



## Fitch Upgrades Groupama's IFS to 'A-'; Outlook Stable

Fitch Ratings-London-03 May 2017: Fitch Ratings has upgraded Groupama S.A.'s (Groupama) and its core subsidiaries' Insurer Financial Strength (IFS) ratings to 'A-' from 'BBB+'. Groupama's Issuer Default Rating (IDR) has also been upgraded to 'BBB+' from 'BBB'. The Outlooks are Stable. A full list of rating actions is at the end of the commentary

### KEY RATING DRIVERS

The upgrade follows the significant de-risking activities carried out by management, which has resulted in a significant reduction of the group's exposure to risky assets. The ratings also reflect Groupama's 'Strong' risk-adjusted capital position and improved financial leverage at end-2016. Offsetting factors are Groupama's still relatively high risky assets to equity ratio for its rating category and the large portion of goodwill (27%) in equity.

The risky asset-to-equity ratio improved to 102% at end-2016 (2015: 127%). Management has made sustained reductions in risky assets and the improvement in 2016 stemmed from a reduction in the group's exposure to equities and sub-investment grade and unrated bonds, which occurred faster than Fitch expected. Fitch expects Groupama to continue to de-risk its investment portfolio.

Groupama generates a score of 'Strong' on Prism, Fitch's risk-based capital model, based on 2016 combined results, in line with 2015. For 2017, Fitch expects that the gradual increase in the proportion of unit-linked products in the life portfolio may further benefit the insurer's capital position. Groupama also plans to strengthen 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 149% Solvency II capital ratio at end-2016, excluding transitional measures on the technical life reserves of Groupama GAN Vie. With the inclusion of transitional measures, the regulatory ratio is 289%. The ratio is somewhat sensitive to changes in interest rates.

Fitch considers that the large proportion of subordinated debt and significant goodwill weaken Groupama's capital structure. Goodwill represented 27% of equity (as reclassified by Fitch) at end-2016. The goodwill is mainly concentrated in the Italian insurance subsidiary. However, an impairment of EUR88 million was made for the Turkish subsidiary in 2016 (equal to 50% of goodwill that related to the Turkish operations). Goodwill for the Italian business was not impaired.

Groupama's financial leverage ratio (FLR) has improved over the last five years to 28% at end-2016, which is in line with the 'A' category. However, if goodwill is excluded from equity, its FLR is 36%. After the exchange offer carried out in January 2017, the total amount of subordinated debt has marginally increased as new debt has been issued. However, Groupama's FLR remains commensurate with the ratings. Fixed-charge coverage improved to 4.4x in 2016 but remains a constraining rating factor.

Fitch expects Groupama to report steady but low profitability. Groupama's net income fell to EUR322 million in 2016 (2015: EUR368 million). The operational result declined marginally following lower interest rates and a weaker non-life underwriting technical result. Meanwhile, capital gains realised on the sale of Italian government bonds more than offset the goodwill written down on the Turkish operations. The level of realised gains was lower than in 2015, but remained in line with Fitch's expectations.

### RATING SENSITIVITIES

Key rating triggers that could result in an upgrade include improved technical profitability, as measured for example by a combined ratio better than 100% and a return of equity of at least 7% (2016: 5%). An improvement in FLR below 24% (calculated including goodwill in equity), maintenance of 'Strong' capital score in Prism FBM, and a stronger capital structure, could also contribute to an upgrade.

The ratings could be downgraded if Groupama increases the riskiness of the investment portfolio with a risky-assets-to-equity ratio above 105% (with the expectation that it will not be reduced) or if the FLR rises to over 32% (calculated including goodwill). A significant weakening of capital adequacy, as reflected in the Prism FBM capital model score falling to 'Adequate' could also result in a downgrade.

### FULL LIST OF RATING ACTIONS

Groupama S.A.

IFS rating upgraded to 'A-' from 'BBB+'; Outlook Stable

Long-term IDR upgraded to 'BBB+' from 'BBB'; Outlook Stable

Dated subordinated debt (ISIN FR0010815464) upgraded to 'BBB-' from 'BB+'

Dated subordinated debt (ISIN FR0013232444) upgraded to 'BBB-' from 'BB+'

Undated subordinated debt (ISIN FR0011896513) upgraded to 'BBB-' from 'BB+'

Undated deeply subordinated debt (ISIN FR0010533414) upgraded to 'BB+' from 'BB'

Groupama GAN Vie

IFS rating upgraded to 'A-' from 'BBB+'; Outlook Stable

GAN Assurances

IFS rating upgraded to 'A-' from 'BBB+'; Outlook Stable

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#### **Applicable Criteria**

Insurance Rating Methodology (pub. 26 Apr 2017) (<https://www.fitchratings.com/site/re/897260>)

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