

ISSUER COMMENT

23 February 2021

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RATINGS

Banque Federative du Credit Mutuel

Baseline Credit Assessment	a3
Bank deposit	Aa3
Senior unsecured debt	Aa3
Outlook	Stable

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Credit Mutuel Alliance Federale

Despite resilient revenues, higher loan-loss provisions weigh on full-year profits

Summary

All figures in this report relate to full year 2020 and are compared against full year 2019 figures, unless otherwise indicated.

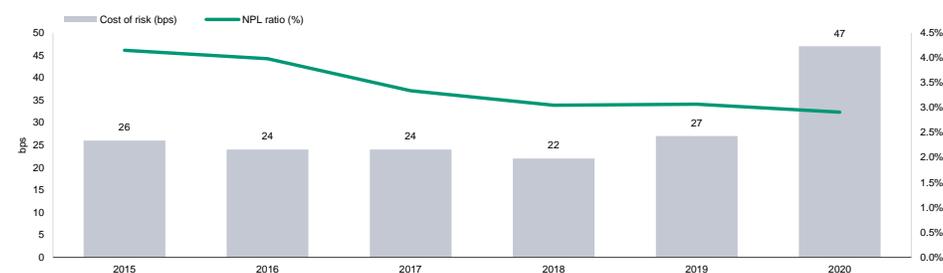
On 18 February, [Credit Mutuel Alliance Federale](#) (CMAF)¹ reported a net profit of €2.3 billion, a decline of 20%² versus 2019. The drop in profit reflected a moderate drop in revenue (-3.2%) and a surge in Covid-related loan-loss charges, which more than doubled at €2.4 billion (47 basis points of customer loans compared to 27 bps in 2019). The bank reported a strong Common Equity Tier 1 (CET1) ratio of 17.8% at year-end 2020, 50 basis-point higher than at year-end 2019.

Full year loan-loss provisions more than doubled, largely reflecting anticipated shock

CMAF's cost of risk surged to 47 bps of customer loans in 2020 versus 27 bps in 2019. Loan-loss provisions rose to €2,377 million compared to €1,061 million a year earlier. They included forward-looking provisions of €1,354 million³, representing 57% of total loan-loss provisions, in anticipation of future losses linked to the deterioration of operating conditions in certain sectors. That said, the coronavirus-related crisis has not yet resulted in a material wave of defaults/likely defaults at French SMEs and households. Therefore, CMAF reported a lower problem loan ratio of 2.9% as of year-end 2020 compared to 3.1% as of the end of 2019, which reflects a material increase in loan balances. Although the bank did not disclose any guidance on provisions, we believe they will remain elevated in 2021. A large portion of the provisions will likely reflect shifts to lifetime provisions linked to loan migration to stage 2 from stage 1 and also increased impairment charges (stage 3).

Exhibit 1

Although the cost of risk jumped, the non-performing loan (NPL) ratio slightly decreased
 Cost of risk (left, basis points of customer loans) and NPL ratio (right, %)



Source: company reports.

Yearly profits were affected by lower revenues, but revenues strongly rebounded during the second half of the year

CMAF's net income was down 20% in 2020, in the face of lower revenues and higher cost of risk. This compares well with the other two French mutualist groups which reported a 42% net income drop for [Groupe BPCE](#) and a 35% drop for [Groupe Credit Agricole](#) (including LCL goodwill impairment).

The 2020 decrease in net income was driven by a 3.2% decrease in revenue at constant scope which indicates a strong rebound of revenues during the second half of the year as revenues had contracted by 9.8% during H1 versus H1 2019. Impressive loan volumes helped offset pressure on margins with total outstanding loans increasing by 9.1% to €419 billion over 2020, supported by a 7.5% increase in home loans, but also largely reflective of the €19.5 billion government-backed loans granted to businesses and professionals.

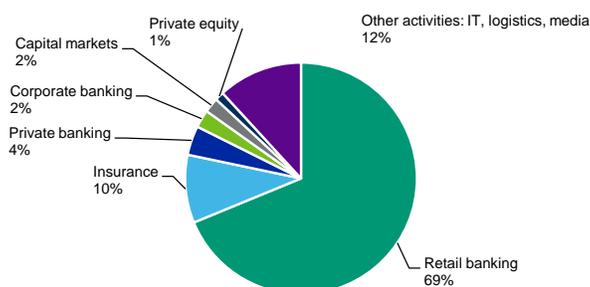
Retail banking revenues, which make up 69% of group revenues, were down by only 1.1%, whereas insurance revenues (10% of revenues) declined by 18% due to the financial market meltdown and [one-off compensations](#) granted to customers⁴ affected by the pandemic. The Specialised businesses showed a mixed picture with Private banking performing particularly well due to increased transaction volumes (+9.5% of revenues over year) and Private equity (-34.1%) performing poorly due to depressed market valuations.

