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CREDIT OPINION
15 November 2022

Update

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RATINGS

Groupe des Assurances du Credit Mutuel

Domicile	Strasbourg, France
Long Term Rating	Baa1
Type	Subordinate - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Groupe des Assurances du Credit Mutuel

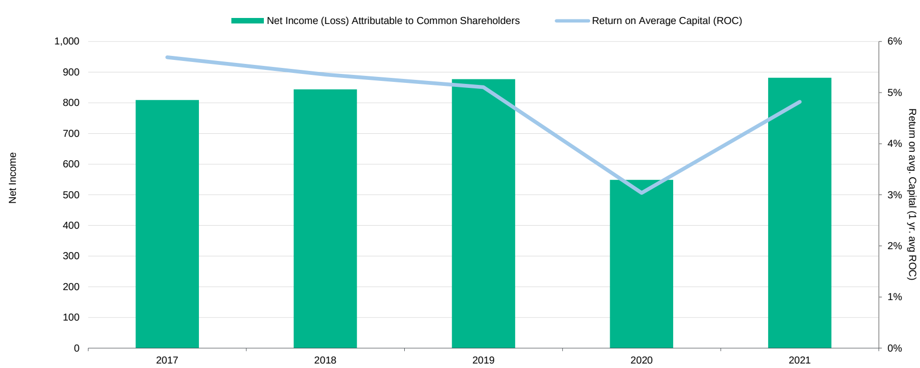
Semi-annual update

Summary

The credit profile of Groupe des Assurances du Crédit Mutuel (GACM) is supported by the group's (i) solid and increasing market shares in France, (ii) broad product diversification including a good balance between life and non-life activities, (iii) a very granular domestic distribution network of local mutualist banks, and (iv) strong and stable earnings. These strengths are slightly offset by the fact that cross-border activities are very limited and by a relatively high proportion of equities and real estate in the investment portfolio. In addition, GACM's solvency ratio is also strong, albeit sensitive to movements in interest rates, notably reflecting the duration gap between assets and liabilities.

GACM is the holding company for the insurance activities of most of the French mutualist bancassurance group Crédit Mutuel's regional federations, including those which form Crédit Mutuel Alliance Fédérale[1]. Its credit profile is reflected in the A1 Insurance Financial Strength Ratings (IFSRs) we assign to ACM VIE SA and ACM IARD SA, GACM's main operating subsidiaries. GACM's dated subordinated Tier 2 notes are rated Baa1(hyb).

Exhibit 1
Net Income and Return on Capital (1 yr. avg.)



Sources: Company reports and Moody's Investors Service

Credit strengths

» Strong insurance franchise of one of the leading bancassurers in France, benefiting from a very granular network of mutualist banks

» Low risk profile in life with low average guaranteed rates as well as in non-life due to the retail focus

- Good level of profitability, comparing favorably with market average on property and casualty (P&C) technical results
- Strong level of Solvency II ratio, although sensitive to interest rates

Credit challenges

- High weight of traditional saving business although a shift towards unit-linked products is ongoing
- Little geographic diversification outside France which represents 95% of premiums
- Relatively high exposure to equities and real estate in the investment portfolio, although with high unrealised capital gains, in a context of higher financial markets volatility

Rating outlook

The stable outlooks on ACM VIE SA, ACM IARD SA and GACM indicate that we expect GACM to maintain a solid financial profile, including a strong Solvency II ratio, in the next 12-18 months.

Factors that could lead to an upgrade

The ratings could be upgraded following:

- a significant increase in market shares domestically and/or an expansion internationally, while maintaining a good level of business diversification, earnings and capitalisation
- an improvement of the Solvency II ratio sustainably above 250%.

Factors that could lead to a downgrade

Conversely, the ratings could be downgraded following :

- a material deterioration in profitability driven by, for instance, the group's inability to grow the unit-linked business in the context of low interest rates and/or the P&C segment profitably
- a weakening capitalisation, as evidenced by a durable decline of the Solvency II ratio significantly below 200%.

