S&P Global Ratings

Research

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-/Positive/--
Strong									
Financial Risk			Holistic Analysis	0	Sovereign Risk	0	Gov't Support	0	
Moderately Strong									

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

Major Rating Factors

Strengths	Weaknesses
• Large and diversified French life and protection insurance group, with gross premiums written (GPW) totalling €10 billion. • SGAM AG2R LA MONDIALE's (AG2R LM) core entity La Mondiale has a strong brand and leading positions in high-net-worth individual savings, self-employed, and group pension contract segments. AG2R LM is ranked third in health insurance and second for long-term care in France. • Improving capitalization on both an S&P Global Ratings-adjusted and regulatory basis • Enhanced business diversification with AG2R LM's ongoing integration with retail property and casualty mutual insurer Matmut.	• Potential capital and earnings volatility due to higher-than-peers sensitivity to interest rates deriving from pension activity. • High reliance on softer forms of capital

Rationale

S&P Global Ratings' financial strength and issuer credit ratings on Ag2R LM affiliates reflect the company's prominent business positions in France, as well as the depth and breadth of its product and distribution. The ratings also incorporate our view of the group's strengthened capital adequacy. We factor in the potential volatility stemming from long-term guaranteed back books as well as the proportion of soft forms of capital in its total adjusted capital.

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 team, an aligned strategy, and unified management of capital and investments. Matmut, a French mutual insurer mainly active in property and casualty (P/C) lines, will join forces with AG2R La Mondiale from January 2019 following regulatory approval received in November 2018. Diversification benefits from writing P/C insurance in addition to life insurance.

We consider AG2R LM has strengthened its capital adequacy in past two years, including on a significant increase in policy-holder bonus reserves, hybrid debt, and present value of future profits (PVFP) of the life book. This has improved both the Solvency II ratio and the capital adequacy under our model, now at the 'AA' level. That said, we consider the above-mentioned sources of capital to be volatile and of weaker quality than equity capital. As such we continue to limit our assessment of capital and earnings. We note that Matmut's €1.6 billion equity contribution should enhance the group's quality of capital in the coming year. We also factor into our rating the above-average sensitivities to interest rates. That said, we note that AG2R LM is gradually reducing its sensitivity to interest rates, prioritizing capital efficient unit-linked insurance products. We also view positively the agreement AG2R LM reached at end-2017 with its holders of pension policies--that additional premium to existing contracts would not bear any guaranteed rate.

Outlook: Positive

The positive outlooks on AG2R LM's subgroups AG2R Réunica Prévoyance, Prima, Arial CNP Assurances, and La Mondiale indicates that we could raise the ratings in the next 18-24 months if AG2R LM successfully completes its merger with Matmut and continues to reduce its sensitivity to low interest rates. An upgrade would also be predicated on AG2R-LM maintaining S&P Global Ratings capital adequacy above the 'AA' level and a satisfactory operating performance.

Downside scenario

We could revise the outlook to stable 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.

Base-Case Scenario

Macroeconomic Assumptions

- GDP growth in France of about 1.7% per year in 2017-2019; and
- A modest rise of less than 100 basis points in the 10-year French government bond yields between 2018 and 2020.

Company-Specific Assumptions

- We expect that AG2R LM continue to benefit from a shift in its policyholder strategy that will outweigh the expected decline in investment returns. This should translate into growing annual net earnings exceeding €340 million in 2018-2020.
- We expect growth in risk-based capital requirements, based on our model, of about 3% per year, reflecting expected growth in volumes.

Key Metrics

	2019F*	2018F*	2017	2016	2015	2014	2013
Gross premiums written (mil. €)	>9,600	>9,600	9676	9,976	10,215	10,541	9,221
Net income (mil. €)	~340	~340	362	320	299	309	243
Return on shareholders' equity (%)	>5.0	>5.0	6.1	5.8	6.1	7.4	6.7
P/C net combined ratio (%)	~106	~106	103	106.5	108.2	106.7	117.2
Net investment yield (%)	>2.5	>2.5	2.5	3.2	4.3	3.4	3.8
S&P capital adequacy	Very Strong	Very Strong	Very Strong	Moderately Strong	Moderately Strong	Moderately Strong	Upper Adequate
Financial leverage	16.0	16.0	18.0	16.0	17.6	17.8	15.3

F--Forecast. P/C--Property and casualty. *Including Matmut.

Business Risk Profile: Strong

France-based SGAM LM is the third largest health insurance provider, second largest for long-term care and has a strong brand and leading positions in high-net-worth individual savings, self-employed (called "loi Madelin"), and group pension contract segments.

