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SGAM AG2R La Mondiale

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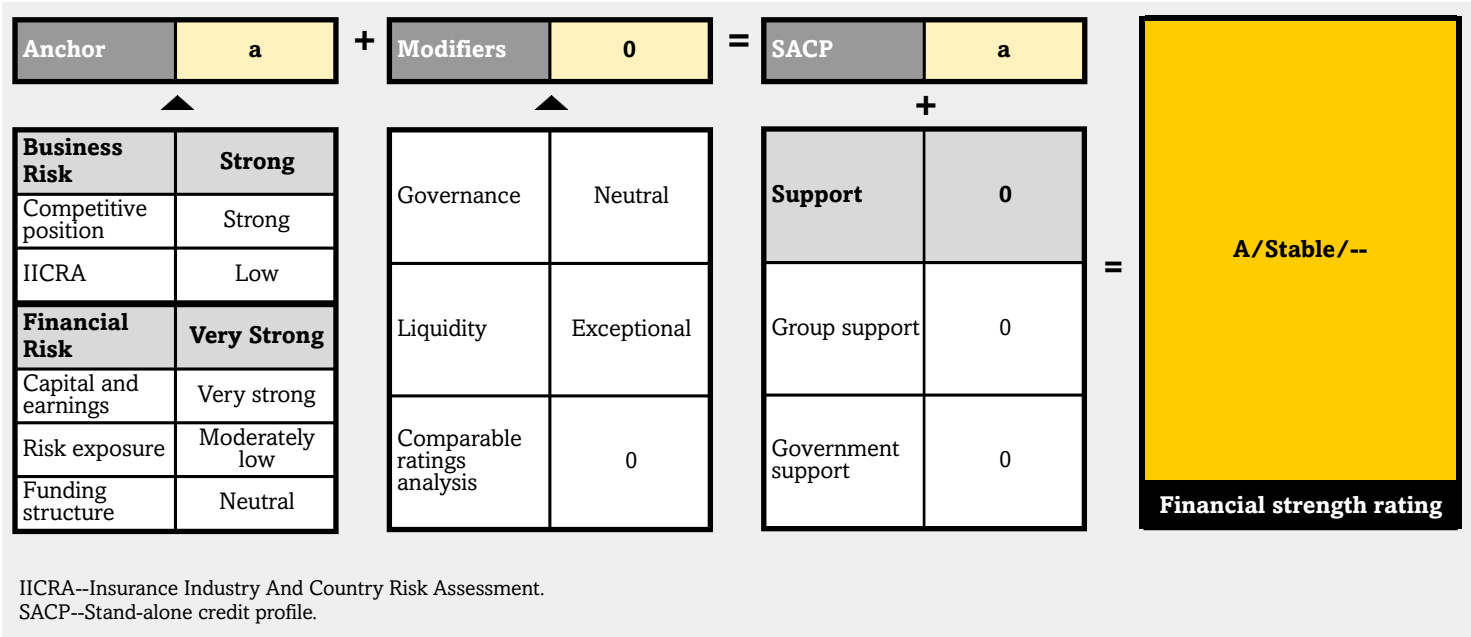
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SGAM AG2R La Mondiale



Credit Highlights

Overview

Key strengths	Key risks
Well-established market position in French life, pension, and health insurance markets.	Rising interest rates intensifying competition on credited rates to policyholders.
Higher share of capital-light, unit-linked (UL) products than peers in the French insurance market.	Limited business and geographical presence outside of France.
Very strong capital and earnings.	Relatively lower return on equity (ROE) compared with peers.

We expect SGAM AG2R La Mondiale (AG2R LM) to remain one of the leading life insurers in France. AG2R LM is a well-known French insurer and enjoys a top position in the domestic life insurance and protection businesses. The group's long-standing presence, established brand, and multichannel distribution have been a great benefit to its market success. Through its new strategic plan, "Nouvelle Donne", the group aims to make its protection business profitable as it has suffered losses in recent years. The group also aims to develop third-age residence services since it acquired a majority shareholding of Domitys in mid-2021. Nonetheless, AG2R LM's limited profitable diversification beyond life pension and savings business constrains our overall credit assessment (and is the rationale for the selection of the lower anchor of 'a' under our methodology).