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

Key indicators

Exhibit 2
Groupe des Assurances du Credit Mutuel

Groupe des Assurances du Credit Mutuel [1][2]	2021	2020	2019	2018	2017
As Reported (Euro Millions)					
Total Assets	147,184	142,523	140,614	130,092	128,607
Total Shareholders' Equity	11,126	11,782	11,064	11,422	11,252
Net Income (Loss) Attributable to Common Shareholders	885	551	879	846	811
Gross Premiums Written	12,106	10,267	12,080	11,944	11,115
Net Premiums Written	12,106	10,267	12,080	11,944	11,115
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	302.6%	252.1%	257.6%	229.6%	232.0%
Reinsurance Recoverable % Shareholders' Equity	3.1%	4.0%	4.0%	3.1%	3.2%
Goodwill & Intangibles % Shareholders' Equity	1.7%	1.7%	1.9%	2.4%	2.5%
Shareholders' Equity % Total Assets	5.3%	6.3%	5.9%	6.8%	6.8%
Return on Average Capital (ROC)	4.8%	3.0%	5.1%	5.4%	5.7%
Sharpe Ratio of ROC (5 yr.)	462.9%	454.6%	NA	NA	NA
Adv. (Fav.) Loss Dev. % Beg. Reserves	-7.4%	-4.0%	-1.2%	-4.8%	-3.6%
Adjusted Financial Leverage	39.5%	36.8%	37.4%	32.6%	24.6%
Total Leverage	49.5%	46.8%	47.4%	42.6%	34.6%
Earnings Coverage	47.0x	26.9x	44.4x	50.6x	223.6x

[1] Information based on IFRS financial statements as of the fiscal year ended 31 December. [2] Certain items may have been relabeled and/or reclassified for global consistency.
Sources: Company filings and Moody's Investors Service

Profile

Groupe des Assurances du Crédit Mutuel (GACM) is the holding company for the insurance activities of most of the French mutualist bancassurance group Crédit Mutuel's regional federations, including those which form Crédit Mutuel Alliance Fédérale (CMAF). Its activities represented 10% of CMAF's revenues and 19% of CMAF's business unit net income as of the first half of 2022. 95% of the revenues were realised in France during the first six months of 2022. In addition, €0.8 billion of commissions were paid by GACM to CMAF's banking network during the first half of 2022.

GACM's business mix is balanced, with 54% of gross written premiums stemming from savings and retirement activities and 46% from property and casualty (P&C), health, personal protection and loan insurance, based on half-year (H1) 2022 results.

Detailed credit considerations

A strong and diversified business profile domestically

Market position: strong domestic franchise with leading positions in both life and non-life

GACM holds a solid domestic footprint in the much-fragmented French insurance market with an overall market share of around 4% in 2021 (based on 2020 premiums) [2], which makes the group the 10th largest French insurer. GACM has a market share of 6% in motor insurance, 6% in home insurance and 15% in loan insurance [3]. Premiums in motor insurance and home insurance are increasing much faster than the overall traditional P&C market. Similarly to other bancassurers, GACM is particularly strong in loan insurance.

In life insurance, the group has a domestic market share of approximately 5% and ranks number five in the sector based on outstanding assets [4]. The group also offers personal protection and health insurance. In addition, it provides multi-risk professional insurance, which is likely to grow from its current low level.

GACM benefits from a well-balanced business mix, particularly when compared to other bancassurance groups, with 54% of gross written premiums stemming from life and 46% from non-life activities in H1 2022. However, it is nearly exclusively concentrated in France with 95% of the reported €6.6 billion written premiums in H1 2022 stemming from domestic activities, although the group intends to expand internationally, notably in Belgium and Germany in the near future, where its banking parent has already a strong presence.

