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SGAM AG2R LA MONDIALE

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SGAM AG2R LA MONDIALE

SACP* Assessments				SACP*		Support		Ratings		
Anchor	a-	+	Modifiers	0	=	a-	+	0	=	Financial Strength Rating
Business Risk			ERM and Management	0		Liquidity	0	Group Support	0	A-/Stable/--
Strong			Holistic Analysis	0		Sovereign Risk	0	Gov't Support	0	
Financial Risk										
Upper Adequate										

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Strong

- SGAM AG2R LA MONDIALE (AG2R LM) is a large and diversified French life and protection insurance group, with gross premiums written (GPW) totaling more than €10 billion.
- AG2R LM's core entity La Mondiale has a strong brand and leading positions in high-net-worth individual savings, self-employed, and group pension contract segments.
- La Mondiale has higher-than-domestic-peers' premium derived from unit-linked life policies.
- With the integration of Réunica, AG2R LM has consolidated its position as the No. 3 health insurance provider and No. 2 provider for long-term care in France.

Financial Risk Profile: Upper Adequate

- Capital and earnings are forecast to remain at moderately strong levels, supportive of current ratings, over the next three years.
- Sensitivity to interest rates deriving from pensions activity is higher than that of peers, which could lead to higher volatility in capital and earnings.
- AG2R LM's adequate financial flexibility reflects a proven ability to access debt markets.

Other Factors

- We consider AG2R LM to have adequate enterprise risk management and satisfactory management and governance.
- We believe AG2R LM has exceptional liquidity, in line with that of most peers.

Outlook: Stable

The stable outlooks on AG2R LM's subgroups AG2R Réunica Prévoyance and La Mondiale indicate that we expect both entities to become a full prudentially regulated group under Solvency 2 and maintain group-wide consolidated capital adequacy below but relatively close to the 'A' level. We also expect that AG2R will continue to restore its technical profitability and that La Mondiale will continue to reduce its sensitivity to interest rates by further shifting the product mix toward unit-linked contracts.

Downside scenario

We could lower the ratings over the next two years if:

- AG2R LM's capital adequacy unexpectedly deteriorated to levels materially below the 'A' benchmark for a sustained period, for example due to lower long-term bond yields than we currently assume in our base case, more aggressive volume growth than expected, or higher asset risk; or
- The profitability and quality of premium mix markedly deteriorated as a result of stiffer competition or adverse developments in market dynamics, causing the group to miss its earnings targets.

Upside scenario

The potential for an upgrade in the next two-to-three years is remote, in our view, as it would rely on the group materially strengthening capital adequacy or significantly reducing its sensitivity to movement in interest rates.

Base-Case Scenario**Macroeconomic Assumptions**

- GDP growth in France to remain at about 1.3% per year in 2016-2018; and
- A modest rise of less than 100 basis points in the 10-year French government bond yields between 2016 and 2018.

Company-Specific Assumptions

- We expect that AG2R LM will benefit from a shift in its policyholder strategy that will outweigh the expected decline in investment returns, which should translate into growing annual net earnings exceeding €300 million in 2016-2018.
- We also anticipate La Mondiale will maintain policyholder bonus reserves close to levels reached in 2015.
- We expect growth in risk-based capital requirements, based on our model, of about 4% per year, reflecting expected growth in volumes and in corporate credit risk.
- Overall, we estimate total internal capital generation of about €0.7 billion over 2016-2018, taking into account retained earnings and a possible weakening in life value in force, which should leave the group's risk-adjusted capital adequacy close but below the 'A' benchmark, according to our methodology.

Key Metrics

Key Metrics

	2017F	2016F	2015	2014	2013
Gross premiums written (Mil. €)	>10,500	>10,500	10,215	10,541	9,221
Net income (Mil. €)	>300	>300	299	309	243
Return on shareholders' equity (%)	>6	>6	6.1	7.4	6.7
P/C net combined ratio (%)	<105	<106	108.2	106.7	117.2
Net investment yield (%)	>2.7	>3	4.3	3.4	3.8
S&P capital adequacy	Moderately Strong	Moderately Strong	Moderately Strong	Moderately Strong	Upper Adequate
Financial leverage	<20	<20	17.6	17.8	15.3

F--Forecast. P/C--Property and casualty.

Company Description

AG2R LM reported €10.3 billion in GPW at year-end 2015. This includes contributions from the two subgroups, La Mondiale, a mutual group, and AG2R Réunica Prévoyance, a protection and health group.

