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Credit Opinion: Atradius N.V.

Global Credit Research - 13 Mar 2015

Amsterdam, Netherlands

Ratings Atradius Credit Insurance NV

Category	Moody's Rating
Atradius Credit Insurance NV	
Rating Outlook	STA
Insurance Financial Strength	A3
ST Insurance Financial Strength	P-2
Atradius Re Ltd	
Rating Outlook	STA
Insurance Financial Strength	A3
Atradius Trade Credit Insurance Inc.	
Rating Outlook	STA
Insurance Financial Strength	A3
Credito y Caucion Seguros y Reaseguros S.A	
Rating Outlook	STA
Insurance Financial Strength	A3

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Key Indicators

Atradius NV[1]

	2013	2012	2011	2010	2009
Gross premiums written (EUR Millions)	1,405	1,457	1,413	1,343	1,442
Net premiums written (EUR Millions)	761	802	782	721	795
Net income as reported (EUR Millions)	135	114	130	125	-113
Shareholders' Equity (EUR Millions)	1,287	1,196	1,130	1,035	905
High Risk Assets % Shareholders' Equity	24%	22%	23%	26%	29%
Reinsurance Recoverables % Shareholders' Equity	51%	58%	61%	59%	76%
Goodwill & Intangibles % Shareholders' Equity	18%	19%	20%	22%	25%
Net Underwriting Leverage [2]	104%	119%	122%	114%	152%
Net Total Exposure % Shareholders' Equity [2]	208.5x	220.4x	224.8x	223.5x	255.9x
Loss ratio, gross [2]	49%	55%	53%	41%	92%
Expense ratio,gross [2]	30%	31%	31%	31%	30%
Combined ratio, gross [2]	79%	85%	84%	72%	122%
Sharpe Ratio on Return on Capital (5 yr. avg)	71.61%	8.31%	20.07%	--	--
Financial Leverage	22%	23%	23%	25%	28%
Earnings cover (1 year)	9.0x	8.0x	8.8x	8.1x	-6.6x

[1] Information based on IFRS financial statements [2] Moody's calculations

Opinion

SUMMARY RATING RATIONALE

Moody's A3 insurance financial strength ratings on Atradius' main operating companies reflect the group's very strong position in the credit insurance industry, a conservative investment portfolio, strong geographic diversification, good capitalisation, substantial reinsurance protection and low financial leverage. These strengths are offset by the Group's limited business diversification from credit insurance, inherently a cyclical industry vulnerable to sharp deteriorations in the economic environment, and the highly competitive environment in the credit insurance industry as a whole. In addition, although Atradius is well diversified by country, its largest exposure is Spain and Portugal at around 16.5% of the group's credit insurance exposure at year-end 2014, of which Spain is the vast majority. The group's credit insurance exposure to Spain has significantly decreased from historical levels (exposure down by around 24% and 50% from year-end 2010 and year-end 2008 levels respectively).

Solvency II will generally lead to significant increases in capital requirements for global credit insurers. Atradius intends to apply for regulatory approval of its internal model for Solvency II, which will likely lead to less onerous capital requirements compared to the standard formula.

The main operating companies of Atradius Group are Atradius Credit Insurance N.V. (Dutch credit insurance company), Compañia Española de Seguros y Reaseguros de Crédito y Caución S.A. (Spanish credit insurance company), Atradius Trade Credit Insurance Inc. (US credit insurance company) and Atradius Reinsurance Ltd. (Irish reinsurance company). Given the core position of these units within the Group as well as the complementarities of their business and the strong competitive position in their respective credit insurance markets, Moody's considers these combined operations as one analytic unit.

Atradius is one of the leading credit insurers globally with an estimated global market share of 22% at year-end 2013 (Moody's calculations). It is based in the Netherlands (Aaa stable) and is 83% owned by Grupo Catalana Occidente (GCO, unrated), a Spain-based listed insurance group that owns retail domestic insurance operations as well as credit insurance. GCO's Spanish retail businesses have adequate solvency levels, a low-risk business profile oriented to retail non-life, a strong track record of profitability (combined ratio consistently below 90%) and very modest financial leverage. Nevertheless, as a domestic insurer, GCO's retail business has a meaningful concentration in Spanish assets including sovereign (Baa2 POS) and banking debt.