We believe that GACM is well positioned as a bancassurer to continue to increase its market shares, competing with traditional mutualist insurers and independent insurers. As a result, the group's domestic franchise should remain strong.

Distribution: full control of strong distribution capabilities

We view distribution as a strength for GACM. As it is the case for most bancassurers, the group distributes its products through the various channels of its parent bank, including its branch networks operating across France under the franchises of Crédit Mutuel and Crédit Industriel et Commercial (Aa3, Aa3, baa1[5]). Credit Mutuel's domestic branch network is highly granular and fully-controled. Its reliable and well-trained proprietary salaried network is a key strength of the mutualist group and consequently also a strength for GACM.

Branch visits and client contacts are usually more frequent for banks than for traditional insurers. Benefiting from a granular branch network to sell insurance products is therefore a strength for GACM. Insurance products may arguably come only second to banking products in the sales process. Nonetheless, the above-average growth rates experienced by GACM in home and motor insurance and the high client equipment rates suggest that insurance sales are a key priority in Credit Mutuel's branch network.

Product risk and diversification: good product mix and overall low risk profile

GACM benefits from strong product diversification with a good balance between life and non-life.

GACM's non-life business is mostly highly diversified retail risks, which we consider as low risk overall. Nonetheless, we consider motor third party liability in France as a longtail line of business where it is difficult to estimate the ultimate cost of claims. Under the latest available breakdown of the non-life segment as of H1 2022, motor insurance (vehicle liability and other motor insurance) represented 22% of total gross written premiums, property insurance 13%, health (including medical expenses) 16%, income protection 12%, loan insurance 31% and other 6%.

In addition, GACM intends to develop multi-risk insurance towards small and medium-size businesses, which is currently of a very small size (approximately 3% of P&C insurance revenues). This risk is more concentrated by nature in this segment than insurance towards individuals. GACM is also exposed to natural catastrophe and climatic risks which it mainly manages through reinsurance treaties.

Product risk is higher in the life business, but the very low average guaranteed rates of approximately 0.18% on traditional saving products ("contrats euros") in 2021 and the increasing proportion of customers' investments in unit-linked products limit the risks to our view. The average interest credited to GACM's life policyholders in 2021 was significantly above the average guaranteed rate. GACM has been successful in offering unit-linked products to its policyholders, on which the insurer bears limited investment risk, and increasing the mandatory proportion of unit-linked investments versus traditional savings on new contracts. The proportion of unit-linked investments was 43% of gross written premiums in 2021 and 19% of the technical reserve as of year-end 2021. Although GACM has still a higher proportion of traditional savings than some insurers, it is moving its collection towards unit-linked products quicker than the market.

Asset quality: relatively high level of equities and real estate, mitigated by ability to share asset losses with policyholders

GACM's invested assets are of good quality, with notably 77% of fixed-income securities, of which 95% were bonds (further consisting of 27% sovereign, 31% corporate, 28% financial institution, 15% public sector bonds), and 4% of cash and equivalents as of year-end 2021. The quality of the bond portfolio is high, nearly all investment grade, including 9% securities rated Aaa, 44% Aa, 28% A and 18% Baa as of year-end 2021. 1% of the bond portfolio appear unrated.

However, GACM's investment portfolio also included a relatively high proportion of equities (13% of investments), with a focus on listed shares of large companies, and real estate investments (6%) as of year-end 2021. Hence, high risk assets (namely equities, real estate and below investment grade or non-rated bonds) represented approximately 303% of shareholders' equity as of year-end 2021, which is high for an A1-rated issuer as per Moody's methodology. Nonetheless, the majority of these high-risk assets exhibited elevated unrealized capital gains mainly on the equity and real estate portfolio, which protect GACM's shareholders' equity in a scenario of drop in equity markets. GACM has the ability to pass on losses made on its investment portfolio to policyholders, thanks to the management of its crediting rates, the high level of unrealized gains, and through its hedging strategies.

