MOODY'S
INVESTORS SERVICE

CREDIT OPINION
21 November 2019

Update

Rate this Research

RATINGS

Atradius N.V.

Domicile	AMSTERDAM, Netherlands
Long Term Rating	Not Available
Type	Not Available
Outlook	Not Available

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Atradius N.V.

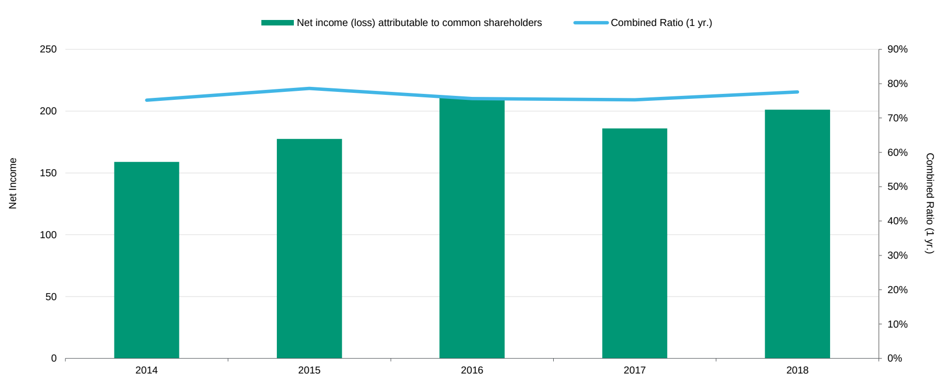
Update to credit analysis

Summary

The A2 Insurance Financial Strength Ratings (IFSR) of Atradius N.V.'s (Atradius) main operating companies reflect its strong market position as the second largest global credit insurer, strong profitability, which has steadily improved over the past six years, low asset risk due to its high quality investment portfolio, strong capital adequacy, and good risk management and reserving practices. These strengths are partially offset by Atradius' limited diversification beyond credit insurance, its exposure to the Spanish economy (Government of Spain, Baa1 stable), especially in terms of contribution to profit (23.4% premiums generated in Iberia during 2018) via Atradius Credito y Caucion S.A. (ACyC), the group's main operating company, domiciled in Spain.

The A2 IFSR 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 an even distribution between Spanish retail Life and P&C insurance, and globally diversified credit insurance through Atradius, of which it has an 83% shareholding. The credit profile of GCO is constrained by the Spanish sovereign rating of Baa1, 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 invested assets limits the constraint on Atradius' ratings.

Exhibit 1
Net Income and Combined ratio, gross (1 yr.)
Good profitability, although some recent pressure on combined ratio



Source: Company reports and Moody's Investors Service

Credit Strengths

» Leading market position as the second largest global credit insurer

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

» Strong capitalisation, with low net underwriting leverage and moderate credit limit exposure relative to capital

» Dynamic management of exposure and effective underwriting risk monitoring tools

Credit Challenges

» Pursuing growth in revenues whilst maintaining a strong underwriting discipline in the challenging global macro economic environment

» Limited diversification beyond credit insurance exposes the company to deterioration in the economic environment

» A relatively high exposure to Spain which, although currently showing strong loss ratios against the backdrop of an improved economic outlook, has a track record of volatile profitability

Outlook

The outlook is stable, reflecting Atradius' consistently strong business and financial profile.

Factors that Could Lead to an Upgrade

The following factors could place upward pressure on Atradius' credit profile relative to peers:

» Meaningful improvement in market share without deterioration in profitability and quality of exposure

» Improvement in the group's business diversification towards a higher proportion of fee-based services

» Increased geographic diversification

Factors that Could Lead to a Downgrade

The following factors could place downward pressure on Atradius' ratings:

» Material deterioration in underwriting profitability, with a 5-year combined ratio consistently above 95% through-the-cycle

» Material decline in capital adequacy, including Solvency II capital coverage consistently below 175% and/or considerable volatility in stressed scenarios

