



Fitch Upgrades Groupama's IFS Rating to 'A'; Outlook Positive

Fitch Ratings-Paris/London-20 June 2019: Fitch Ratings has upgraded Groupama Assurances Mutuelles' (Groupama) and core subsidiaries' Insurer Financial Strength (IFS) Ratings to 'A' ('Strong') from 'A-' and Long-Term Issuer Default Ratings (IDR) to 'A-' from 'BBB+'. The Outlooks on the IFS Ratings and IDRs are Positive. A full list of rating actions is available at the end of the commentary.

KEY RATING DRIVERS

The upgrade reflects Groupama's sustained strong capitalisation and leverage, and strong earnings profile. The ratings also reflect Groupama's very strong business profile in the French insurance sector, and a strong investment & asset risk score. The Positive Outlook reflects Fitch's expectations that Groupama will consolidate its strong capitalisation and leverage in 2019-20.

Groupama at end-2018 had a Prism Factor-Based Model (FBM) score at the upper-end of the 'Strong' category on a pro-forma basis, based on Fitch's assumption that Groupama will call its EUR500 million of outstanding Tier 2 debt issue in October 2019. The group reported a Solvency 2 capital ratio of 167% at end-2018, excluding transitional measures, down from 174% at end-2017, mainly due to negative market effects. Groupama's regulatory capital position is more sensitive to changes in interest rates than its French peers. Groupama's financial leverage ratio (FLR) at end-2018 was 24% on a pro-forma basis for the EUR500 million Tier 2 debt, compared with 26% as at end-2017.

Groupama has a very strong business profile in the French insurance sector, where the group holds important market positions in property & casualty (P&C), life and health. Further, Groupama generates 18% of its revenue outside of France, principally in Italy (10%) and eastern Europe (4%), which provides some geographical diversification, while marginally increasing business risk.

Groupama's risky-assets-to-equity ratio improved further to 76% at end-2018 from 83% at end-2017. However, exposure to Italian sovereign bonds (BBB/Negative), which at end-2018 represented 13% of the group's fixed income portfolio and approximately 100% of shareholder's funds as calculated by Fitch, continues to be a source of potential volatility to the group's balance sheet.

Groupama's fixed-charge coverage ratio on an operating earnings basis improved to 5x in 2018 (2017: 3x). Coverage would further improve on the assumption that Groupama exercises its call option in October 2019, resulting in a reduction in interest expenses.

We expect Groupama's profitability to be stable but lower than peers'. Its operating result for the insurance operations remained broadly stable in 2018. Strong earnings in French life & health have offset deterioration in international business, particularly in Italy. Return on equity, as calculated by Fitch, increased to 6% for 2018 (2017: 4%), due partly to a one-off gain on a real estate sale.

RATING SENSITIVITIES

The ratings could be upgraded if Groupama's Prism FBM score improves to 'Very Strong' on a sustained basis, while the Solvency 2 ratio remains above 160%, the FLR below 28% and operating performance continues to be strong, as evidenced by a combined ratio below 99%.

The ratings could be downgraded if Groupama's capital position deteriorates, as measured by a Prism FBM

score falling to the lower end of the 'Strong' category. A significant weakening of financial leverage, as reflected in the FLR rising above 32%, could also result in a downgrade.

FULL LIST OF RATING ACTIONS

Groupama Assurances Mutuelles

IFS Rating upgraded to 'A' from 'A-'; Positive Outlook

Long-Term IDR upgraded to 'A-' from 'BBB+'; Positive Outlook

Dated and undated subordinated debt upgraded to 'BBB' from 'BBB-'

Groupama GAN Vie

IFS Rating upgraded to 'A' from 'A-'; Positive Outlook

GAN Assurances

IFS Rating upgraded to 'A' from 'A-'; Positive Outlook

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Applicable Criteria

Insurance Rating Criteria (pub. 11 Jan 2019)

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Dodd-Frank Rating Information Disclosure Form

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