Atradius' A3 IFSR reflects its standalone fundamentals, the partial insulation from its parent - mainly driven by its different business profile and the regulatory protection that Atradius' main operations receive- and our expectation that GCO remains committed to maintain Atradius well capitalized. Atradius represented circa 38% of GCO's pro-forma revenues (with Plus Ultra) at year-end 2014.

The P-2 short term IFSR of Atradius Credit Insurance N.V. reflects the sound liquidity of the Atradius Group, with a very liquid and a relatively conservative low duration in its investments portfolio. The liquidity of the Group is also supported by credit insurance industry related specificities, such as simultaneous settlements clauses in reinsurance agreements which provide the Group with an additional source of liquidity in case of large claims.

Credit Strengths

The main credit strengths of Atradius' units include:

-Strong franchise as one of the leading credit insurers

-Conservative balance sheet profile with a modest level of investment risk and sound liquidity

-Low financial leverage

Credit Challenges

The main credit challenges for Atradius' main operating rated units include:

-Pursuing growth in revenues whilst maintaining a strong underwriting discipline through the cycle

- Limited diversification from credit insurance, a cyclical industry

-A significant exposure to policies with some restrictive features in a suddenly weaker economic environment such as multi-year policies; notwithstanding the improvements in policy features from 2008 such as the introduction of breakout clauses and the enhanced operational controls

-A relatively high exposure to Spain which, although showing improving loss ratios and economic outlook, has experienced a volatile track record of profitability

- High competitive environment in credit insurance as a whole

Rating Outlook

The outlook is stable.

What to watch for:

- Pursuing growth in revenues whilst maintaining strong underwriting discipline

- Material deterioration in the group's business profile with a higher number of restrictive features such as multi-year policies and reduction in breakout-clauses

-Implementation of Solvency II regulatory framework

What Could Change the Rating - Up

Upward pressure on the IFSRs could develop following:

(1) material improvement in the group's business diversification with fee-based services representing over 25% of the group's revenues and services;

(2) sustainable improvements in underwriting profitability through the cycle

(3) substantial improvements in the group's business profile such as significant reduction in policies with restrictive features in a downturn scenario (e.g. multiyear policies) or reduction in the group's still-significant exposure to European peripherals

What Could Change the Rating - Down

Downward pressure on the IFSRs could develop following:

(1) material deterioration in Atradius' underwriting profitability, with a 5-year combined ratio consistently above 100% through the cycle;

(2) significant deterioration in the group's capitalisation, with net total exposure to shareholders equity above 300x and net underwriting leverage above 170%;

(3) substantial weakening in the group's franchise position

Notching Considerations

On 5 September, 2014 Moody's assigned a Ba1(hyb) rating to the subordinated notes to be issued by Atradius Finance B.V. and guaranteed by Atradius N.V. Atradius Finance B.V. is a financing company of Atradius and its subsidiaries.

Moody's stated that the Ba1(hyb) rating assigned to the subordinated notes is driven by 1)- the unconditional and irrevocable guarantee provided by Atradius on a subordinated basis, 2)- standard notching for debt issued or guaranteed from insurance holding companies for subordinated debt that lacks a mandatory trigger we consider to be "meaningful", and 3)- our existing A3 insurance financial strength rating ("IFSR") on the main operating insurance companies of the Atradius group.

For more information please refer to the press release: https://www.moodys.com/research/Moodys-assigns-Ba1hyb-rating-to-Atradius-dated-subordinated-notes--PR_307503

DETAILED RATING CONSIDERATIONS

Moody's rates Atradius A3 for insurance financial strength, which is in line with the rating indicated by Moody's insurance financial strength rating scorecard.

