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) reported a net profit of €2.3 billion, a decline of 20% 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 million, 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 customers 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.
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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