Financing, clearly production has been very strong in this quarter. However, given that liquidity is more constrained now, and BPCE has still not done its plan for the year, would you expect a slowdown in terms of a new production in the coming quarters. Second, regarding the resilience of your Fixed Income activity, you stated this was partly attributable to your new debt platform. It would be useful to have more colour on the strategy you are implementing there. Finally, regarding equity revenues, what is the contribution from Corporate Solutions this quarter and the outlook for Q3?

**Laurent Mignon**

For Structured Financing, we say that we have good momentum. As for all financing businesses, it requires some liquidity but we also have re-payments. We are reducing the plain vanilla activity. We have a very tight control and management of our liquidity, and we have a target for each business line. Our development is consistent with the development that we have in terms of liquidity. Globally, as I mentioned, the BPCE programme for funding long-term is done at 95% excluding CFF. There is therefore no long-term liquidity issue for the bank in order to be able to develop ourselves consistently with our targets. I do not expect to put any negative pressure on that.

This is also done in managing the risk weighted assets, which means that we are very, very focused on ensuring that, whenever we develop on one side we do that in an efficient manner, taking away some of the businesses that had the same level of liquidity but higher risk weighted assets and lower profitability. We are only acting whenever we take no more participation in deals; we can only act when we are MLA or we are book runners or we are structuring the matter and then we are selling it back, coming to the debt platform through the market in order to have the lower part. We keep the highest part of the commission that we can and improve the return on risk weighted assets effectively consumed by the Group. The debt platform is developing very well. The initiative was put in place one year ago now and the teams are fully working together now. It has proved to be very successful both in terms of managing our risk weighted assets and liquidity position, and also in terms of managing our commercial development. You have seen that our ranking has improved in all the lines for bond markets and this is because we have put together the teams and expertise. We no longer have different teams going to the clients – the full force has been put together. I think that we can continue developing that very successfully; we are at the beginning of the movement.

Regarding corporate solutions, we have never provided the contribution of corporate solutions. Nevertheless, the quarter was a good one. It was lower than the second quarter last year. The rest of the equity business has developed significantly but it is doing OK. Last year was very exceptional, with very strong business – not linked to new business mostly by restructuring of deals last year. This year we have a significant pipe. The team is doing an extremely good job. We have a lot of conversations with clients and I am quite confident about the development of that activity for the European part. The Asian part is also developing well, with a different profile from the past: smaller transactions in terms of individual size but more transactions. It is a good development from Singapore, where the team is.

### **Jean-Pierre Lambert, KBW**

Good morning. Two areas of discussion. First, regarding front office staff in CIB, could you give us an indication of the number of front office staff that you have and how you see that growth going forward in 2012 and for the rest of the year? In which area in particular are front office staff expanding – is its Structured Finance in Asia; is its mix? Second, given the turmoil in the environment, how are you positioning the bank to face this turmoil? Could you provide some indication of the action you are taking to prepare the bank for the current environment? Thank you.

### **Laurent Mignon**

With respect to front office staff at CIB, the frontier between front, middle and back office staff is not always clear but it is roughly 2,500 people altogether. Since the beginning of the year, we have increased front office staff by 70 people in Asia, for example. That is how we are developing. This does not represent a huge amount of hiring; this is selective development on selective expertise, and I think we are doing that quite well. That is what we can say in terms of that. We are hiring on a selective basis, and we also have a small team in the US. We are also doing a lot of hiring that is replacing and enhancing the quality of the people. We have found that we are an attractive bank today which was not the case two years ago. This is very important because it means that we have a good quality of development, and I am very pleased about that. This is true for CIB and for all the other business lines. In Investment Solutions we have also developed our distribution platform in Asia very significantly over the last year. That is showing up in terms of the success in our inflows

in Asia. We have globally increased the platform of Investment Solutions by roughly above 100 people in terms of worldwide distribution. You can see that in the numbers. Yes, we have a selective development altogether and we will keep on doing that, but we are very reasonable and we manage that on a very tight basis.

How do we prepare ourselves? The only thing we prepare is that we are not now discovering that it is a volatile world; we have been doing that for the past two years. We have been reducing the bank's risk profile for the past two years. We have been very consistent in the strategy we have been implementing, and there is no reason for us to change our strategy because the market is going through turmoil. We know it is a more challenging environment and we are managing that very tightly. The reliance of our earnings on the trading activity is low, and we are less exposed to that than anybody. However, a period like this is a period where clients are also less active. We know that this will have some impact on the activity. August is never a very active month for clients but I think we will see how we will evolve in September. We have been preparing ourselves to be less volatile, less risky and more consistently geared to our client businesses. That is really what we want to keep on doing. This is a long-term view; this is not a quarterly view.