Market Position and Distribution: A - STRONG MARKET POSITION IN CREDIT INSURANCE

Atradius has a strong position in the credit insurance industry. The group is the second largest credit insurers with an estimated global market share of around 22% at year-end 2013 according to Moody's calculations based on the total industry's premiums provided by ICISA ("International Credit Insurance & Surety Association"). Atradius' market share has stabilized in recent years with improved levels of customer retention following the significant risk mitigating actions taken in the aftermath of the 2008 crisis.

As is the case for credit insurers peers, Atradius mainly distributes through brokers in most of its markets with some exceptions, such as Spain, under which Crédito y Caución S.A. predominantly sells through a direct distribution network. Nevertheless, Atradius Reinsurance Ltd. which closely collaborates with and reinsures smaller credit insurance players is an additional indirect source of sales for the Group. Therefore, Moody's considers that Atradius maintains a strong and flexible access to business and new markets.

Product Risk and Diversification: Baa - ADEQUATE PRODUCT RISK AND DIVERSIFICATION GIVEN LIMITED DIVERSIFICATION FROM CREDIT INSURANCE AND SUBSTANTIAL EXPOSURE TO SPAIN

Moody's views product risk and diversification as one of the Group's main credit challenges in light of the limited diversification from credit insurance revenues, a considerable exposure to policies with restrictive features in Moody's view and a meaningful exposure to Spain, notwithstanding recent reductions and significant improvement in profitability since first half 2012.

Atradius' business profile is ultimately focused on credit insurance, which is inherently a cyclical industry, and represented around 90% of total revenues at YE2014 (including bonding). The rest of the revenues are mainly generated through credit checking and debt collection services. As a specialist credit insurer, Atradius' product risk focus is typically dependent on market-specific credit and economic dynamics. The Group's exposure remains relatively well diversified by country and sector, although Spain remains the largest contributor to the Group's exposure with the region of Spain and Portugal representing 16.5% at year-end 2014, of which Spain is the vast majority, notwithstanding sizeable reductions in exposure over historical levels (down by around 20% and 50% from 2010 and 2018 levels). The second and third largest exposure consists of stronger economies such as Germany (15%) and France (8%).

We believe that Atradius has a relatively high exposure to policies with restrictive features such as multiyear policies, which would be negative in a suddenly weaker economic environment by reducing the flexibility to increase prices if necessary. Nevertheless, we note that the performance of these policies in the past have been broadly similar to annual policies and the company's controls and policy features (e.g. break-out clauses) have improved significantly post-2008.

Atradius has consistently reduced its exposure to Spain following the deterioration in the economic environment during the sovereign crisis and the surge in insolvencies in the aftermath of 2008. Following the risk mitigating actions and Spain's economic recovery, Atradius has reported a consistent improvements in the loss ratio in Spain to a exceptionally low 34% at YE 2014 (YE 2013: 52%, YE 2012: 74%). We expect loss ratios in Spain to remain strong in line with Spain's economic recovery, nevertheless we think loss ratios will likely increase from the very low level hit in 2014. Nevertheless, we note that loss ratios in Spain can still remain more volatile compared to rest of the group.

Asset Quality: A - EXCELLENT ASSET QUALITY WITH CONSERVATIVE INVESTMENT POLICY

Asset quality at Atradius is viewed as strong with a modest level of investment risk and intangibles. High-risk asset ratio was very low at 24% representing mainly equities. The fixed income portfolio has an exceptional quality with no exposure to Eurozone peripherals since the mid 2012.

Reinsurance recoverables have improved significantly in recent years down to 51% (2012: 58%, 2008: 96%) driven by the Group's increased shareholders' equity. The vast majority of Atradius' reinsurance counterparties have a high creditworthiness being currently rated A or better. Nevertheless, Atradius' substantial reinsurance quota share might lead to vulnerabilities driven by potential capacity constraints in the reinsurance markets or potential withdrawal of players that could affect the future credit quality of Atradius' reinsurance panel in stressed scenarios.