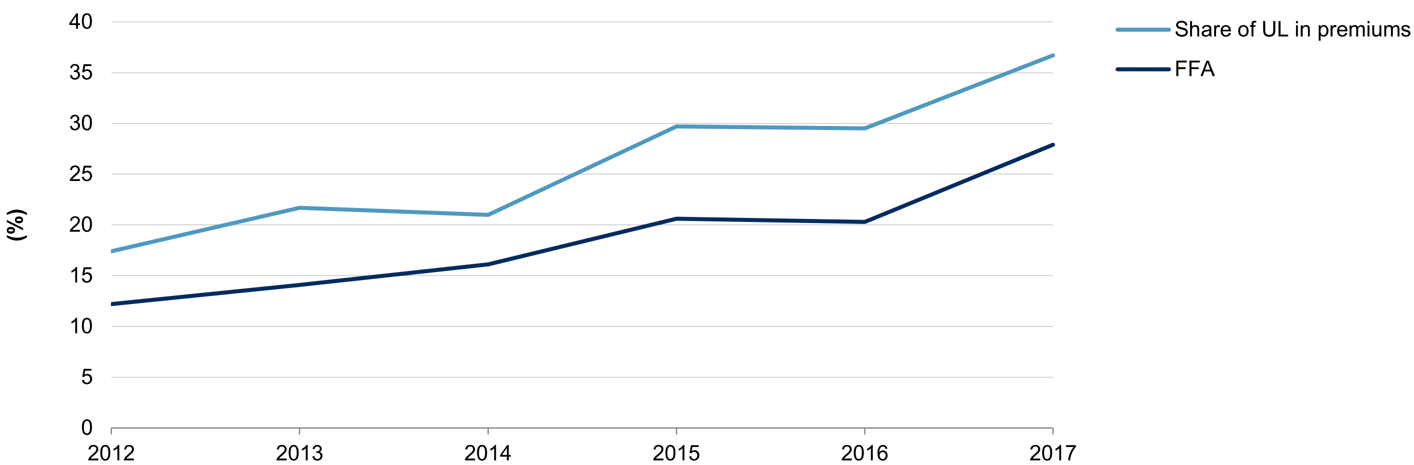
Our view of AG2R LM's strong competitive position is supported by its diversified set of product lines and complementary distribution vehicles, including proprietary salaried network, private banks, and brokers.

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.

La Mondiale Partenaire and La Mondiale Europartner's affluent client base has also allowed the group to markedly outperform the market in terms of unit-linked (UL) savings, which we consider to be more profitable products for insurers. UL accounted for about 37% of its premiums, compared with 28% for the French life market (*).

Chart 1

Share Of UL In Premiums



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.

Financial Risk Profile: Moderately Strong

We expect AG2R LM's capital adequacy to remain comfortably above our 'AA' benchmark in the next three years. Our assessment remains constrained by the relative weakness of the quality of the group's total adjusted capital (TAC), composed in majority of soft forms of capital. The above average potential volatility of capital adequacy is also stemming from a significant amount of long-term pension liabilities, some of them bearing a high guaranteed rate.

AG2R LM's retained earnings, issuance of equity-like mutualist certificates and hybrid debt have significantly increased total available capital (TAC) at year-end 2017. The policyholder surplus reserves are currently equivalent to 4.3% of insurance technical reserves and we believe that the group will maintain this level over the forecast horizon. The group had also issued €95 million of mutualist certificates as of May 2018 to enhance its Solvency II ratio. In December

2017-January 2018, the group issued $710 million hybrids that will strengthen its available capital, and potentially refinance upcoming calls on hybrids.

The upcoming partnership with Matmut will also strengthen the group's capital adequacy thanks to the diversification benefits of writing P/C insurance in addition to life insurance and the Matmut €1.6 billion equity contribution.

SGAM has gradually shifted to less capital-intensive unit-linked life policies decreasing the capital requirement. It has gradually shifted its focus on unit-linked products and has a higher unit-linked to general account mix ratio of 33%:67% which is above the average of French life insurers.

In our opinion, AG2R LM's sensitivity to interest rates also results in potential capital-adequacy volatility. The sensitivity to interest rates derives from La Mondiale's significant amount of long-term pension liabilities with guarantees. Our assessment of the general account pension liabilities amounts to about 30% of AG2R LM's total technical reserves at end-2017. With the maturing of policies, the share of liabilities with a guaranteed rate above 2% is shrinking, albeit at a slower rate than at other life insurers due to the long-term nature of AG2R LM's business.

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 highly important to our assessment of the group's creditworthiness, owing to the risks stemming from its long duration pension and disability 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, which cannot be surrendered easily, 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.

Ratings Score Snapshot

	To	From
Financial Strength Rating	A-/Positive	A-/Stable
Group credit profile	a-	a-
Anchor	a-	a-
Business Risk Profile	Strong	Strong
IICRA	Low Risk	Low Risk
Competitive Position	Strong	Strong
Financial Risk Profile	Moderately Strong	Upper Adequate
Capital and Earnings	Strong	Moderately Strong
Risk Position	Moderate Risk	Moderate Risk
Financial Flexibility	Adequate	Adequate
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management and Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
Liquidity	Exceptional	Exceptional

IICRA--Insurance Industry And Country Risk Assessment.

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 when forming our opinion of 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

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings Detail (As Of December 20, 2018)	
Operating Company Covered By This Report	
La Mondiale	
Financial Strength Rating	
Local Currency	A-/Positive/--
Issuer Credit Rating	A-/Positive/--
Junior Subordinated	BBB
Related Entities	
AG2R REUNICA Prevoyance	
Financial Strength Rating	
Local Currency	A-/Positive/--
Issuer Credit Rating	
Local Currency	A-/Positive/--
Arial CNP Assurances	
Financial Strength Rating	
Local Currency	A-/Positive/--
Issuer Credit Rating	
Local Currency	A-/Positive/--
PRIMA	
Financial Strength Rating	
Local Currency	A-/Positive/--
Issuer Credit Rating	
Local Currency	A-/Positive/--
Domicile	France

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.