### **Jean-François Neuez, Goldman Sachs**

I have three questions. First, what is the compensation ratio in the investment bank? How much of the comp is fixed versus variable, just to have an idea of your leverage there, should the environment become tougher for the revenue outlook? Second, would you re-confirm your risk weighted assets inflation expectation due to regulatory changes both for Basel 2.5 and Basel 3? Could you also do that for BPCE if you have the numbers? Third, would you be able to talk a little bit about funding at this point. Looking at the balance sheet, there would seem to be mostly corporate deposits in the deposits, which means it would be more similar in pricing potentially to wholesale funding. How vulnerable is the P&L to an increase in funding costs and where is the timing mis-match between assets and liabilities – just to try and get a sense of the impact that an increase in funding costs could have if it ever happens. Thank you

### **Laurent Mignon**

Page 20 shows the development of the cost to income ratio of the CIB business: 54.5% for the second quarter, 53.1% in the first quarter. One year ago it was 49.1% but I explained there were some significant one-offs, and the third quarter of 2010 was 57.4%. It was slightly up for the fourth quarter because the earnings were very good and the anticipation of the variable was slightly understated, and that is why it went up to 60.3%. Our average and our expected cost to income ratio is roughly 55%, and we are slightly below that. The comp ratio is stable and roughly 26% altogether. That gives you an order of magnitude. That is it for costs, I think.

For Basel 3, we have given very clear guidance. The numbers we gave for the last quarters are still intact, and we have no reason to change. We said that it would be roughly €9 billion for Basel 2.5, including GAPC. That is where we are and there is no reason to see anything else. We are still very confident we will be in line with the guidance we have given on Basel 3 on every item since the last few quarters. The earnings generation compared to risk has been slightly above our own expectations during this quarter. For BPCE, the impact of Basel 2.5 is mostly Natixis. There is a small amount but I would say it is irrelevant for the rest.

**Guillaume Tiberghien, Exane**

I have a very small follow-up question on Thibault's question with regard to equity revenues. I can appreciate that you do not want to provide a breakdown of revenues for each quarter. Can you at least give us a range per quarter as to what cash equity does, what derivatives does, and what corporate solutions does, on a normalised basis within a given range, and maybe you can provide a range? Thank you.

**Laurent Mignon**

Do you want a desk by desk breakdown ... ?

**Guillaume Tiberghien, Exane**

Not this quarter.

**Laurent Mignon**

The level of disclosure we do is already quite high. We have to look at the equity business as a whole. We can however give you some flavour as to how we develop. Cash equity is not developing the fastest for the time being, as you may have guessed. We have significant developments and I can give you paths of growth, for example. The growth of our equity derivatives business is above 25% compared to last year. In terms of corporate solutions, as I said, we are on an absolute level slightly lower than we were last year but the trend is good. The cash equity is more on a -5% evolution compared to last year.

**Sebastien Lemaire, SG**

Good morning everybody. Just a very quick question: could you provide the risk weighted assets breakdown between financing and capital markets within CIB?

**Laurent Mignon**

Regarding the breakdown between financing and capital markets, I do not have it here. We provide that on an annual basis and I do not see any significant change in terms of structure during the quarter. You can therefore take the annual basis and replicate it, this is roughly true.

**Robin Down, HSBC**

Good morning. I have two questions, one of which follows on from one of Guillaume's questions earlier on. With regard to the Structured Financing business you obviously had a very good flow in Q2. You mentioned that the revenues from the Lactalis deal may not be in there. Could you give us a bit more colour on whether or not there is any lag in terms of booking revenues? From the strong results in Q2 can we expect a better Q3 for the Structured Financing business and not otherwise? On a slightly more negative tack, your Fixed Income business is perhaps a little bit more flow-

related than some of your peers. That has obviously worked very well for you in the first half, particularly with banks accelerating their issuance of covered bonds etc. Given that most banks have done most of their full year pipeline in the first half, should we perhaps anticipate a seasonally even weaker second half for your Fixed Income revenues?

### **Laurent Mignon**

Regarding Structured Financing, there is a backlog of activity and I am very confident that the level of performance we have achieved is in line with what we can achieve. I am not saying that the performance of Structured Financing this quarter is exceptional. One quarter ago I stated that the first quarter was a little bit disappointing, and that this quarter is more in line with what we expect and what we can expect. The back log we have makes me very confident in saying that. In terms of Fixed Income, we have a very client oriented business and this will be very much linked to the level of business that we develop. Will the third quarter be in line with second quarter? It is very, very difficult to make any statement at this stage. What I can tell you is that it will depend on the activity of our clients. We have significant positions and we are increasing our positions in terms of market share because the quality and reactivity of the teams is very strong. This is what we have developed in the past two years. I am confident that it will continue but it will depend on the development of the market and the clients' business. To provide a statement on the client business today is difficult. Obviously the debt market today is a closed market. There is no client activity but I do not think it will remain this way for ever, and this will start again. Perhaps there will be a few more difficult months and then we will see the activity picking up.

Thank you to all of you. For those who have the opportunity to do so, I wish them a good vacation. For the others, I wish you great work. Thank you. Goodbye.