We expect the trend towards gradually increasing exposure to illiquid/riskier assets to stop as interest rates progressively increase. As a result, we do not expect any major changes in GACM's asset mix going forward.

Capital adequacy: high Solvency II ratio and higher-than-peer profit sharing reserve

GACM's financial profile is strong, supported by the group's good capitalisation, as evidenced by a Solvency II ratio of 234% as of June 2022 (based on a standard formula without transitional measures), up from 213% as of year-end 2021 driven by the rise in interest rates in 2022. Going forward, we do not expect dividend upstreams to have significant bearing on GACM's Solvency II ratio and, although the group does not provide guidance to the market, we expect it to maintain this ratio probably above 200%.

The year-end 2021 Solvency II ratio of 213% benefited from 42 percentage points of profit sharing reserve ("Provision pour participation aux bénéfices" or PPB), which insurers were allowed to incorporate for a part to their solvency ratio by the French supervisor Autorité de Contrôle Prudentiel et de Résolution (ACPR) from December 2019.

GACM's Solvency II ratio is sensitive to interest rate movements, due to the large life business of the group and similarly to French peers. As of year-end 2021, the group disclosed that a 50-bp decline in interest rates would cause the Solvency II ratio to fall by 5 percentage points. However, GACM reported that a 20% decline in equity markets would have no impact on the Solvency II ratio.

Profitability: strong and stable profitability driven by high retention rates

GACM's profitability is strong and stable, as evidenced by combined ratios generally below 100% in all non-life segments and return on capital sustainably above 5%. Exceptionally, the return on capital was low at 3.0% in 2020, when the company made non-contractual payments during the Covid crisis and recorded other exceptional charges, such as a contribution to the national solidarity fund set up by the French government. In 2021, the 1-year return on capital increased to 4.8%, closer to the pre-pandemic level. GACM reported a net income of €895 million in FY2021 (€885 million, group share).

In the first half of 2022, GACM reported a net income of €429 million (group share), down from €542 million in 2021 for the same period, as a result of significant claims occurred related to the thunderstorms and hails in June 2022 (total cost of €134 million) and unfavorable financial market movements.

Inflationary environment is a challenge, exacerbated by the Ukraine/Russia crisis, resulting in a structural increase in the average cost of claims. French insurers have generally limited ability to increase prices in the very competitive P&C market. Nonetheless, GACM might benefit from stronger pricing power driven by higher client retention rates than at traditional insurers, as clients are somewhat captive of the bank. Additionally, we expect future interest rate increases to incrementally reduce the negative pressure on financial results caused by the low interest rate environment during the last years.

Liquidity & Asset Liability Management: low liquidity risk and strong ALM capabilities

GACM has strong asset and liabilibity management (ALM) capabilities. One significant risk run by the group is a sharp increase of interest rates which would both weigh on the valuations of its asset portfolio (mainly comprised of fixed-income securities) and potentially result into policyholders' redemption of traditional life saving products (surrender risk). In order to prevent running into liquidity issues, GACM keeps a high share of liquid instruments on its asset portfolio. Additionally, the surrender risk is partly covered by a low duration of assets compared to the duration of liabilities.

Keeping asset duration low exposes the group to reinvestment risk. Albeit weighing on financial results and overall profitability in times of low and declining interest rates, we consider this risk as limited viewing the very low average guaranteed rates on traditional saving products. As interest rates increase, low asset duration should enable GACM to reinvest asset redemptions in higher-yielding assets.

