FITCH AFFIRMS GROUPAMA'S IFS AT 'BBB+'; OUTLOOK STABLE

Fitch Ratings-London-17 May 2016: Fitch Ratings has affirmed Groupama S.A.'s (Groupama) and its core subsidiaries' Insurer Financial Strength (IFS) ratings at 'BBB+'. Groupama's Issuer Default Rating (IDR) has also been affirmed at 'BBB'. The Outlooks are Stable.

KEY RATING DRIVERS
The ratings reflect Groupama's maintained good profitability, 'Strong' risk-adjusted capital position as per our Prism factor-based capital model (Prism FBM), and improved financial leverage. Offsetting factors are Groupama's relatively high risky assets to equity ratio, some structural weaknesses in the capital structure and a relatively low fixed charge coverage ratio.

The risky asset to equity ratio improved to 120% at end-2015 while the quality of the bond portfolio has been moderately improving, with at least 'A-' rated bonds accounting for 62% of the portfolio at end-2015, while speculative-grade and non-rated bonds represented around 4% and bonds rated in the 'BBB' category 34%. Fitch views the group's exposure to fixed-income instruments that have experienced significant volatility in recent years (such as some European government bonds) to be material but manageable. At end-2015, Groupama's exposure to government bonds issued by Italy, Spain, Portugal and Ireland totalled EUR10bn, unchanged from the year before due to the increase in market values.

Groupama's net income improved to EUR368m in 2015 from EUR257m in 2014 with the realised capital gains on the sale of a 4.9% stake in Mediobanca and 5.05% stake in Veolia the key contributor to this improvement. The net income has also been supported by the robust, albeit moderately decreasing, life profitability and investment yield, as well as the moderately positive non-life underwriting technical result.

Groupama's combined ratio improved to a Fitch-calculated 99.5% in 2015 from 99.9% in 2014 and five-year average of 100.4%.This improvement was supported by the loss ratio, which benefited from a decrease in catastrophic and single large claims and stable level of attritional claims in France, which accounted for 75% of non-life premiums written in 2015. The combined ratio has been adversely affected by the weak performance of the international segment, and in particular motor third party liability underwriting in Turkey, which resulted in a EUR100m reserve strengthening required for the local portfolio of EUR411m premiums written in 2015. Fitch understands that Groupama has tightened its underwriting policy in Turkey to cut its exposure to the underperforming lines.

From a Prism FBM perspective, Groupama scored 'Strong' based on 2014 and 2015 results. Looking at 2016, Fitch expects that the disposal of the control over Groupama Banque and gradual increase of the weight of unit-linked products in the life portfolio might have a further modest positive effect on the insurer's capital position. Fitch also expects that retained earnings are likely to remain the key source of capital generation for Groupama.

The quality of capital has some key weaknesses, including high exposure to the revaluation reserve, which represented 22% of the adjusted equity (before the inclusion of the subordinated debt) recorded primarily on fixed-income securities. In addition, the company has material goodwill and a relatively high proportion of subordinated debt compared with adjusted equity.

On the regulatory side, Groupama reported a 263% Solvency II ratio at end-2015, which included the transitional measure on technical life reserves of Groupama GAN Vie. Without this transitional measure, the ratio would have stood at 133%. Solvency II is covering the wide perimeter of the group, including Caisses Regionales, unchanged from Groupama's supervisory perimeter under Solvency I.

Groupama's financial leverage ratio has been decreasing over the last five years and reached 25% at end-2015, which is now in line with the 'A' category. The improvement was particularly notable in 2014, when the insurer recorded substantial unrealised gains on fixed-income securities and also repaid a EUR650m bank loan facility. The current fixed charge coverage at 3.7x remains a constraining rating factor.

At end-2015 the group's total invested assets totalled about EUR85.6bn, which included unrealised gains. Excluding unit-linked assets (8.2% of the total), fixed-interest securities (including cash) accounted for 77% of insurance invested assets, mutual funds 9%, equities and affiliates 7%, real estate 2%, and other investments 5%. Over the last five years Groupama has reduced investments in real estate and equities. Notable investments in mutual funds were introduced in 2014 only.

RATING SENSITIVITIES
Key rating triggers that could result in an upgrade include reducing risk in the investment portfolio with the risky assets to equity ratio below 100%, continuing profitability, maintenance of 'strong' capital score in Prism FBM. A stronger capital structure could also contribute to an upgrade.

Alternatively, a significant weakening of capital adequacy, as reflected in the Prism FBM capital model score falling to 'adequate' or below, growth of the financial leverage ratio to over 30%, a return to net loss, or further growth in the riskiness of the investment portfolio could result in negative rating action.

FULL LIST OF RATING ACTIONS
Groupama S.A.
IFS rating affirmed at 'BBB+'; Outlook Stable
Long-term IDR affirmed at 'BBB'; Outlook Stable
Dated subordinated debt (ISIN FR0010815464) affirmed at 'BB+'
Undated subordinated debt (ISIN FR0011896513) affirmed at 'BB+'
Undated deeply subordinated debt (ISIN FR0010533414) affirmed at 'BB'

Groupama GAN Vie
IFS rating affirmed at 'BBB+'; Outlook Stable

GAN Assurances
IFS rating affirmed at 'BBB+'; Outlook Stable

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Applicable Criteria
Insurance Rating Methodology (pub. 17 May 2016)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=881564