Group Gross Premium Written (GPW) by Business line

Euro Billion	2015	2014	2013	2012	2011
Life Savings	4.8	5.8	4.9	4.0	3.6
Life Pension	1.9	1.8	1.8	2.0	1.5
Health	2.1	1.8	1.4	1.3	1.2
Protection & Long-term care	1.5	1.2	1.2	1.1	1.1
Total Group GPW	10.3	10.6	9.3	8.4	7.4

Since 2008, AG2R LM has operated as a "Société de Groupe d'Assurance Mutuelle" (SGAM), a French legal framework that allows mutual and nonprofit insurers to create operational and financial solidarity links, and to act in group structures. AG2R LM has a common management, an aligned strategy, and multiple cross-company projects implemented over the years to align the entities' commercial approaches.

The La Mondiale subgroup is headed by La Mondiale (A-/Stable), a 100-year-old French insurer specialized in life insurance. La Mondiale sells pension products to independent workers and savings products to high-net-worth individuals through its subsidiaries, France-based La Mondiale Partenaire (not rated) and Luxembourg-based La Mondiale Europartner (not rated). Arial, La Mondiale's subsidiary for group pensions for the private sector has become a joint-venture with CNP Assurances (A/Stable).

AG2R subgroup's largest entity is AG2R Prévoyance (A-/Stable), a 70-year-old nonprofit protection institution "Institution de Prévoyance" specialized in renewable term covers, protection (including disability and workers' compensation) and group health. The subgroup also comprises individual health mutuals, and integrated Réunica in 2015, another nonprofit protection institution.

AG2R LM is also one of the main groups in France managing the compulsory, complementary pension schemes for private-sector employees (so-called ARRCO and AGIRC schemes). The merger with Réunica significantly enlarged this activity to about €16 billion in funds collected annually. While this administrative activity is segregated from the insurance balance sheet and carries no risk for AG2R LM, it does, however, underline the important social role of AG2R LM in managing French workers health and pensions.

Insurance industry and country risk: Low risk, reflecting that on France

We apply our French life insurance industry and country risk assessment (IICRA), which we view as low risk, owing to AG2R LM's large exposure to French pension and savings business, as well as the individual and group health businesses. We include the French health business in our view of France's life IICRA.

We have not explicitly assessed Luxembourg's life IICRA, but we assume that La Mondiale is exposed to risks closely linked to those we assess for the French life IICRA, as products are tailored and managed in the same way as products distributed in France, with similar tax treatment and policyholder clientele.

Table 1

Industry And Country Risk		
Insurance sector	IICRA	Business mix (%)
France life	2.0	100
Weighted-average IICRA	2.0	

Competitive position: Strong, a diversified product offer backed by multi-brand approach

Our view of AG2R LM's strong competitive position is supported by its diversified set of product lines, including pensions, savings, group and individual protection, group and individual health, and long-term care. AG2R LM channels its products through complementary distribution vehicles, including proprietary salaried network, private banks, and brokers.

On the La Mondiale subgroup side, the relatively low aggregate market share masks an established leading position in its strategically chosen niches, namely high-net-worth savings, the Madelin pensions, and group pensions. In these segments, La Mondiale has leading positions because it ranks No. 2 both in the self-employed pension plans (called "Loi Madelin") and in group pensions through Arial. CNP Assurances took a 40% stake in Arial in 2016, which will pool both parent insurers' commercial teams to become the leader in group pensions in France.

La Mondiale Partenaire and La Mondiale Europartner's affluent client base has also allowed the group to significantly outperform the market in terms of unit-linked (UL) savings, which we consider to be more profitable products for insurers. UL accounted for about 30% of its life reserves, compared with 15% for the French life market.

On the AG2R Réunica Prévoyance side, the multi-professional focus and large scale are key competitive differentiators within a market that is undergoing deep regulatory changes. AG2R Réunica Prévoyance writes group-term and workers' compensation disability insurance for 59 professional sectors, and has access to a large population of 6.5 million insured. Further solidifying AG2R Réunica Prévoyance's position is AG2R LM's ability to integrate smaller players, such as Réunica.

We believe AG2R LM is well-placed to manage the reshuffle in the health and protection sector from the Accord

National Interprofessionnel (ANI). Although the liberalization of the insurer selection process for group term and disability coverage is virtually opening the doors to all insurers, the introduction with the ANI of mandatory group health coverage for small companies in 2016 has created compensating effects. In particular, we believe that AG2R Réunica Prévoyance's capacity to offer competitively priced packages that combine several types of coverages in a single relationship remains an attractive option for very small companies. In addition, we observe that AG2R has begun to reduce the high loss ratios in group protection through portfolio restructuring and price increases and expect AG2R to pursue this trend in the next three years.