Operating expenses were down 1.8% versus 2019, despite a 26.5% increase in the contributions to the Single Resolution Fund and supervisory costs to € 270 million from €212 million. The cost-to-income ratio was 62.3%, which compares favourably to French peers.

Exhibit 2

Revenues are largely driven by retail banking and insurance activities

Credit Mutuel Alliance Federale's revenue mix in 2020



Source: company report.

The group continues to exhibit strong capitalisation and liquidity

The bank's capitalisation remained strong and on the high end of French banking peers. The Common Equity Tier 1 (CET1) ratio increased to 17.8% as of year-end 2020, compared to 17.3% at year-end 2019. This 50-basis point increase was driven by retention of virtually all its annual profit and issues of new mutual shares. The CET1 capital increased by 6.9% over the year, whereas risk-weighted assets (RWAs) increased by only 3.6%. The bank did not opt for transitional arrangements in the implementation of IFRS 9. Thanks to the so-called Capital Requirement Regulation "quick fix" enacted in June 2020, the CET1 requirements under the Supervisory Review and Evaluation Process (SREP) decreased to 7.8% at year-end 2020 from 8.7% at year earlier. The leverage ratio of the group increased to 6.9% at year-end 2020 versus 6.4% at year-end 2019.

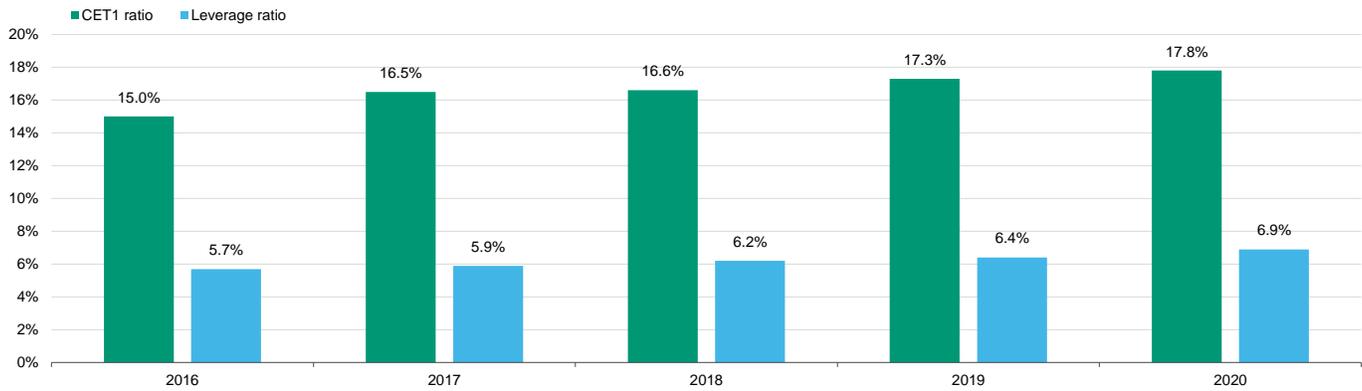
The liquidity profile of the group significantly improved from strong levels due to the surge of customer deposits (+21.4%). The average Liquidity Coverage Ratio (LCR) improved to 165% in 2020 from 143% in 2019 and liquidity reserves increased to €189 billion compared to €135 billion as at year-end 2019.

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Exhibit 3

Capitalisation remained strong

Credit Mutuel Alliance Federale's CET1 ratio (%) and leverage ratio (%)



Source: Company reports.

Endnotes

- 1 [Banque Federative du Credit Mutuel](#) (BFCM), the issuing vehicle and holding company of CMAF's operating subsidiaries, is rated Aa3 (long-term senior unsecured debt) and a3 (baseline credit assessment).
- 2 At constant scope.
- 3 Stage 1 and Stage 2 provisions under IFRS 9 accounting standards.
- 4 Prime de relance mutualiste.

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