

Rating Action: Moody's upgrades Atradius' IFS rating to A2, outlook stable

Global Credit Research - 07 Mar 2018

London, 07 March 2018 -- Moody's Investors Service, ("Moody's") has today upgraded the Insurance Financial Strength (IFS) rating of Atradius N.V.'s (Atradius) main operating subsidiaries, including Atradius Credito y Caucion S.A. (ACyC), Atradius Trade Credit Insurance Inc. (ATCI, USA) and Atradius Reinsurance DAC (AtradiusRe, Ireland) to A2 from A3. In addition, Moody's has upgraded the backed subordinated notes issued by Atradius Finance B.V. to Baa3(hyb) from Ba1(hyb). The outlook is stable.

This rating action concludes Moody's review for upgrade of Atradius' ratings, initiated on 13 December 2017. A complete list of the ratings impacted by this action is included at the end of this document.

RATINGS RATIONALE

The rating action reflects steady strengthening of Atradius' financial profile over the past five years, including strong and consistent profitability, strengthening capital adequacy and improvements in its risk management and reserving practices. In addition, Atradius has upheld its strong market position as the second largest global trade credit insurer, and continues to invest in defending and strengthening its market position. These strengths are partially offset by Atradius' limited diversification beyond credit insurance, its meaningful exposure to the Spanish economy (Government of Spain, Baa2 stable), especially in terms of contribution to profit (21% premiums generated in Iberia during 2017) via ACyC, the group's main operating company, domiciled in Spain.

In terms of profitability, Moody's stated that the group's combined ratio had remained consistently strong, averaging approximately 79% over the past five years, in part driven by the strengthening of the Spanish economy, but also due to Atradius' improved cost efficiencies and stricter underwriting. Atradius was also able to avoid some of the recent losses that some of its peers experienced on their emerging markets exposures. Moody's noted that Atradius' profitability remains susceptible to economic cycles and could become more volatile if economic conditions deteriorated.

Notwithstanding the inherent cyclicity of the credit insurance sector, Atradius has taken tangible steps to limit the volatility of its underwriting results, including reducing its exposure to the Iberian market to approximately 16% as of year-end 2017 from 24% in 2011. In addition, Atradius has strengthened its underwriting practices, evaluation of buyer risk, and overall enterprise risk management, which we expect will contribute to less volatile profitability through the cycle.

Regarding capital, Atradius has continued to build up its capitalisation, thanks to its relatively high retained earnings which has allowed the company to reinvest a significant portion of its profits into the business. Net underwriting leverage, a measure of insurance premiums relative to equity, has improved to approximately 0.9x at year-end 2016 from 1.2x at year-end 2012, and remains significantly stronger than pre-2008 levels. Atradius' solid capitalisation is supported by a robust reinsurance program, that includes quota-share and excess-of-loss facilities that protect the group's profitability and capital in the event of high-loss scenarios.

In 2017 the College of Supervisors (Spanish DGSFP and Irish CBI) approved the Partial Internal Model (PIM), allowing GCO to use it for the underwriting risk requirements of credit and bonding lines of business.

Atradius has consistently reported reserve releases in the past eight years, demonstrating meaningful improvement compared to the period after the 2008 financial crisis when the company had to strengthen reserves. The group has made significant progress in aligning reserving policies and practices on its Spanish book with Atradius more broadly, which represents a materially more conservative approach to reserving than had been in place during the Spanish sovereign crisis.

The A2 IFS ratings of Atradius' main operating entities are positioned above the credit profile of its parent, Grupo Catalana Occidente (GCO). GCO is a Spanish insurance group with its business split approximately evenly between Spanish retail Life and P&C insurance and globally diversified credit insurance through Atradius, of which it has a 83% shareholding. The credit profile of GCO is constrained by the Spanish sovereign rating (Government of Spain, Baa2 stable), because of its investment concentration in Spanish

sovereign bonds. Although Atradius' ratings are linked to the rating of Spain, the global nature of its business and minimal exposure to Spanish assets limits the constraint on Atradius' ratings.

WHAT COULD CHANGE THE RATING UP OR DOWN

While there is currently limited potential for upward pressure on Atradius' IFS rating, given its position at three-notches above the rating of the Spanish sovereign, Moody's noted that the following factors could enhance Atradius credit profile relative to peers: (i) meaningful improvement in market share without deterioration in profitability and quality of exposure, (ii) improvement in the group's business diversification towards a higher proportion of fee-based services, and (iii) reduced exposure to Spain, both in terms of the extent of the group's earnings generated in Spain, and indirect affiliation through its parent, GCO.

Conversely, Moody's noted that the following factors could place downward pressure on Atradius' ratings: (i) material deterioration in underwriting profitability, with a 5-year combined ratio consistently above 95% through-the-cycle, (ii) material decline in capital adequacy, including Solvency II capital coverage consistently below 175% and/or considerable volatility in stressed scenarios, (iii) significant erosion of the company's market position and franchise, and (iv) meaningful weakening in the credit profile of GCO or the Spanish sovereign.

LIST OF AFFECTED RATINGS

Upgraded:

Issuer: Atradius Credito y Caucion S.A.

...Insurance Financial Strength Rating, upgraded to A2 from A3

...ST Insurance Financial Strength Rating, upgraded to P-1 from P-2

Outlook Action:

...Outlook, Changed to Stable from Rating Under Review

Issuer: Atradius Finance B.V.

...BACKED Subordinate, upgraded to Baa3(hyb) from Ba1(hyb)

Outlook Action:

...Outlook, Changed to Stable from Rating Under Review

Issuer: Atradius Reinsurance DAC

...Insurance Financial Strength Rating, upgraded to A2 from A3

Outlook Action:

...Outlook, Changed to Stable from Rating Under Review

Issuer: Atradius Trade Credit Insurance Inc.

...Insurance Financial Strength Rating, upgraded to A2 from A3

Outlook Action:

...Outlook, Changed to Stable from Rating Under Review

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Global Trade Credit Insurers published in April 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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