Table 2

Competitive Position					
	--Year ended Dec. 31--				
(Mil. €)	2015	2014	2013	2012	2011
Gross premiums written	10,215	10,541	9,221	8,444	7,346
Change in gross premiums written (%)	(3.1)	14.3	9.2	15.0	(8.8)
Net premiums written	9336	9781	8081	7545	6548
Change in net premiums written (%)	(4.5)	21.0	7.1	15.2	(10.1)
Total assets under management	92366	87211	74867	68277	59011
Growth in assets under management (%)	5.9	16.5	9.7	15.7	5.3
Reinsurance utilization (%)	8.6	7.2	12.4	10.6	10.9
Business Segment (% of GPW)					
Life/health	70.3	76.3	77.2	81.5	79.3
P/C	29.7	23.7	23.0	23.5	25.7
Other	0.0	0.0	(0.2)	(5.0)	(5.0)

Financial Risk Profile: Upper Adequate

Capital and earnings: Moderately strong, largely supported by its capital position

We expect AG2R LM's capital and earnings to remain in the moderately strong range in the next two years, a level we deem supportive for the current rating on AG2R LM. This means we expect risk-adjusted capital adequacy to position close but still slightly below the 'A' benchmark, according to our methodology.

We also consider it highly likely that the French regulator will assess AG2R LM as a "prudentially regulated group", once AG2R LM finalizes the integration of the governance framework of all its affiliates. Notably, this would allow greater use of internal reinsurance to balance capital needs between the subgroups. We also view positively the increase in 2015 of the automatic solidarity links between AG2R Réunica Prévoyance and La Mondiale to 30% of shareholders' equity from 10% previously.

Our expectation of an overall growth rate in capital requirements of 4%- in the next three years reflects our view that La Mondiale will continue to expand at above-average market rates. This reflects a business necessity to increase volumes in the face of structurally declining investment margins. It also allows La Mondiale to further dilute the weight of general account policies with relatively high guaranteed rates, which mainly stem from its individual supplementary pension business.

Our base-case assumption for AG2R LM includes total internal capital generation of about €0.7 billion over 2016-2018. Our assessment of capital adequacy includes adjustments, such as the group's unrealized gains on real estate assets, policyholder bonus reserves, and value-in-force (VIF). While the very low interest rates should negatively affect VIF and investment yields, we expect that further declines in life insurance policyholder crediting rates will support AG2R LM's profits. We also expect La Mondiale to maintain a strong buffer of policyholder bonus reserves (PPE) of about 3% of general account life reserves, a level reached at the end of 2015. Substantial increase in 2015 of PPE was facilitated by the unwinding of forward derivative contracts, for which the gains were directly accounted in PPE.

We believe that the group's reliance on soft forms of capital (VIF, unrealized gains, and hybrid capital represented close to one-half of total adjusted capital [TAC] at year-end 2015) will increase its susceptibility to market fluctuations.

The combined group AG2R-La Mondiale posted a combined Solvency 2 ratio (Standard formula), of 196% and 120% without transitionals. The Solvency 2 ratio without transitionals was lower than estimated in 2014) mainly due to lower interest rates and model adjustments. AG2R-LM is targetting a Solvency 2 ratio without transitionals of 150% by 2020.

Table 3

Capital					
	--Year ended Dec. 31--				
(Mil. €)	2015	2014	2013	2012	2011
Common equity	5257.0	4622.0	3732.0	3546.7	2780.3
Change in common equity (%)	13.7	23.8	5.2	27.6	5.4

