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CREDIT OPINION
20 May 2022

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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

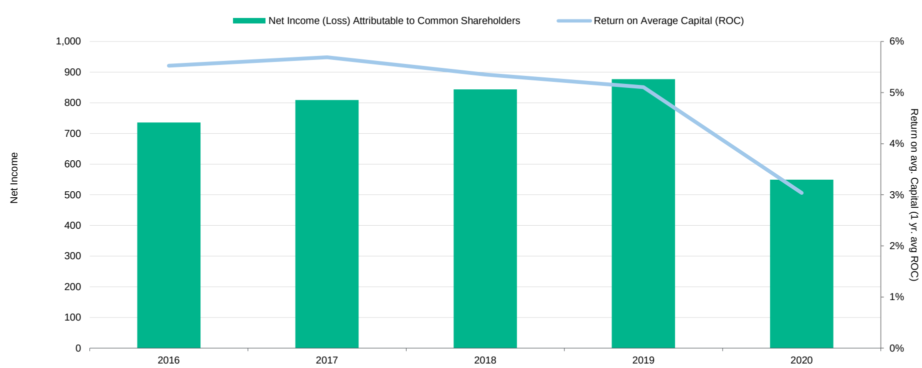
First time rating

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 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 favourably 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 more than 90% of premiums
- Relatively high exposure to equities and real estate in the investment portfolio, although with high unrealised capital gains as of year-end 2021

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%.

Key indicators

Exhibit 2

Groupe des Assurances du Credit Mutuel

Groupe des Assurances du Credit Mutuel [1][2]	2020	2019	2018	2017	2016
As Reported (Euro Millions)					
Total Assets	142,523	140,614	130,092	128,607	111,926
Total Shareholders' Equity	11,782	11,064	11,422	11,252	9,636
Net Income (Loss) Attributable to Common Shareholders	551	879	846	811	737
Gross Premiums Written	10,267	12,080	11,944	11,115	10,644
Net Premiums Written	10,267	12,080	11,944	11,115	10,644
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	252.1%	257.6%	229.6%	232.0%	207.2%
Goodwill & Intangibles % Shareholders' Equity	1.7%	1.9%	2.4%	2.5%	2.9%
Shareholders' Equity % Total Assets	6.3%	5.9%	6.8%	6.8%	6.9%
Return on Average Capital (ROC)	3.0%	5.1%	5.4%	5.7%	5.5%
Sharpe Ratio of ROC (5 yr.)	454.7%	NA	NA	NA	NA
Adjusted Financial Leverage	36.8%	37.4%	32.6%	24.6%	30.4%
Total Leverage	46.8%	47.4%	42.6%	34.6%	40.4%
Earnings Coverage	26.9x	44.4x	50.6x	223.6x	864.7x

Cash Flow Coverage	NA	NA	NA	NA	NA

[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. (3) 2017 figures are pro forma.
Sources: Moody's Investors Service and company filings

Profile

Groupe des Assurances du Crédit Mutuel (GACM) is the holding company for the insurance activities of most of French mutualist bancassurance group Crédit Mutuel's regional federations, including those which form Crédit Mutuel Alliance Fédérale (CMAF). Its activities represented 12% of CMAF's revenues, 20% of CMAF's business unit net income. 96% of the revenues were realised in France in 2021. In addition, €1.4 billion of commissions are paid by GACM to CMAF's banking network.

GACM's business mix is equilibrated, with 52% of gross written premiums stemming from savings and retirement activities and 48% from property and casualty (P&C), health, personal protection and loan insurance, based on 2021 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 2020[2], which makes the group the 10th largest French insurer. GACM reports market shares of 6% in motor insurance, 6% in home insurance and 15% in loan insurance. The 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. 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.

The group has a well-balanced business mix, particularly when compared to other bancassurance groups, with 52% of gross written premiums stemming from life and 48% from non-life activities. However, it is nearly exclusively concentrated in France with 96% of the reported €12.1 billion revenues in 2021 stemming from domestic activities, although the group intends to expand internationally, notably in Spain and Belgium, and in Germany in the near future, where its banking parent has a strong presence.

