



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

Fitch Ratings-London-19 April 2018: Fitch Ratings has revised Groupama S.A.'s (Groupama) and core subsidiaries' Outlooks to Positive from Stable. At the same time, Fitch has affirmed Groupama's Insurer Financial Strength (IFS) Rating at 'A-' and Issuer Default Rating (IDR) at 'BBB+'. A full list of rating actions is available at the end of the commentary.

KEY RATING DRIVERS

The Positive Outlook reflects Fitch's expectations that Groupama will maintain a strong "capitalisation and leverage" score in 2018, as measured by sustained stability in Fitch's Prism Factor-Based Model (Prism FBM) score and an improved financial leverage ratio.

The ratings also reflect Groupama's very strong franchise in the French insurance sector and a significant reduction in the group's exposure to risky assets since 2011. Fitch expects Groupama to maintain its prudent asset allocation in 2018. Offsetting these strengths is Groupama's low profitability relative to the group's rating category.

Groupama scored 'Strong' on Fitch's Prism FBM, based on 2017 combined results. This represented a slight improvement in 2016, although within the same category. Lower risk capital, reflecting Groupama's reduced exposure to risky assets, and higher available capital supported the score in 2017.

Fitch expects the Prism score to remain at least 'Strong', driven by retained earnings and a gradual increase in the proportion of unit-linked products in the life portfolio. Groupama also plans to continue 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 count as unrestricted Tier 1 capital for Solvency II purposes.

Groupama reported a Solvency II capital ratio of 174% at end-2017, excluding transitional measures on the technical life reserves of Groupama GAN Vie. This score is broadly in line with regional peers of comparable size. With the inclusion of transitional measures, the regulatory ratio was 315%. The ratio is somewhat sensitive to changes in interest rates.

Groupama's financial leverage ratio (FLR) has improved over the last five years to 26% at end-2017, which is at the upper range of the 'A' category. However, if goodwill is excluded from equity, its FLR would have been 33%. Goodwill largely relates to the Italian insurance subsidiary. In October 2017, Groupama recalled EUR143 million of perpetual subordinated securities that were left outstanding after an exchange offer carried out in January 2017. Following this redemption, the total amount of subordinated debt at end-2017 has remained in line with the EUR2.2 billion at end-2016.

Fitch expects Groupama to report steady but weak profitability. Groupama's net income fell to EUR292 million in 2017 (2016: EUR322 million), although this was in part due to one-offs. An impairment of EUR58 million was made for the Turkish subsidiary (equal to total remaining goodwill that related to the Turkish operations). The operational result, as calculated by Groupama, improved following higher interest rates and a stronger non-life underwriting technical result. Fixed-charge coverage deteriorated to 3x in 2017 from 4.4x in 2016 and remains weak relative to the group's rating.

Groupama's risky asset-to-equity ratio further improved to 83% at end-2017 from 102% at end-2016. The group has made sustained reductions in its risky asset exposure, with the improvement in 2017 stemming from a reduction in the group's equity holdings in affiliates, sub-investment grade bonds and unrated bonds. Fitch expects Groupama's risky asset-to-equity ratio to remain well below 100% in 2018.

RATING SENSITIVITIES

The ratings could be upgraded if Groupama sustains its 2017 capitalisation and earnings results. This would be evidenced by a Prism FBM score of at least 'Strong', the group's FLR at around 25%, strong non-life profitability as measured by a combined ratio 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.

FULL LIST OF RATING ACTIONS

Groupama S.A.

IFS Rating affirmed at 'A-'; Outlook revised to Positive from Stable

Long-Term IDR affirmed at 'BBB+'; Outlook revised to Positive from Stable

Dated subordinated debt affirmed at 'BBB-'

Undated subordinated debt affirmed at 'BBB-'

Groupama GAN Vie

IFS Rating affirmed at 'A-'; Outlook revised to Positive from Stable

GAN Assurances

IFS Rating affirmed at 'A-'; Outlook revised to Positive from Stable

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Applicable Criteria

Insurance Rating Criteria (pub. 30 Nov 2017)

(<https://www.fitchratings.com/site/re/905036>)

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