Reserve Adequacy: Consistently favorable reserve development

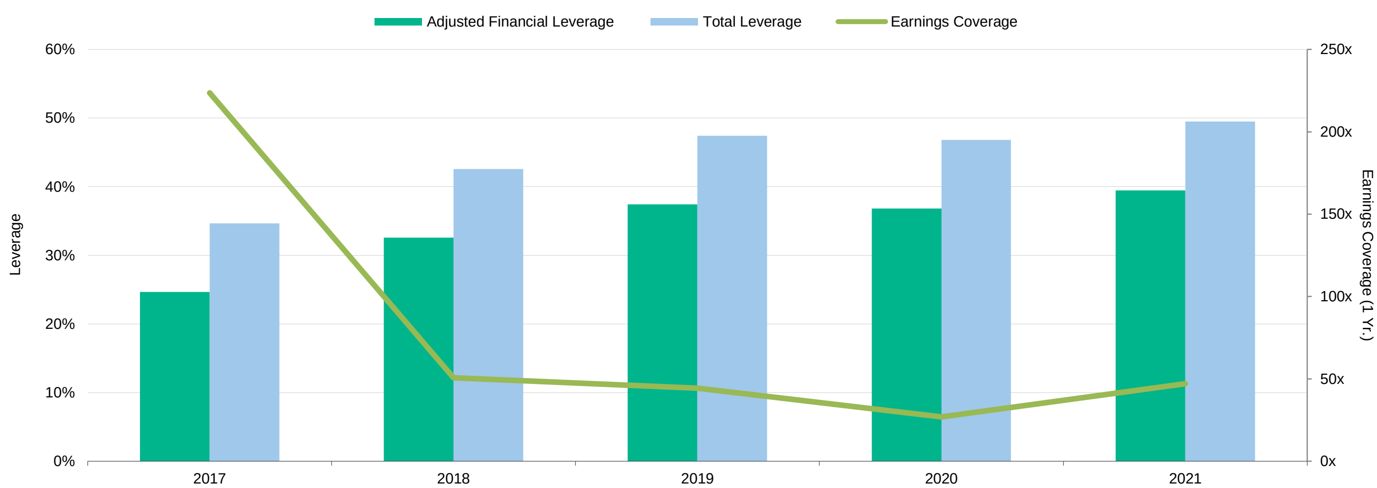
We consider that GACM's overall reserve adequacy is strong. The group has consistently been able to release reserves, which illustrates its prudent reserving policy. Over a five year period, GACM's reserve development represented -4.6% on average of beginning-of-period reserves. GACM's reserving risk benefits from its diverse book of retail activities and the limited size of its commercial activities.

Financial Flexibility:

GACM's financial leverage is moderate, albeit slightly increasing due to the issuance of €750 million of Tier 2 debt and a dividend upstream payment of €1.5 billion to the parent during the fourth quarter of 2021. The financial leverage ratio, fully excluding repurchase agreements, was 14.2% at the end of 2021, up compared to year-end 2020 (8.5%) after Tier 2 issuance and dividend payment. We expect further subordinated debt issuance and extra dividends to be limited.

GACM is very active in securities lending, which enables it to get additional returns on its asset portfolio in a period of very low rates. Our calculation of the financial leverage and total leverage ratios excludes repurchase agreements from financial debt. However, this exclusion is capped at 10% of the ratios, making our calculated ratios appear elevated. Nonetheless, we consider these operations are very low risk. Securities given in pension are French government bonds only, with a remaining maturity below two years and are collateralised daily by the borrower for above 90% of them.

Exhibit 3
Financial flexibility



Sources: Company reports and Moody's Investors Service.

ESG considerations

Groupe des Assurances du Credit Mutuel's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 4
ESG Credit Impact Score

CIS-2
Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Groupe des Assurances du Credit Mutuel (GACM)'s ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting the limited impact from environmental and social risks on the rating to date. The group's high level of capital and strong diversification mitigate physical climate risk, carbon transition risk, customer relations risk and societal trend risk.

Exhibit 5
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-4	G-2
Moderately Negative	Highly Negative	Neutral-to-Low

Source: Moody's Investors Service

Environmental
GACM's environmental risk is moderate. The group has moderate exposure to physical climate risks through its P&C activities, although natural catastrophes are largely covered by reinsurance treaties. It also has moderate exposure to carbon transition risk through the long-duration assets held in its investment portfolio and inherent asset leverage, especially in its life insurance business. Nonetheless, GACM is actively engaged in further developing its comprehensive risk management and climate risk reporting frameworks, and increasing the alignment of its business with the transition to a low-carbon economy.

