Credit Mutuel Alliance Federale

Strong revenues and cost discipline coupled with drop in provisions drive record profits in 2021

Summary
All figures in this report relate to full year 2021 and are compared against full year 2020 figures, unless otherwise indicated.

On 10 February, Credit Mutuel Alliance Federale (CMAF) reported strong net income\(^1\) of €3.2 billion, an increase of 45.3%\(^1\) versus 2020, and an increase of 13.5% relative to 2019, hence beating pre-pandemic profits. The rise in profit reflected a strong increase in revenue (+12.8%, or +8.7% versus 2019), a positive scissors effect\(^1\) (operating expenses increased by just 3.6%, or +1.7% versus 2019) and a significant drop in loan-loss provisions (-70.5%, or -34.3% versus 2019) down to just €699 million, lower than before the pandemic. The bank reported a strong Common Equity Tier 1 (CET1) ratio of 18.8% at year-end 2021, 100 basis points higher than at year-end 2020. Positively, the group has already exceeded its financial targets of the 2019-2023 strategic plan.

Full year loan-loss provisions fell sharply, largely reflecting a more benign anticipated asset quality

CMAF’s cost of risk fell to a level lower than before the pandemic, to 15 bps of customer loans in 2021 versus 47 bps in 2020 and 27 bps in 2019. Loan-loss provisions decreased to €699 million compared to €2.377 million a year earlier. They included forward-looking provisions: of just €114 million versus €1.354 million a year ago, representing 16.3% of total loan-loss provisions. The Covid crisis has not resulted in a material wave of defaults/likely defaults at French SMEs and households. Therefore, CMAF reported a further decline in its problem loan ratio, at 2.6% in year-end 2021 versus 2.9% a year ago and compared to 3.1% as of year-end 2019, which reflects a 5.8% increase in gross loan balances as well as a 6.2% reduction in problem loans. Although the bank did not disclose any guidance on provisions, we believe they will increase in 2022 from the current level which is historically low.

Exhibit 1
The cost of risk sharply decreased below pre-pandemic levels, while the non-performing loan (NPL) ratio slightly decreased essentially due to a larger loan book

Cost of risk (left, basis points of customer loans) and NPL ratio (right, %)

Source: company reports
Annual profits were driven by strong performance across the board, in particular in insurance and specialised businesses. CMAF’s net income was up by 45.3% or +13.5% versus 2019, driven by higher revenues, better efficiency and a sharp decline in the cost of risk. Consolidated net income of €3.5 billion already exceeds the €3 billion target of the 2019-2023 strategic plan. This strong result was supported by a 12.8% increase in revenue (+8.7% relative to 2019), driven by material loan growth. The bank reported an overall net loan growth of 6.1%, supported by a 9.0% increase in home loans.

Retail banking revenues, which make up 66% of the revenues of operating activities, increased by 4.5%, driven by a 6% increase in fee income and stable interest margins. Insurance revenues (11% of revenues) jumped by 31.4%, driven by stronger financial markets and a favourable basis of comparison versus 2020 which was hit by the one-off compensations to customers affected by the pandemic. The Specialised businesses also showed a strong performance overall, reporting an increase of revenues of 32.1% overall, with Private Equity performing particularly well.

Operating expenses increased by +3.6% or +1.7% compared to 2019 level, partly driven by an increase in the contributions to the Single Resolution Fund and supervisory costs to €314 million from €270 million (+16.3%). Nevertheless, the cost-to-income ratio decreased to 57% from 62% a year ago, ahead of the group’s 2019-23 strategic target of 61%, which compares favourably to French peers.

The results were negatively affected by a €775 million goodwill impairment related to Targobank Germany following the introduction of a regulatory cap on credit protection insurance fees in Germany.

Exhibit 2
Revenues are largely driven by retail banking and insurance activities
Credit Mutuel Alliance Fédérée’s revenue mix in 2021

Source: company reports

The group further strengthened its 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 18.8% as of year-end 2021, compared to 17.8% at year-end 2020. This one percentage-point increase was driven by a 10.4% increase in CET1 capital, thanks to retention of earnings and mutual share issuance, whereas risk-weighted assets (RWAs) increased by only 4.8%. 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 78% for 2021 from 8.7% before the sanitary crisis, and stayed at the same level for 2022. The group’s capital buffer above minimum requirements was 11 percentage points at year-end 2021. The leverage ratio of the group also increased to 76% at year-end 2021 versus 6.9% at year-end 2020.

The funding profile of the group has significantly improved since 2019, due to a surge of customer deposits. In 2021, customer deposits increased by 4% (+26% relative to 2019 levels). Liquidity also improved, with an average Liquidity Coverage Ratio (LCR) of 181% in
2021 from 165% in 2020 or 143% in 2019. Liquidity reserves increased slightly to €191 billion in 2021, a 1% increase year-on-year, yet an increase of 42% relative to 2019.

Exhibit 3
Capitalisation continuously improved in recent years
Credit Mutuel Alliance Federale’s CET1 ratio (%), SREP requirements (%) and capital buffer

Exhibit 4
The group’s Tier 1 leverage ratio is also on a strong upward trend
Credit Mutuel Alliance Federale’s leverage ratio (%)

Endnotes
1. Banque Federative du Credit Mutuel (BF CM), the issuing vehicle and holding company of CMAF’s operating subsidiaries, is rated Aa3 (long-term senior unsecured debt) and a3 (baseline credit assessment), outlook Stable.
2. Net income attributable to the group.
3. At constant scope.
4. Revenue growth exceeds the growth in operating costs.
5. Stage 1 and Stage 2 provisions under IFRS 9 accounting standards.
6. Net income attributable to the group.
7. Prime de relance mutualiste.
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