We expect AG2R LM to continue to have very strong capital and earnings. AG2R LM continues to demonstrate very strong capital and earnings despite rising interest rates over 2022, and the negative impact on bond valuations. The continuous increase in capital-light products is favorable for our assessment. We expect the group to report a net annual income of more than €200 million over 2023-2025. We expect the strategic plan to restore profitability for the protection business. However, we anticipate the savings business to be less profitable in the medium term, as credited

rates to policyholders are likely to increase following the interest rate rise, thereby eroding the margin on these activities.

AG2R LM successfully reduced its sensitivity to low interest rates and is prepared for higher interest rates. AG2R LM has reduced its sensitivity to low interest rates by prioritizing capital-efficient, UL insurance products. The group has a ratio of UL to general accounts of 50-50, which exceeds the average for French life insurers. The policyholder surplus reserves equate to 4.1% of life technical reserves, which gives AG2R LM room to offer competitive yield to its customers given rising interest rates.

Outlook: Stable

The stable outlook reflects our view that the group will maintain a leading position in the French life insurance market and will preserve its S&P Global Ratings capital adequacy above the 'AA' level.

Downside scenario

We could lower our rating on AG2R LM if, contrary to our expectations, the profitability and quality of the group's premium base markedly weakens, leading to missed earnings targets, and if capital adequacy declines sustainably below the 'AA' level.

Upside scenario

We consider an upgrade to be unlikely in the next 24 months. We may consider raising the rating if we observe a successful and profitable product diversification outside of the life and health sectors.

Key Assumptions

- France's GDP contracted to 2.5% from 6.4% in 2021. We expect GDP to further contract to 0.7% in 2023 and 0.9% in 2024 due to unsupportive macroeconomic factors.
- Low long-term risk-free rates are gradually increasing, with 10-year government bond yields in France of 1.5% in 2022, 3.06% in 2023, and 3.39% in 2024, based on our economic estimates.