Social
GACM is exposed to high customer relations risk, in relation to the sale of its products and the significant interaction with its retail customers, particularly in its life and health insurance businesses. Rising digitization and interconnectedness of devices will also increase customer privacy and data security risks. Demographic and societal trends can make the operating environment more challenging, including giving rise to societal risks related to the high level of government scrutiny on the insurance business in France.

Governance
GACM faces neutral-to-low governance risks, and we consider its risk management, policies and procedures are in line with industry best practices. Financial strategy and risk management policies are strong and the group aims to maintain strong Solvency. Management has demonstrated a strong track record of achieving strategic, operational and financial objectives.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations
GACM's Baa1(hyb) dated subordinated Tier 2 note rating is consistent with our standard notching practices for debt issued by insurance holding companies. The Baa1(hyb) rating reflects (i) the subordinated ranking of the notes, (ii) the mandatory coupon deferral mechanism in case of breach of the solvency capital requirement (SCR) or minimum capital requirement (MCR), and (iii) the cumulative nature of deferred coupons, in case of deferral. The notes, which bear a 20.5-year maturity, qualify as Tier 2 capital under Solvency II.

Rating methodology and scorecard factors

Exhibit 6

Groupe des Assurances du Credit Mutuel

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								A	A
Market Position and Brand (20%)								Aa	A
-Relative Market Share Ratio		X							
Distribution (5%)								A	A
-Distribution Control	X								
-Diversity of Distribution				X					
Product Focus and Diversification (10%)								A	A
-Product Risk - P&C		X							
-Product Risk - Life					X				
-Product Diversification	X								
-Geographic Diversification					X				
Financial Profile								A	A
Asset Quality (10%)								Baa	A
-High Risk Assets % Shareholders' Equity						302.6%			
-Reinsurance Recoverable % Shareholders' Equity	3.1%								
-Goodwill & Intangibles % Shareholders' Equity	1.7%								
Capital Adequacy (15%)								Baa	A
-Shareholders' Equity % Total Assets				5.3%					
Profitability (15%)								Aa	A
-Return on Capital (5 yr. avg.)			4.8%						
-Sharpe Ratio of ROC (5 yr.)	462.9%								
Liquidity and Asset/Liability Management (5%)								Aa	A
-Liquid Assets % Liquid Liabilities		X							
Reserve Adequacy (5%)								Aa	A
-Adv. (Fav.) Loss Dev. % Beg. Reserves (5 yr. wtd. avg.)		-4.6%							
Financial Flexibility (15%)								Aa	A
-Adjusted Financial Leverage			39.5%						
-Total Leverage				49.5%					
-Earnings Coverage (5 yr. avg.)	78.5x								
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								A1	A1

[1] Information based on IFRS financial statements as of fiscal year ended December 31, 2021. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.
Source: Moody's Investors Service

Ratings

Exhibit 7

Category	Moody's Rating
GROUPE DES ASSURANCES DU CREDIT MUTUEL	
Rating Outlook	STA
Subordinate	Baa1

Source: Moody's Investors Service

Endnotes

1 Banque Fédérative du Crédit Mutuel (deposits Aa3 stable, Baseline Credit Assessment a3) is one of the main rated entities of Crédit Mutuel Alliance Fédérale.

2 As reported by L'Argus de l'Assurance, « classement 2021 des vingt premiers groupes d'assurance en France par le chiffre d'affaires 2020 ».

3 Specific market shares calculated on the basis of net premiums written during full-year 2021.

4 Source: 2022 ranking from 'L'Argus de l'Assurance', based on life insurance assets, May 2022.

5 The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating and Baseline Credit Assessment

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