Table 4

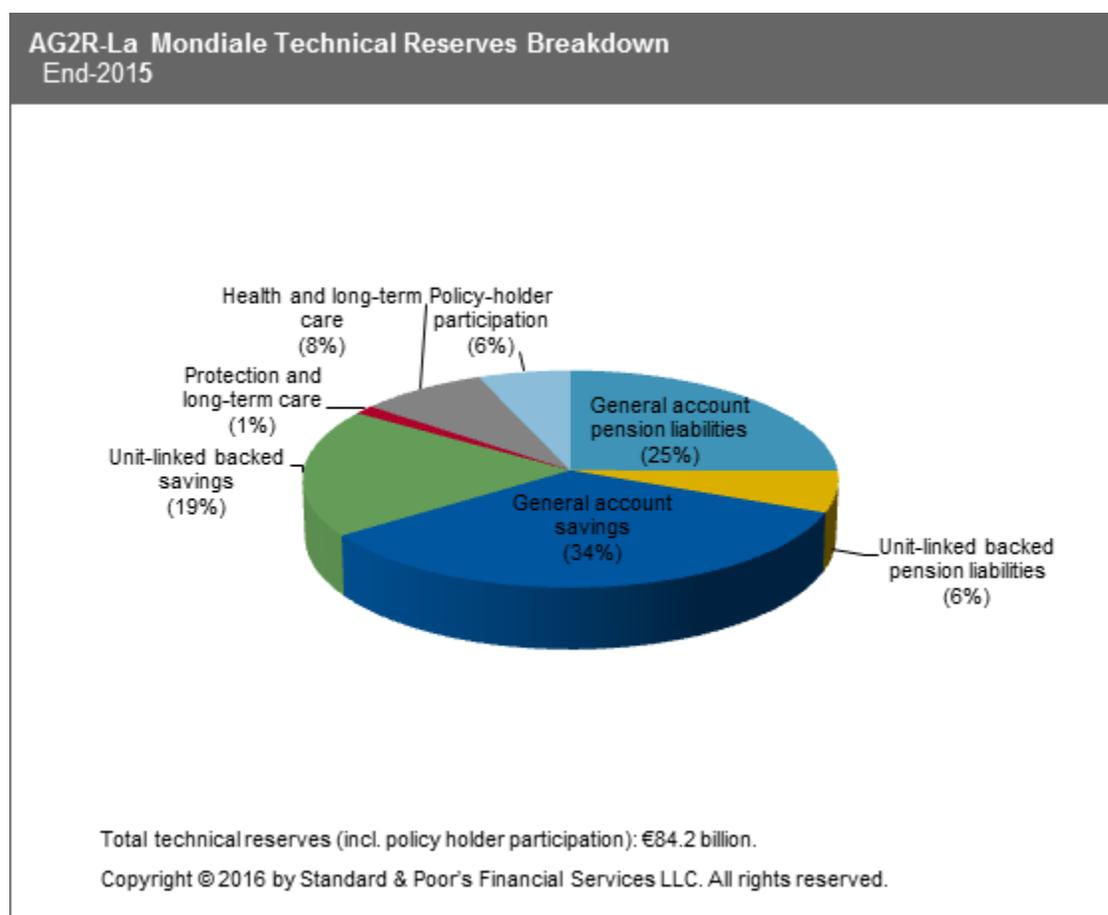
Earnings					
	--Year ended Dec. 31--				
(Mil. €)	2015	2014	2013	2012	2011
Total revenues	11369	11830	10091	9539	8463
Net income	299	309	243	327	242
Return on Shareholders' Equity (reported) (%)	6.1	7.4	6.7	10.4	8.9
P/C: Net expense ratio (%)	18.6	17.4	19.6	19.6	17.5
P/C: Net loss ratio (%)	89.7	89.3	97.6	95.2	93.8
P/C: Net combined ratio (%)	108.2	106.7	117.1	114.9	111.2
Life: Prebonus pretax earnings/total assets (%)	2.8	3.6	2.5	3.4	3.2
Life: Net expense ratio (%)	6.1	5.5	7.6	7.2	7.1

Risk position: Higher-than-average volatility, higher-than-peers' share of long-term guaranteed pension liabilities

AG2R LM's risk position is moderate, in our opinion, reflecting the potential volatility to earnings and capital deriving from the group's sensitivity to interest rates.

The sensitivity to interest rates derives from La Mondiale's relatively high share of the VIF in its TAC as well as the significant amount of long-term pension liabilities with guarantees. We calculate the general account pension liabilities amounted to about 25% of AG2R LM's total technical reserves at end-2015 (see chart below) and a majority of which carry minimum guaranteed returns.

Chart 1



AG2R LM's risk management is taking steps to mitigate the negative impact of low interest rates. AG2R LM is taking action to limit the increase in guaranteed commitments, has lowered its overall appetite for volume growth, and is gradually its changing product mix toward one that is more unit-linked. In 2015, the decline in La Mondiale's premiums included a significant shift to growth in unit-linked contracts against a fall in premium from traditional life insurance.

We also observe that the investment in higher-risk assets (equities, real estate, speculative-grade bonds, and loans) has slightly declined relative to AG2R LM's consolidated capital base. Overall credit risk is in line with peers, with an average rating in the upper 'A' range on the total bond portfolio at year-end 2015.

