

October 14, 2008

**Research Update:**

# France-Based Groupama S.A.'s 'A+' Ratings Affirmed; Outlook Stable

**Primary Credit Analyst:**

Lotfi Elbarhdadi, Paris (33) 1-4420-6730; lotfi\_elbarhdadi@standardandpoors.com

**Secondary Credit Analyst:**

Virginie Crepy, Paris 33-1-4420-7330; virginie\_crepy@standardandpoors.com

## Table Of Contents

---

Rationale

Outlook

Ratings List

## Research Update:

# France-Based Groupama S.A.'s 'A+' Ratings Affirmed; Outlook Stable

## Rationale

On Tuesday, Oct. 14, 2008, Standard & Poor's Rating Services affirmed its 'A+' counterparty credit and financial strength ratings on France-based insurer Groupama S.A. and its core entities. The outlook is stable.

The ratings reflect the group's strong competitive position, strong long-term financial flexibility, and strong operating performance. Also incorporated into the ratings are Groupama's continuous efforts in streamlining the group's structure, and improved strategic decision processes. Partially offsetting these credit strengths is a weakened capital adequacy, albeit still supported by strong reserving and reinsurance, and a still high exposure to French property/casualty (P/C) risks.

Major rating factors:

- Strong competitive position. Groupama's competitive advantages include brand recognition, diversified distribution networks, wide product ranges, and a large client base of 8 million. Although reliance on the French P/C sector remains high, it is partially mitigated by Groupama's business line diversification and increasing international diversification. In 2008, Groupama acquired OTP Garantia in Hungary, Asiban in Romania, Guven in Turkey, and took a stake in Tunisian STAR. These acquisitions are further diluting Groupama's exposure to the French market, adding an estimated annual €600 million in premiums. Groupama's presence in French life and savings businesses is less developed--relative to the potential for the group's network--but is continuously growing, even amid difficult market conditions.
- Strong long-term financial flexibility. The group's virtual ability to issue hybrid debt is strong owing to its current interest coverage ratios. If the need arises, Groupama S.A. is also ready for an IPO, and could also consider opportunities for introducing other minority institutional shareholders. Financial flexibility is heavily constrained by the current market environment, but this is partially mitigated by low external growth prospects for Groupama in 2009.
- Strong operating performance. Operating performance has significantly improved since 2005. The reported P/C combined ratio reached 99.7% in 2007 thanks to a diversified business portfolio and an increasing contribution from international subsidiaries. Albeit continuously decreasing, still high expense ratios constrain the P/C operating performance. Accident and health adds good earnings diversification. The total non-life combined ratio is slightly above 100% but remains within the targeted range of 98%-102%. The life business adds moderate earnings due to high exposure to traditional contracts, with stringent guarantees and profit-sharing policies.
- Weakened capital adequacy, but still strong capitalization. The group has

invested more than €3 billion over the past two years in acquisitions. These acquisitions have weighed on capital adequacy due to the related substantial goodwill. While the hybrid debt of €1 billion issued in October 2007 has alleviated pressure on capital adequacy, it could be partially offset by the possible call of the €0.750 billion subordinated debt in July 2009. Market conditions also weigh on capital adequacy owing to a reliance on soft forms of capital. Capitalization is still strong, however, supported by strong reserving and conservative reinsurance practices.

## Outlook

The stable outlook on Groupama reflects our expectation of a strong operating performance, strong competitive position, strong capitalization, and financial flexibility over the long term.

We expect the net non-life combined ratio to remain lower than 102%, excluding any change in non-life reserving practices. Life business' profitability is expected to remain moderate but steadily increase. Current market conditions are likely to weigh on earnings, but we expect a limited impact on net earnings in 2008 and 2009.

Growth in French P/C should be in line with the market in 2008 and 2009. We expect the French life business to grow 3% to 5% in 2008 and 2009, reflecting increasing efforts to promote the savings business. External growth is likely to be minimal in 2009, but should add 4% to 6% to overall premiums in 2008.

We consider a revision of the outlook to positive unlikely for the group with its current profile. We could revise the outlook to negative if any new acquisition or other long-term pressure on capital adequacy is not funded in a way to preserve capitalization. A long-term deterioration of operating performance outside of the group's targets or a failure to integrate the newly acquired subsidiaries may also result in a revision of the outlook to negative.

## Ratings List

Ratings Affirmed

Groupama S.A.

Groupama Vie

Counterparty Credit Rating

Local Currency

A+/Stable/--

Groupama S.A.

Groupama Vie

Financial Strength Rating

Local Currency

A+/Stable/--

Groupama Transport

Groupama Insurance Co. Ltd.

*Research Update: France-Based Groupama S.A.'s 'A+' Ratings Affirmed; Outlook Stable*

GAN Eurocourtage IARD  
GAN Assurances IARD  
Financial Strength Rating\*  
Local Currency A+/Stable/--

Groupama S.A.  
Subordinated (1 issue) A-  
Junior Subordinated (2 issues) A-

Banque Finama  
Counterparty credit rating A/Stable/A-1  
CDs A/A-1  
Senior unsecured debt A

\*Guaranteed by Groupama S.A.

NB: This list does not include all ratings affected.

**Additional Contact:**

Insurance Ratings Europe; [InsuranceInteractive\\_Europe@standardandpoors.com](mailto:InsuranceInteractive_Europe@standardandpoors.com)

Ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at [www.ratingsdirect.com](http://www.ratingsdirect.com). It can also be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com); select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4017.

Copyright © 2008 Standard & Poor's, a division of The McGraw-Hill Companies, Inc. (S&P). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscriber's or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.9823 or by e-mail to: [research\\_request@standardandpoors.com](mailto:research_request@standardandpoors.com).