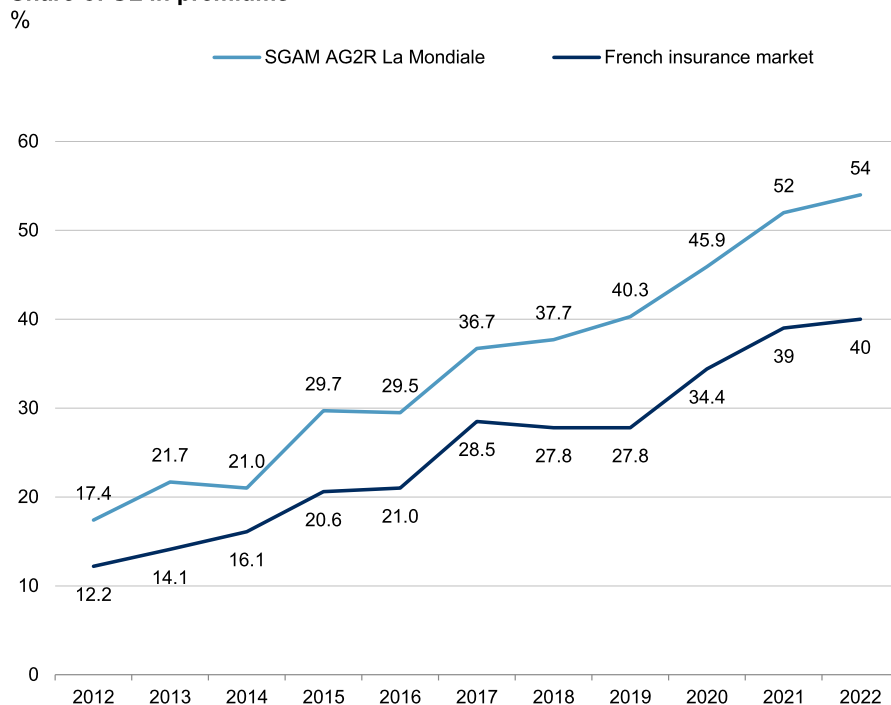
La Mondiale--Key metrics

	2024f	2023f	2022	2021	2020	2019	2018
S&P Global Ratings capital and earnings	Very strong	Very strong	Very strong	Very strong	Very strong	Very strong	Strong
Gross premium written (mil. €)	~11000	~11000	10,853	10,991	9,169	9,433	9,575
Net income (mil. €)	>200	>200	217	272	223	350	324
Return on shareholders' equity (%)	>3	>3	2.9	3.5	2.9	5.1	5.3
EBIT fixed-charge coverage (x)	>4	>3.5	3.2	4.8	4.5	5.6	4.9
Financial leverage including pension deficit as debt (%)	< 40	< 40	31.2	32.8	32.1	27.3	30.8

f--S&P Global Ratings forecast.

Chart 1

Share of UL in premiums



Source: AG2R La Mondiale.

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Business Risk Profile: Strong

AG2R LM has a prominent business position in France, as well as a diverse distribution network, and displays stable operating performance. That said, its business concentration in the French life market exceeds that of higher-rated peers. The company primarily writes life and health insurance business in France and has a presence in Italy and Luxembourg.

The La Mondiale subgroup has a leading position in its strategically chosen niches, namely high-net-worth savings and pension plans for independent workers and group pensions. La Mondiale Partenaire's and La Mondiale Europartner's affluent client base has allowed the group to markedly outperform the market in terms of UL savings, which we consider to be the more profitable products for insurers. UL accounted for about 54% of the group premium, compared with 40% for the French life market.

AG2R Prévoyance's diversification across various sectors and large scale are key competitive differentiators. AG2R Prévoyance writes group-term and workers' compensation disability insurance for 59 professional sectors and has a large insured customer base of 6.5 million.

However, the entity incurred technical losses for the past five years with combined ratios above 100%. In 2022, the entity remained unprofitable with a net income of €-39 million, improving from €-75 million in 2021, with a significant expense reduction of approximately €20 million. The new strategic plan aims to make the entity profitable by continuing cost reduction and increasing tariffs.

La Mondiale's ability to join forces with, and integrate, smaller players, such as Réunica, is further solidifying AG2R Prévoyance's position.

The group also offers third-age residence insurance services since it acquired a majority shareholding of Domitys in mid-2021.

In 2022, AG2R LM's gross premiums decreased by 1.2% to €10.86 billion and net income to €221 million from €272 million in 2021. The net income decreased mainly due to deteriorating results in health business and unit-link products, as well as lower investment results.

Financial Risk Profile: Very Strong

AG2R LM continues to demonstrate very strong capital and earnings. Due to rising interest rates over 2022, it had unrealized losses of €-7.5 billion in 2022 against unrealized gains of €4.6 billion in 2021. Despite this variation, and because we neither give credit nor penalize these unrealized gains or losses on bonds when they are linked to life liabilities, we think AG2R LM's capital and earnings is very strong. Fundamentally, the continued shift to less capital-intensive UL life policies causes capital requirements to decline steadily, which supports our assessment under our capital model. During the second half of 2022, AG2R LM transferred its pension products reserves (about €27 billion) to its newly created pension fund ("Fonds de Retraite Professionnelle Supplémentaire"). It is a ringfenced fund for which fixed charges will apply (no longer a Solvency II framework). However, this does not affect our capital model and how we assess these technical provisions.

The policyholder surplus reserves equate to 4.1% of life technical reserves, similar to last year. As interest rates have risen due to inflation, so did the yield on assets and available products in the market. We anticipate the group to progressively rely on its policyholder surplus reserves, which would decrease, to offer competitive yield to its customers.

AG2R LM's capital and earnings are likely to be very strong over the next three years. Its Solvency II ratio stood at 170% at year-end 2022, excluding transitional measures.