» Significant erosion of the company's market position and franchise

» Meaningful weakening in the credit profile of GCO or the Spanish sovereign

Key Indicators

Atradius N.V. [1] [2]	2018	2017	2016	2015	2014
As Reported (Euro Millions)					
Gross Premiums Written	1,672	1,612	1,565	1,554	1,504
Net Premiums Written	998	930	900	877	843
Net income (loss) attributable to common shareholders	203	186	212	178	161
Total Shareholders' Equity	1,821	1,753	1,626	1,500	1,393
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	19.0%	22.1%	22.4%	30.1%	35.4%
Reinsurance Recoverable % Shareholders' Equity	34.4%	34.9%	38.9%	47.5%	49.7%
Goodwill & Intangibles % Shareholders' Equity	17.3%	16.8%	17.7%	15.8%	16.6%
Net Total Exposure % Shareholders' Equity	219.6x	210.9x	213.4x	218.8x	215.1x
Net Underwriting Leverage (Credit Insurers)	90.0%	86.8%	90.8%	99.9%	101.0%
Combined Ratio (1 yr.)	77.6%	75.3%	75.7%	78.6%	75.2%
Sharpe Ratio of ROC (5 yr. avg)	1288.2%	1207.8%	934.8%	1293.7%	1241.2%
Financial Leverage	19.4%	19.7%	21.3%	19.6%	22.4%
Total Leverage	22.0%	22.4%	24.2%	22.8%	25.7%
Earnings Coverage (1 yr.)	12.1x	12.1x	13.0x	13.3x	16.6x

[1]Information based on IFRS financial statements as of Fiscal YE December 31. [2]Certain items may have been relabeled and/or reclassified for global consistency.
Source: Moody's Investors Service

Profile

Atradius N.V. (Atradius) is the Netherlands based holding company for the group of insurance operating companies that primarily include Atradius Crédito y Caución S.A. de Seguros y Reaseguros (ACyC), Atradius Trade Credit Insurance Inc. (ATCI, USA) and Atradius Reinsurance DAC (AtradiusRe, Ireland). At the end of 2016, Atradius N.V. completed the merger of its two European credit insurance entities, Atradius Credit Insurance (ACI) and Compañía Española de Seguros y Reaseguros de Crédito y Caución, S.A.U. (CyC) into one single legal entity, ACyC. On completion of the merger, ACI has ceased to exist

Grupo Catalana Occidente (GCO, unrated), the parent of Atradius, owns 83% of its capital. GCO is a listed Spanish insurance group with a diversified portfolio of life and non-life insurance operations, including credit insurance. The group operates through several insurance entities and brands, including Atradius. During the first nine months of 2019, GCO reported €1,426 million (+7%) and €179 million (+17%) in premiums and recurring results for its Credit insurance business respectively.

Detailed credit considerations

Moody's rates Atradius A2, stable, for insurance financial strength, which is two notches below the Aa3 unadjusted score produced by Moody's rating scorecard, and this difference primarily reflects Atradius' limited diversification beyond credit insurance, an inherently cyclical industry, elevated exposure to Spain and Portugal, and partial linkage to GCO and therefore the Spanish sovereign.

Market Position and Distribution: Strong franchise as top tier insurer in the global credit insurance market

As the second largest trade credit insurer by premiums (25% of 2017 global credit insurance premiums, according to the latest available data compiled by the International Credit Insurance & Surety Association, "ICISA"), Atradius has a very strong position in the global credit insurance market.

Consistent with its credit insurance peers, third-party brokers (80% of premiums) are Atradius' main form of distribution, followed by direct sales through tied agents (18.9% of premiums). Tied agents comprise a meaningful portion of the group's distribution capabilities, particularly in Spain, where it has a strong distribution network. In addition to its primary credit insurance business, Atradius provides reinsurance to a number of smaller credit insurers, through its Irish based reinsurer, Atradius Re, which further broadens its market access and adds to the diversification of its portfolio. However, despite its direct sales and reinsurance business, Atradius remains heavily dependent on third-party brokers, a feature that we believe reduces the group's ability to control pricing and access to markets.

Notwithstanding Atradius' very strong position in the credit insurance market, we believe the group's overall franchise strength is somewhat constrained by its limited diversification beyond credit insurance, an industry that we view as highly competitive and exposed to economic cycles.

Product Risk and Diversification: Strong sector and country diversification amongst insured exposures, but limited diversification beyond credit insurance

Consistent with its peers, Atradius is heavily focused on credit insurance, with approximately 87% of its 2019 9M revenues being sourced from business lines related to credit insurance or bonding. The remainder of its revenue comprises fee income, including from credit assessment fees, debt collection and information services, as well as fee income it earns for the export credit guarantee business it conducts as an agent of the Dutch state. As a specialist credit insurer, Atradius' product risk focus is typically dependent on market-specific credit and economic dynamics. The group's exposure is granular and well diversified by country and by sector, although Atradius has elevated concentrations to certain regions. For the first nine months of 2019, the group's largest country exposures were Germany (13.9%), Spain (13.7%), USA (7.9%), France (7.2%) and UK (6.6%).