Table 5

Risk Position					
	--Year ended Dec. 31--				
(Mil. €)	2015	2014	2013	2012	2011
Total invested assets	92,365.5	87,211.5	74,867.2	68,277.3	59,011.4
Net investment income	1,872.3	1,918.7	1,892.0	1,882.1	1,825.4
Net investment yield (%)	2.7	3.1	3.4	3.8	4.2
Net investment yield including realized capital gains/(losses) (%)	4.3	3.4	3.8	5.2	4.9

Table 5

Risk Position (cont.)	--Year ended Dec. 31--				
	2015	2014	2013	2012	2011
(Mil. €)					
Investment portfolio composition (%)					
Cash and short-term investments	0.6	0.4	0.8	0.7	0.4
Bonds	77.4	78.8	78.5	79.7	79.8
Equity investments	11.1	10.2	10.1	9.5	9.2
Real estate	3.8	3.7	4.0	4.4	5.1
Mortgages			N/A	N/A	N/A
Loans	7.1	6.8	6.6	5.6	5.5
Investments in affiliates	0.0	0.0	N/A	N/A	N/A

N/A--Not applicable.

Financial flexibility: Adequate

Our view of AG2R LM's financial flexibility as adequate is supported both by La Mondiale's proven access to the debt market and the absence of dividend distribution due to the group's mutual status.

Following the last hybrid debt issue made in December 2014, total financial debt has increased to €1.7 billion from €1.1 billion at year-end 2013. The negative impact on the operational financial leverage and fixed-charge cover ratio was mitigated by the increase in earnings and capital in 2015.

We do not expect the group to materially increase its recourse to institutional debt financing in the coming three years as in the past three years. We therefore expect a financial leverage ratio over 2016-2018 of less than 20% and a fixed-charge cover ratio between 5x and 6x, which is in line with our adequate assessment.

In September 2016, SGAM AG2R La Mondiale obtained the authorization to issue mutualist certificates, which are perpetual instruments akin to equities and accounted as Tier 1 instruments by the French regulator, and offer a return, generally below that of hybrid debt instruments. These will be gradually issued to the mutualist clients in small amounts, and as such are not expected to negatively impact financial leverage or fixed-charge cover.

Previous limitation on eligibility of subordinated debt under Solvency I has disappeared with the implementation of Solvency II since January 2016.

Table 6

Financial Flexibility	--Year ended Dec. 31--				
	2015	2014	2013	2012	2011
Fixed-charge coverage (x)	5.2	6.8	7.6	15.6	12.1
Financial leverage (%)	17.6	17.8	15.3	13.9	13.2

Other Assessments

We regard AG2R LM group's enterprise risk management (ERM) and management and governance practices as neutral rating factors.

Enterprise risk management: Adequate

The ERM of La Mondiale and AG2R Réunica Prévoyance has been centralized over the past few years. We consider that the group has a holistic view of the risks of the different business lines and the group's risk management culture, and controls are in line with our overall adequate assessment.. We consider ERM to be of high importance to the ratings, owing to the company's asset-liability mismatch, mostly stemming from its long duration pension business liabilities.

Management and Governance: Satisfactory

We view positively the group's management expertise and depth and breadth, as well as its strategic planning and ability to convert its strategy into actions. We view AG2R LM's strategy as focused, because it builds on the group's complementary expertise, which is likely to continue helping the group to maintain its stable business profile.

Liquidity: Exceptional

We believe AG2R LM has exceptional liquidity, sustained highly liquid assets, and positive net inflows. The group's pension business, at 31% of liabilities, which cannot be surrendered voluntarily, is positive for its liquidity, in our view.

Should any cash needs arise, we believe that AG2R LM's investment assets are highly marketable and could provide liquidity.

Accounting Considerations

We base our analysis of AG2R LM on the consolidated accounts of the SGAM.

AG2R LM reports according to International Financial Reporting Standards (IFRS). Starting from the published figures, we perform certain adjustments in forming our opinion on capital adequacy and operating performance. These include particularly eligible hybrid capital not recognized as equity under IFRS, unrealized capital gains on property assets, and an adjustment for the VIF. Our assessment of operating performance relies on published information and unpublished figures, such as La Mondiale's internal calculation of embedded value.

Related Criteria And Research

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- General Criteria: Group Rating Methodology - November 19, 2013
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition - September 15, 2008
- Criteria - Insurance - General: Enterprise Risk Management - May 07, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology - May 07, 2013

- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 20

Ratings Detail (As Of November 18, 2016)

Operating Company Covered By This Report

La Mondiale

Financial Strength Rating

Local Currency

A-/Stable/--

Counterparty Credit Rating

A-/Stable/--

Junior Subordinated

BBB

Related Entities

AG2R REUNICA Prevoyance

Financial Strength Rating

Local Currency

A-/Stable/--

Issuer Credit Rating

Local Currency

A-/Stable/--

PRIMA

Financial Strength Rating

Local Currency

A-/Stable/--

Issuer Credit Rating

Local Currency

A-/Stable/--

Domicile

France

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