We believe that GACM is well positioned as a bancassurer to continue to take market shares from 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. The group distributes its products through the various channels of its parent bank, including its branch networks operating across France under the franchises Crédit Mutuel and Crédit Industriel et Commercial (Aa3, Aa3, baa1[3]). 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. In 2021, the life and non-life segments were broadly similar in size with 52% of gross written premiums driven by life activities and 48% by non-life. Under the latest available breakdown of the non-life segment as of 2021, 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%. These insurance products are 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.

In addition, GACM intends to develop multi-risk insurance towards professionals and entreprises, which is currently very small (approximately 2% of P&C insurance revenues). This risk is more concentrated by nature 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 0.2% on traditional saving products ("contrats euros") in 2020 and the increasing proportion of customers' investments in unit-linked products limit the risks. The average interest credited to GACM's life policy holders was 1.25% in 2020, which is 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 37.7% of new gross written premiums in 2020 and 17% of the stock at year-end 2020. Although GACM has still a higher proportion of traditional savings than some insurers, it is moving its collect 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% of bonds (26% sovereign, 47% corporate and financial institutions, 4% mutual funds) and 5% of cash and equivalent as of year-end 2020. The quality of the bond portfolio is high, nearly all investment grade, including 9% securities rated Aaa, 44% Aa, 26% A and 19% Baa. 2% of the bond portfolio appear unrated.

However, GACM's investment portfolio also included a relatively high proportion of equities (12% of investments), with a focus on listed shares of large companies, and real estate investments (6%) as of year-end 2020. Hence, high risk assets (namely equities, real estate and below investment grade or non-rated bonds) represented approximately 250% of shareholders' equity as of year-end 2020, which is high for an A1-rated issuer. 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 by hedging.

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 227% at year-end 2020 (based on a standard formula without transitional measures). In 2021, we expect the ratio to remain at a similar level following the positive impacts from the issuance of €750 million Tier 2 debt in October 2021 and earnings generation, offset by dividend payment. 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 Solvency II ratio of 227% benefited from 58 percentage points of profit sharing reserve ("Provision pour participation aux bénéfices" or PPB), which insurers were allowed to incorporate to their ratio by the French supervisor Autorité de Contrôle Prudentiel et de Résolution (ACPR) from December 2019. The profit sharing reserve made up 8.0% of GACM's invested assets at year-end 2020, a higher proportion than for the overall market (4.6%).

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 2020, the group disclosed that a 50-bp decline in interest rates would cause the Solvency II ratio to fall by 27 percentage points. A decline of equity markets by 20% would also cause the ratio to fall by 4 percentage points.

Profitability: strong and stable profitability driven by strong 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 below 5% 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. However, GACM recorded net income of €884 million in 2021[4], up 63% versus 2020, which drove a return on equity around 8%. We consider that GACM's profitability benefits from the strong pricing power driven by higher client retention rates than at traditional insurers, as clients are somewhat captive of the bank.

The structural increase in the average cost of claims and the difficulty to increase prices in motor insurance will weigh negatively on profits. On a positive note, we expect future interest rate increases to incrementally reduce the negative pressure on financial results cause by the low interest rate environment. Lastly, we do not expect any material negative effect from the Russia/Ukraine conflict or the residual Covid crisis on GACM's profits, viewing the insurance's focus on retail activities in France.

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

GACM has strong asset and liability 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. The duration of the bond portfolio of the traditional saving funds ("fonds généraux") of the two main French life entities was around 6.3 years at year-end 2020 with the high share of equities and real estate implicitly raising this duration, whereas the corresponding liabilities had a duration close to 13 years.

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 -2.4% on average of beginning-of-period reserves despite the continuous decline of interest rates. GACM's reserving risk benefits from its diverse book of retail activities and the limited size of its commercial activities.