Atradius had meaningfully 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. Furthermore, following the risk mitigating actions and Spain's economic recovery, Atradius has consistently reported exceptionally low claims ratios in this region. We expect loss ratios in Spain to remain low, reflecting the economic recovery in Spain, albeit higher than the very low levels seen in recent years and remain more volatile compared to rest of the group.

Atradius has exposure to multi-year policies which could potentially restrict the flexibility of underwriting, however we believe this risk is mitigated by the fact that the vast majority of such policies still have cancelable limits. Many multi-year policies also contain break clauses or premium surcharge features that allow the group to either cancel the policy or change pricing or policy features if the claims environment deteriorates substantially. While multi-year policies could have a negative impact on underwriting flexibility, they also benefit the group as a protection against price decreases, and year-to-year competition to secure renewal business. Similar to its peers, Atradius has a small special products business that provides non-cancelable trade credit insurance. The absence of cancelable limits is a negative, however, it is largely offset by more stringent policy conditions and underwriting relative to policies with cancelable limits.

Asset Quality: High quality, conservative investment portfolio adds strength to balance sheet

Asset quality is a key credit strength for Atradius, and reflects a modest level of investment risk and low level of intangible assets, slightly offset by an elevated level of reinsurance recoverables, relative to peers. The group's high-risk assets as a percentage of shareholders' equity is very low at 19% as at YE2018, and is comprised mainly of equities. The majority of the portfolio is comprised of high-quality short-term and fixed income securities, with no exposure to investments in Eurozone peripherals.

Reinsurance recoverables have decreased significantly in recent years, down to 34.4% of shareholders' equity at YE2018, and reflect the growth in Atradius' equity capital and decreasing reliance on quota share reinsurance. The group benefits from strong and long-standing relationships with its panel of quality reinsurers that provides a valuable source of capital and loss management capacity in down cycles. Atradius' reinsurance exposure is to strong reinsurance counterparties, rated single-A or higher, mitigating the credit risk associated with the group's reinsurance recoverables.

Moody's also considers Atradius' liquidity to be good, as the group's assets are predominantly invested in high-quality and liquid assets with relatively short durations. In addition, reinsurance treaties benefit from certain liquidity covenants (e.g. cash call agreements) enabling the group to settle large claims in a very short period of time, if necessary.

Atradius holds a moderate amount of intangible assets, at 17% of shareholders' equity at YE2018.

Capital Adequacy: Strong capital adequacy metrics supported by high quality of capital and robust reinsurance program

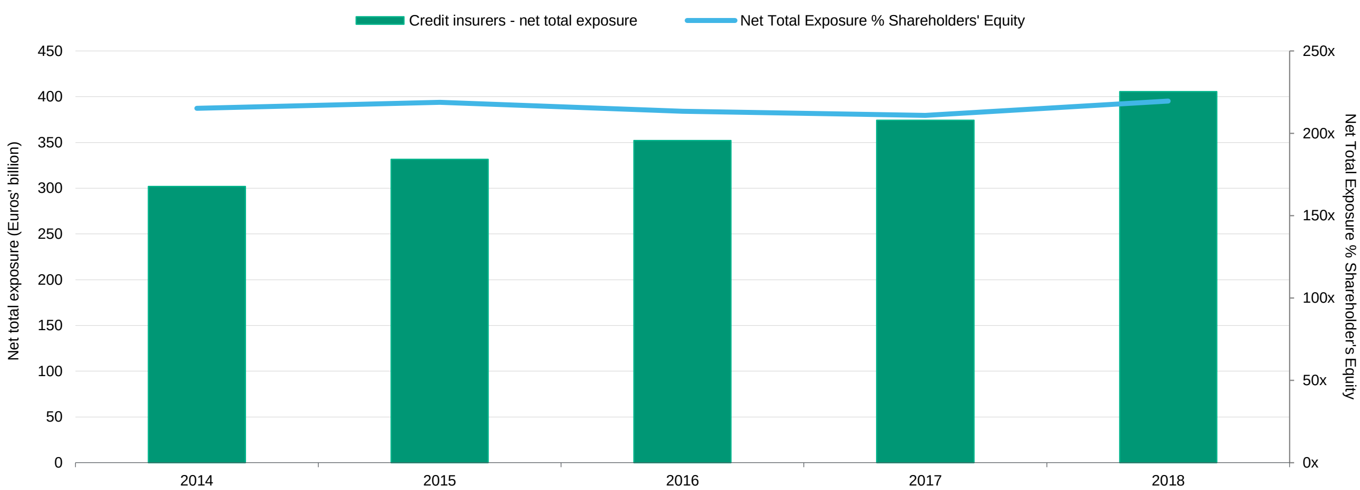
Moody's views Atradius' capitalization as strong, driven by strong capital metrics and good quality of capital. The group's net exposure relative to shareholders equity has increased slightly to 220x in 2018 (2017: 211x) mainly reflecting an increase in Atradius TPE (Total Potential Exposure) of around 5%. In particular, increased exposure in Asia where the business continues to grow. Net underwriting leverage, a measure of insurance premiums relative to equity, increased (deteriorated) slightly, to 0.90x at year-end 2018 from 0.87x at year-end 2017, although it remains significantly lower than pre-2008 levels and more recent years (e.g. 1.19x at year-end 2012).