Moody's also considers the liquidity of Atradius to be good. Atradius' portfolio is predominantly invested in good quality and liquid assets with relatively short durations. Liquidity covenants (e.g. cash call agreements) have also been included in reinsurance treaties in order to enable the Group to settle large claims in a very short period of time, if necessary.

Furthermore, Moody's positively notes that the level of intangible assets has remained low.

Capital Adequacy: A - GOOD CAPITALIZATION; SOLVENCY II WILL LIKELY INCREASE CAPITAL REQUIREMENTS

Moody's views Atradius' capitalization as good. The group's net exposure to shareholders equity improved to 209x in 2013 (YE2012: 220x) as the growth in shareholder's equity (up 8% to EUR1.3 billion) exceeded the rise in exposure (up by 3% to EUR483.6 billion). Net underwriting leverage has also improved to 104% in 2013 from 119% in the previous year.

Solvency II will generally lead to significant increases in capital requirements for global credit insurers. Atradius intends to apply for regulatory approval of its internal model for Solvency II, which will likely lead to less onerous capital requirements compared to the standard formula. However Atradius' internal model is expected to be approved by the College of Supervisors, which comprises the supervisory authorities of Atradius' main European regulated entities in Spain, Netherlands and Ireland. If the group's internal model were not approved, Atradius will have to use a standard formula approach. Shareholders' equity has increased significantly from the low levels hit in 2009 to EUR1.3 billion at year-end 2013, which is above the estimated pro-forma 2007 levels thanks to the rebound in retained earnings and the modest dividend payout ratios (dividend paid at EUR43.5 million at year-end 2013, cumulative dividend paid at EUR137.6 million from 2008 to 2013). In addition, the group's exposure remains over a third lower than the peak reached in the first-half 2008 with further improvements in quality and significant reductions in the exposure to lower-rated buyers and countries with more difficult operating environments.

Profitability: Baa - PROFITABILITY WILL LIKELY CONTINUE TO BE GOOD, BUT WITH VOLATILITY THROUGH THE CYLE

Atradius' underwriting profitability has recovered significantly driven by the ongoing risk mitigating actions taken post-2008 and the more benign economic outlook. Nevertheless, the group's volatility in profitability has historically been weak through the cycle, as indicated by the low Sharpe ratio of 72%, as a result of the large losses reported in 2009. We expect volatility through the cycle to decline from historical levels driven by the group's risk mitigating actions and improvements in quality and diversification of exposure. Nevertheless, we believe volatility will likely still remain as a result of the inherent cyclical nature of the credit insurance industry and the economic volatility.

We expect underwriting profitability will likely remain good supported by the group's improved quality of exposure, the reduction of downside risks in Europe, modest growth in turnover and improvement in reinsurance commissions.

We expect the group's turnover to benefit from the modest recovery in Europe, albeit this will likely be partly offset by heightened price pressure. The group's turnover increased by 6.4% to around EUR 1,612 million in YE 2014 driven by substantial growth out of Europe, which is in stark contrast to the trend exhibited in recent years (premiums down by 2% in 2013 to EUR1.4 billion).

The group's reported net combined ratio has consistently improved over recent quarters to a very strong reported net combined ratio of 77.5% at YE 2014 (YE 2013: 82%). This has been mainly driven by the significant improvement in Spain's profitability at CyC following the positive impact of the risk mitigating actions and gradual improvement in economic outlook. The net reported combined ratio in CyC has consistently improved since 2013 to a exceptionally strong 59.8% at YE 2014, down from 79.6% at YE 2013 (YE2012: 102%, YE2011: 108%). We expect CyC's loss ratios to remain strong in line with Spain's economic recovery even though we expect some deterioration from the exceptionally low levels hit in 2014. Nevertheless, we note that loss ratios in Spain can still remain more volatile than the rest of European.

