

ISSUER COMMENT

16 February 2022

RATINGS

Banque Federative du Credit Mutuel

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

Contacts

Guillaume Lucien-
Baugas +33.1.5330.3350
VP-Senior Analyst
guillaume.lucien-baugas@moodys.com

Yana Ruvinskaya +33.1.53.30.33.93
Associate Analyst
yana.ruvinskaya@moodys.com

Alain Laurin +33.1.5330.1059
Associate Managing Director
alain.laurin@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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)¹ reported strong net income² of €3.2 billion, an increase of 45.3%³ 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 effect⁴ (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.

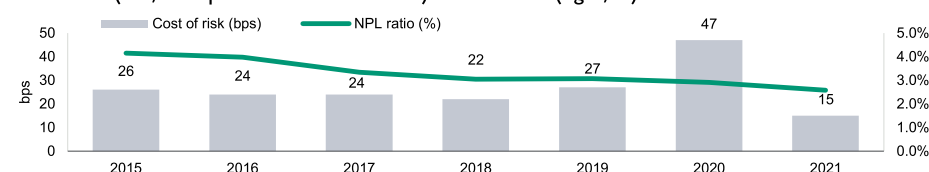
Full year loan-loss provisions fell sharply, largely reflecting a more benign anticipated asset quality

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 provisions⁵ 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 income⁶ 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 compensations⁷](#) 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.

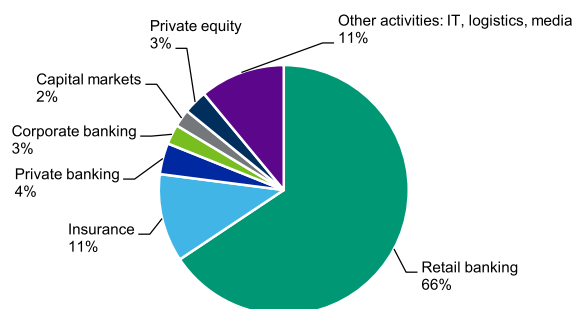
Operating expenses increased by +3.6% or +1.7% compared to 2019 level, partly driven by an increase in the contributions to the Single Resolution Fund and supervisory costs to €314 million from €270 million (+16.3%). Nevertheless, the cost-to-income ratio decreased to 57% from 62% a year ago, ahead of 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 Federale'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 7.8% 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 7.6% at year-end 2021 versus 6.9% at year-end 2020.

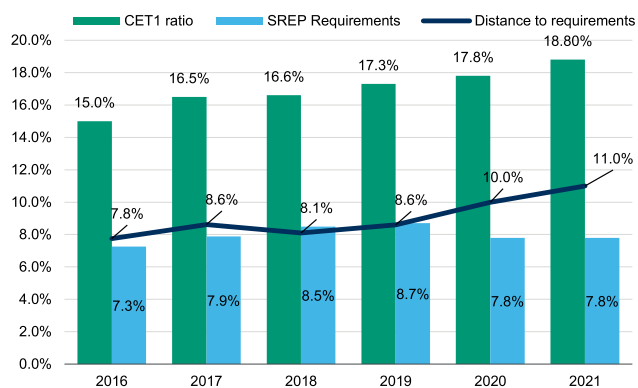
The funding profile of the group has significantly improved since 2019, due to a surge of customer deposits. In 2021, customer deposits increased by 4% (+26% relative to 2019 levels). Liquidity also improved, with an average Liquidity Coverage Ratio (LCR) of 181% in

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

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

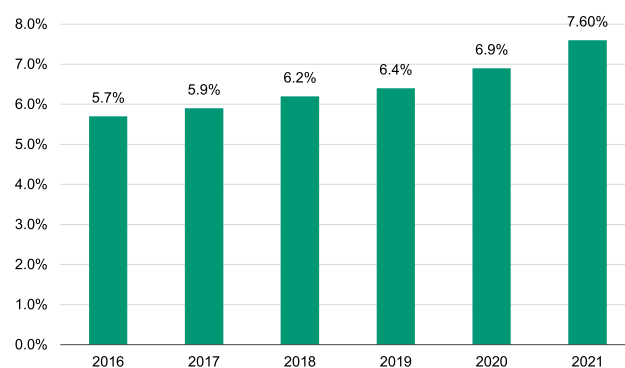
Capitalisation continuously improved in recent years
Credit Mutuel Alliance Federale's CET1 ratio (%), SREP requirements (%) and capital buffer



Source: Company reports, MIS calculations

Exhibit 4

The group's Tier 1 leverage ratio is also on a strong upward trend
Credit Mutuel Alliance Federale's 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), 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.

© 2022 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved. CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJJK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJJK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJJK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJJK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJJK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJJK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJJK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454