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. 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. As of year-end 2018, Atradius N.V.'s Solvency II coverage ratio, under the PIM, was in excess of 200%.

Shareholders' equity has increased significantly over recent years, to €1.8 billion at YE 2018, up from €0.9 billion at YE 2009. The primary drivers of the growth in equity included robust earnings, and a conservative dividend policy, post-financial crisis. The group has improved its risk management framework, including more conservative limits on insured exposure relative to equity, and a focus on improved insured portfolio quality, including increased geographic diversification, and significant reductions in the exposure to lower-rated buyers and countries with more difficult operating environments.

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. For the first nine months of 2019 Atradius ceded 38% of its traditional business to reinsurers under its quota-share agreements, a reduction of 2% compared to 2018 year end.

Exhibit 3
Net Total Exposure and Net Total Exposure % Shareholders' Equity



* Estimated based on the reported gross total exposure and the premium retention rate
Source: Company reports and Moody's Investors Service

Profitability: Good profitability through-the-cycle despite susceptibility to periods of volatility
Atradius' underwriting profitability has remained strong in recent years, with the group's combined ratio improving to 75.8% in the first nine months of 2019 from 77.6% at year-end 2018, in part driven by the strengthening of the Spanish economy and still low global insolvency levels, but also due to Atradius' improved cost efficiencies and stricter underwriting.

Consistent with peers, our view of Atradius' profitability is tempered by the intrinsic volatility of credit insurance through the cycle. However, Atradius has taken tangible steps to limit the volatility of its underwriting results, including reducing its exposure to the Iberian market to approximately 15% as of 2018 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.

We expect the loss ratios of the Spanish business to remain strong in line with Spain's economic recovery. However, a slight deterioration is expected, compared to the low levels reported in previous years. Nevertheless, we note that loss ratios in Spain are still potentially more volatile than some other large Eurozone countries. In addition, we note that rates in continental Europe have remained under pressure at a time of tepid growth, which we believe will likely weigh on underwriting profitability in the next 12 months.

Reserve Adequacy: Short-tail business and consistent positive reserve development moderates reserving risk
Atradius has reported consistent reserve releases in the last eight years, demonstrating meaningful improvement compared to the period after the 2008 financial crisis when the company had to strengthen reserves. While the group's Spanish exposures were a large contributor to the adverse development, reserve development on the Spanish book has been on an improving trend since 2012. The

group's reserves on its bonding business have been somewhat volatile, although the exposure to bonding remains modest relative to the group's overall exposures.

Atradius' good reserving practices, together with strong performance of the Spanish book, in the current benign economic environment, have contributed to favourable reserve development. However, recent developments in the global economic environment point to an elevated potential for deterioration of the operating environment and headwinds for credit insurers - possibly increasing pressure on the group's reserves and testing the enhancements made to its reserving and risk management framework in recent years. That notwithstanding, we believe the more conservative reserving stance reduces the risk of material reserve increases.

Financial Flexibility: Very strong stand-alone financial flexibility constrained by linkage to Spain

Atradius' standalone financial flexibility metrics are very strong, with Moody's adjusted financial leverage of 19.4% at YE 2018 and earnings coverage of debt service at 12.1x (5yr average: 13.4x) as of the same date. The group's capital structure consists of Tier I equity capital, along with €250 million in subordinated notes, guaranteed by Atradius N.V. and a €75 million subordinated loan of Atradius Re, which qualify as Tier II capital.

Notwithstanding our view that Atradius remains partially insulated from potential credit pressures at its parent we believe that its ownership by GCO creates a link between the credit profile of Atradius and its parent, GCO, which could create potential headwinds for Atradius' access to capital markets in times of stress. Therefore, because of the link to GCO and domicile of its most material operating company, ACyC, in Spain, Atradius' financial flexibility is constrained at the rating of the Spanish sovereign (Baa1, stable), notwithstanding its very strong financial flexibility on a standalone basis.