Reserve Adequacy: Baa - GOOD RESERVE RELEASES LIKELY TO CONTINUE IN LINE WITH BENIGN ECONOMIC OUTLOOK, BUT VOLATILE RECORD IN THE PAST

Atradius has reported reserve releases in the last five years, which we expect will continue in the next 18 months as the economic outlook continues to improve. Nevertheless, the sharp deterioration in the economic environment in 2008 led to a significantly negative reserve development. Reserve development in Spain has improved significantly since 2012, nevertheless negative reserve development was a consistent feature for a number of years post 2008. Furthermore, the reserve development in bonding has been somewhat volatile, although this is a modest product in the context of the group.

Financial Flexibility: A - EXCELLENT FINANCIAL LEVERAGE METRICS, PARTIALLY CONSTRAINED BY ACCESS TO CAPITAL MARKETS

Financial leverage at Atradius was low at around 22% at year-end 2013 with a good earnings cover of 9.0x. The five-year average earnings coverage was lower at 5x due to the losses incurred in 2009. Atradius issued a EUR250 million Tier II subordinated bond and called EUR120 million last September.

We estimate a moderate deterioration in the group's leverage and earnings cover ratios, albeit both metrics remain commensurate with an A levels. We estimate the group's leverage to increase by around 2% to a pro-forma 24% at year-end and earnings coverage to decrease by nearly 2x to a pro-forma 7.3x at year-end 2013..

Although Atradius remains insulated from potential credit pressures from its parent GCO, we think that the ownership of GCO, whose credit quality we see as partly constrained by Spain's sovereign bond rating (Baa2 POS), can weigh on Atradius' access to debt markets at a time of stress.

Other Considerations

Atradius' A3 IFSR reflects the group's standalone credit fundamentals, which reflects the group's insulation from potential ownership constraints from GCO. We believe GCO remains committed to maintaining strong capitalization in Atradius, given the confidence-sensitive nature of the credit insurance industry, as evidenced by the low dividends payments received from Atradius since 2008. Furthermore, GCO is currently well capitalized (consolidated solvency I ratio: up to 499% at YE 2014) and its traditional businesses have a low-risk business profile, a strong track record of profitability (Combined ratio consistently below 90%) and very modest financial leverage.

GCO's asset quality is largely dominated by fixed income. Nevertheless, like a number of domestic insurers, its domestic traditional businesses have a significant exposure to Spanish investments representing around 55% of the Group's fixed income portfolio at year-end 2014 which match its domestic life technical liabilities.

Rating Factors

Atradius NV[1]

Financial Strength Rating Scorecard [1]	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**	**Caa**	**Score**	[2]**Adjusted Score**
Business Profile								**A**	**A**
Market Position, Brand and Distribution (10%)								**A**	**A**
Market Share			**X**						
Distribution and Access to New Markets			**X**						
Product Risk and Diversification (20%)								**A**	**Baa**
Business Diversification				**X**					
Flexibility of Underwriting					**X**				
Risk Diversification		**X**							
Financial Profile								**A**	**A**
Asset Quality (15%)								**Aaa**	**A**
High Risk Assets % Shareholders' Equity	**23.6%**								
Reinsurance Recoverables % Shareholders' Equity		**50.9%**							
Goodwill & Intangibles % Shareholders' Equity	**18.3%**								
Capital Adequacy (20%)								**Aa**	**A**
Net Total Exposure % Shareholders' Equity			**208x**						
Net Underwriting Leverage		**103.8%**							

Profitability (20%)								**Baa**	**Baa**
Combined Ratio (5 yr. avg)				**89%**					
Sharpe Ratio of Return On Capital (5 yr. avg)					**X**				
Reserve Adequacy (5%)								**Caa**	**Baa**
Worst Reserve Development (last 10 years, % of Initial Reserves)							**X**		
Financial Flexibility (10%)								**A**	**A**
Financial Leverage		**21.8%**							
Earnings Coverage (5 yr. avg)					**5x**				
Operating Environment (0%)								**Aaa-Aa**	**Aaa-Aa**
Aggregate Profile								**A2**	**A3**

[1] Information based on IFRS financial statements [2] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis

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