AG2R LM's asset allocation is predominantly oriented toward investment-grade bonds, whose risk is captured through our capital model. Over the past decade, AG2R has been decreasing its exposure to insurance products carrying guarantees. The SGAM's average guaranteed interest rate on in-force business decreased to 0.35% and on new business to 0.00% in 2022, similar to those of its local peers AXA, Generali, and Groupama. AG2R LM is increasing its share of UL insurance products. We consider its exposure to interest rate and long-term pension liabilities with guarantees to be in line with that of rated French life insurer peers, and we do not expect higher capital volatility.

SGAM LM's financial leverage remained stable and below 40%, at 33% at year-end 2022. We expect this leverage ratio

to slightly decrease in the coming years. The fixed-charge coverage stood at 3.2x at year-end 2022, below our threshold of 4x, but is likely to rebound above 4x in 2024 and 2025, due to our expectation of improved EBITDA.

Other Key Credit Considerations

Governance

AG2R LM operates legally as a Société de Groupe d'Assurance Mutuelle (SGAM). The various group entities share a common financial solidarity scheme, while maintaining their own brand and governance bodies. The management team designs and executes the overall strategy for the group. The SGAM has demonstrated the depth and breadth of its expertise in governance, as well as its ability to make strategic plans and execute them. The, "Nouvelle Donne" (2023-2025) strategic plan builds on the group's complementary expertise, which is likely to help it to maintain a stable business profile.

Liquidity

AG2R LM has exceptional liquidity, given that it has sustained highly marketable investment assets (notably investment-grade bonds), that could provide liquidity should any cash needs arise. Its liquidity ratio under our methodology stands at 235% at year-end 2022. The group's pension business, which cannot be easily surrendered, is positive for its liquidity.

Environmental, social, and governance

ESG credit indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
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ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of SGAM AG2R La Mondiale.

Accounting considerations

We base our analysis of AG2R LM on the combined group accounts. For financial year 2022, AG2R LM transitioned its financial reporting to French GAAP from International Financial Reporting Standards (IFRS).

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Appendix

La Mondiale--Credit metrics history					
Ratio/Metric	2022	2021	2020	2019	2018
S&P Global Ratings capital and earnings	Very strong	Very strong	Very strong	Very strong	Strong
Total invested assets	111,076	121,026	116,528	110,838	101,169
Total shareholder equity	6,990	7,765	7,833	7,410	6,240
Gross premiums written	10,853	10,991	9,169	9,433	9,575
Net premiums written	9,907	10,071	8,310	8,604	8,654
Net premiums earned	9,907	10,071	8,310	8,604	8,655
Reinsurance utilization (%)	8.7	8.37	9.4	8.8	9.6
EBIT	400	478	399	569	568
Net income (attributable to all shareholders)	217	272	223	350	324
Return on revenue (%)	3.2	4.0	3.9	5.4	5.3
Return on assets (excluding investment gains/losses) (%)	0.3	0.4	0.3	0.5	0.5
Return on shareholders' equity (reported) (%)	2.9	3.5	2.9	5.1	5.3
P/C: Net combined ratio (%)	108.8	110.8	109.4	105.5	103.5
P/C: Net expense ratio (%)	17.1	19.5	21.2	22.9	20.4
P/C: Return on revenue (%)	(8.7)	(6.2)	(3.2)	0.8	1.1
EBIT fixed-charge coverage (x)	3.2	4.8	4.5	5.6	4.9
Financial obligations / EBIT adjusted	7.9	7.9	9.3	4.9	4.9
Financial leverage including pension deficit as debt (%)	31.2	32.8	32.1	27.3	30.8
Net investment yield (%)	1.8	1.8	1.9	2.2	2.4
Net investment yield including investment gains/(losses) (%)	(3.0)	5.9	3.2	7.7	(0.6)

P/C--Property/casualty.

Business And Financial Risk Matrix								
Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of August 1, 2023)***Operating Company Covered By This Report****La Mondiale**

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

A/Stable/--

Junior Subordinated

BBB

Junior Subordinated

BBB+

Subordinated

BBB+

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.

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