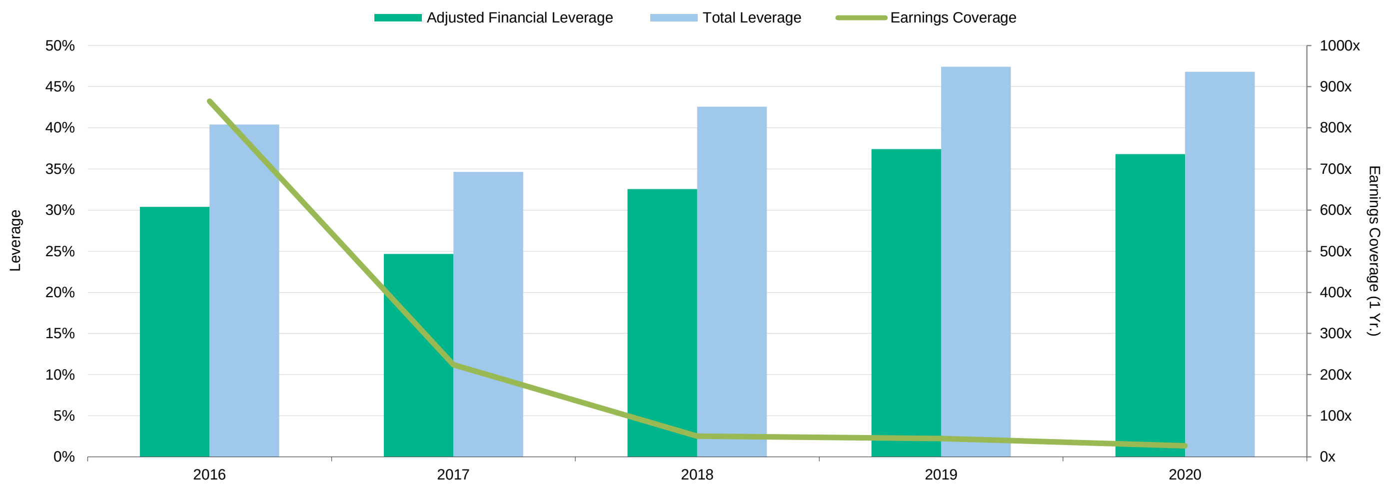
Modest uncertainties remain over Covid-related claims, notably around the legal disputes over business interruption policies in France, but these are limited in size viewing the small footprint of the group in commercial lines.

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, excluding repurchase agreements, was 8.5% at the end of 2020 and increased to approximately 15% 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

Environmental

For its P&C business, GACM is exposed to the economic consequences of environmental risk, primarily through the unpredictable effect of climate change on the frequency and severity of weather-related catastrophic events. In France, the Caisse Centrale de Réassurance (CCR), owned by the French State, provides state-guaranteed cover against some natural disasters such as drought, floods, earthquakes and other risks that conventional insurers cannot assume. GACM manages these risk exposures by using the CCR reinsurance coverage along with reinsurers' coverage especially for windstorms and hail. Climate change will cause an increase in stranded assets for carbon-intensive industries, which may negatively affect GACM's asset portfolios. GACM is committed to a strategy of low-carbon economy, as investor, employer and insurer.

See our Environmental risks heat map for further information.

Social

GACM, operating as a health insurer, has elevated social risks related to its integral role in society and position as the front line for individuals in managing their health care costs. The group also faces social risks in its life business through the handling of customer information, as all life insurers. Changing demographics, and the impact of changing consumer preferences on distribution channels may also have business growth implications, but GACM mitigates these risks through an increasing level of business diversification.

Please refer to our Social heatmap for further information.

Governance

The credit quality of GACM, like all other corporate credits, is influenced by a wide range of governance related issues, relating to financial strategy, risk management, management credibility and track record, ownership or other factors, all of which can be exacerbated by regulatory oversight and intervention. GACM operates within a strong regulatory environment, Solvency II, overseen by the French regulator, Autorité de Contrôle Prudentiel et de Résolution (ACPR).

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 4

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						252.1%			
-Reinsurance Recoverable % Shareholders' Equity	4.0%								
-Goodwill & Intangibles % Shareholders' Equity	1.7%								
Capital Adequacy (15%)								A	A
-Shareholders' Equity % Total Assets			6.3%						
Profitability (15%)								Aa	A
-Return on Capital (5 yr. avg.)			4.9%						
-Sharpe Ratio of ROC (5 yr.)	454.7%								
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.)		-3.2%							
Financial Flexibility (15%)								Aa	A
-Adjusted Financial Leverage			36.8%						
-Total Leverage				46.8%					
-Earnings Coverage (5 yr. avg.)	242.0x								
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, 2020. [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 5

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

Source: Moody's Investors Service

Endnotes

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

4 €884 million is the contribution of GACM's net result to CMAF's net result.

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CLIENT SERVICES

Americas	1-212-553-1653
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EMEA	44-20-7772-5454

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