Rating methodology and scorecard factors

Atradius N.V.

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								A	A
Market Position and Brand (10%)								A	A
- Relative Market Share Ratio			X						
- Distribution and Access to New Markets			X						
Product Focus and Diversification (20%)								A	A
- Business Diversification				X					
- Flexibility of Underwriting			X						
- Risk Diversification		X							
Financial Profile								Aa	A
Asset Quality (15%)								Aaa	Aa
- High Risk Assets % Shareholders' Equity	19.0%								
- Reinsurance Recoverable % Shareholders' Equity	34.4%								
- Goodwill & Intangibles % Shareholders' Equity	17.3%								
Capital Adequacy (20%)								Aa	A
- Net Total Exposure % Shareholders' Equity			219.6x						
- Net Underwriting Leverage (Credit Insurers)	0.9x								
Profitability (20%)								Aa	A
- Combined Ratio (5 yr. avg)			76.5%						
- Sharpe Ratio of ROC (5 yr. avg)	1288.2%								
Reserve Adequacy (5%)								B	A
- Worst Reserve Development for the Last 10 Years % Beg. Reserves						10.2%			
Financial Flexibility (10%)								Aa	Baa
- Financial Leverage		19.4%							
- Earnings Coverage (5 yr. avg)		13.4x							
Operating Environment								Aaa - A	Aaa - A
Aggregate Profile								Aa3	A2

[1]Information based on IFRS financial statements as of Fiscal YE December 31. [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.
Source: Moody's Investors Service

Support and structural considerations

Atradius' A2, stable, IFSR reflects its standalone credit fundamentals and its partial insulation from GCO due to a combination of: (i) its limited correlation with GCO's credit profile due to the different business models within the group, and (ii) Moody's expectation that GCO will remain committed to maintaining Atradius' solid capitalisation. While we consider the partial insulation of Atradius from the GCO group to be meaningful, and sufficient to support our assessment of its credit profile on a standalone basis, there remains a link between the credit profiles of Atradius and its parent, GCO.

GCO's link to, and constraint by, the Spanish sovereign is primarily driven by its fixed income portfolio that has significant exposure to domestic assets, in the extent of 56% of the total portfolio at the end of Q3 2019 . Similar to other domestic Spanish insurers, GCO maintains significant domestic assets to match its domestic life insurance technical liabilities. GCO is currently well capitalized (consolidated Solvency II ratio: 207% at YE 2018, without transitionals) and its traditional businesses have a low-risk business profile, a strong track record of profitability (combined ratio consistently below 90% in its credit insurance business) and very modest financial leverage.

The backed subordinated notes issued by Atradius Finance B.V. are rated Baa2(hyb), stable, three notches below Atradius's A2, stable, IFS rating, and reflects the unconditional and irrevocable subordinated guarantee from Atradius N.V. In addition, the notes benefit from narrower notching between the ratings of the holding company (Atradius N.V.) and the operating entities (ACyC) due to the holding company being within the ambit of enhanced regulatory supervision under a Solvency II regime.

The P-1, stable, short term IFSR of ACyC reflects its solid liquidity including a highly liquid investment portfolio of relatively short duration, supported by contractual accommodations specific to credit insurers, such as simultaneous settlement provisions in reinsurance agreements which provide the Group with additional sources of liquidity in the event of large claims.

Environmental, Social and Governance (ESG)

Governance

Like all other corporate credits, the credit quality of Atradius is influenced by a wide range of governance-related issues, relating to financial, managerial, ownership or other factors, all of which can be exacerbated by regulatory oversight and intervention.

While Atradius is exposed to a wide range of complex risks, the group has good risk management processes and internal controls that mitigate various governance risks. Under the oversight of its Board of Directors, the group's management team has a strong track record and experience.

Ratings

Exhibit 5

Category	Moody's Rating
ATRADIUS CREDITO Y CAUCION S.A.	
Rating Outlook	STA
Insurance Financial Strength	A2
ST Insurance Financial Strength	P-1
ATRADIUS TRADE CREDIT INSURANCE INC.	
Rating Outlook	STA
Insurance Financial Strength	A2
ATRADIUS REINSURANCE DAC	
Rating Outlook	STA
Insurance Financial Strength	A2
ATRADIUS FINANCE B.V.	
Rating Outlook	STA
BACKED Subordinate	Baa2 (hyb)

Source: Moody's Investors Service

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