



Fitch Affirms Groupama's IFS at 'A-'; Outlook Positive

Fitch Ratings-Paris/London-29 October 2018: Fitch Ratings has affirmed Groupama Assurances Mutuelles's (Groupama) and core subsidiaries' Insurer Financial Strength (IFS) Ratings at 'A-' ('Strong') and Issuer Default Ratings (IDR) at 'BBB+'. The Outlooks are Positive. A full list of rating actions is available at the end of the commentary.

KEY RATING DRIVERS

The affirmation reflects Groupama's strong capitalisation, low investment risk and a very strong franchise in the French insurance sector. Offsetting these rating strengths is Groupama's low profitability relative to the group's 'A' rating category.

The Positive Outlook reflects Fitch's expectations that Groupama will maintain strong capitalisation and leverage in 2018, as measured by sustained stability in Fitch's Prism Factor-Based Model (Prism FBM) score and a financial leverage ratio (FLR) remaining commensurate with a 'A' rating category.

Groupama scored 'Strong' on Fitch's Prism FBM, based on 2017 combined results. This was supported by lower-risk capital, reflecting Groupama's reduced exposure to risky assets, and higher available capital.

Fitch expects the Prism score to remain at least 'Strong' at end-2018, driven by retained earnings, additional hybrid debt, and a gradual increase in the proportion of unit-linked products in the life portfolio that may partially be offset by lower asset valuations. Groupama has also been strengthening its capital by issuing 'certificats mutualistes' (mutual insurance certificates), which are similar to ordinary shares and developed specifically for mutual companies in France. Mutual insurance certificates are treated as unrestricted Tier 1 capital for Solvency II purposes.

Groupama reported a Solvency II capital ratio of 167% at end-June 2018, excluding transitional measures, down from 174% at end-2017, as market spread widening and volatility increased solvency capital requirements. This score is broadly in line with regional peers of comparable size. With the inclusion of transitional measures, the regulatory ratio was 298% (315% at end-2017). The ratio is sensitive to changes in market interest rates.

Fitch estimates Groupama's financial leverage ratio (FLR) to have risen to 30% at end-September 2018 from 26% as at end-2017, after the EUR 500 million debt Tier 2 issue earlier this month (for more details, see " Fitch Rates Groupama's EUR500m Dated Subordinated Euro Notes 'BBB-' " dated 18 September 2018 at www.fitchratings.com). The ratio nevertheless remains within Fitch's benchmark range of 24%-31% for the 'A' rating category. Fitch's central scenario is for Groupama to call its EUR500 million of outstanding Tier 2 debt in October 2019, returning the FLR to a pre-issue level of around 25%.

Fitch expects Groupama to report stable, but weak, profitability. Operational result as calculated by Groupama rose to EUR217 million at end-June 2018 (end-June 2017: EUR154 million), driven by stronger margins both in life and in non-life. Net income (EUR206 million) fell yoy, in the absence of exceptional profits from disposals. Fixed-charge coverage of around 3x in 2017 remains weak relative to the group's rating.

Groupama has completed the de-risking of its investment portfolio. The risky asset-to-equity ratio

further improved to 83% at end-2017 from 102% at end-2016. Fitch expects the ratio to remain well below 100% in 2018 as the company reinvests in risky assets opportunistically. Fitch notes, however, that Groupama's presence in Italy (8% of gross written premium (GWP) at end-June 2018) results in Italian sovereign bonds (BBB / Negative) representing 14% of the group's fixed income portfolio at end-June 2018 (approximately 100% of shareholder's funds as calculated by Fitch).

Groupama has a very strong franchise in the French insurance sector, where the group is the largest agricultural insurer. In addition, the group holds an important market position in property and motor insurance, and is also a key participant in the health and protection market in France.

RATING SENSITIVITIES

The ratings could be upgraded if Groupama maintains its 2017 capitalisation and earnings results. This would be evidenced by a Prism FBM score of at least 'Strong', a FLR at around 25%, and strong non-life profitability as measured by a combined ratio of below 100% and a group return of equity of at least 4% (2017: 4%).

The ratings could be downgraded if the Prism score falls to 'Adequate'. A significant weakening of financial leverage, as reflected in the FLR rising to above 32%, could also result in a downgrade.

If the new Insurance Rating criteria proposed by Fitch are implemented, we do not expect Groupama's ratings to be affected.

FULL LIST OF RATING ACTIONS

Groupama Assurances Mutuelles
IFS Rating affirmed at 'A-'; Outlook Positive
Long-Term IDR affirmed at 'BBB+'; Outlook Positive
Dated and undated subordinated debt affirmed at 'BBB-'

Groupama GAN Vie
IFS Rating affirmed at 'A-'; Outlook Positive

GAN Assurances
IFS Rating affirmed at 'A-'; Outlook Positive

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Additional information is available on www.fitchratings.com

Applicable Criteria

Exposure Draft: Insurance Rating Criteria (pub. 04 Oct 2018)

(<https://www.fitchratings.com/site/re/10044902>)

Insurance Rating Criteria (pub. 30 Nov 2017) (<https://www.fitchratings.com/site/re/905036>)

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