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### Research Update:

## Grupo Catalana Occidente Core Operating Entity Ratings Affirmed At 'A-' After Sovereign Downgrade; Outlook Still Stable

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## Research Update:

# Grupo Catalana Occidente Core Operating Entity Ratings Affirmed At 'A-' After Sovereign Downgrade; Outlook Still Stable

## Overview

- On April 26, 2012, we downgraded the Kingdom of Spain to 'BBB+/A-2' from 'A/A-1', and maintained a negative outlook.
- Under our criteria, we allow up to a two-notch differential between the ratings on the core operating entities of Spanish insurance group Grupo Catalana Occidente, S.A. y Sociedades Dependientes (GCO) and the ratings on the Spanish sovereign, owing to GCO's exposure to higher-rated eurozone sovereigns through its trade credit insurance business.
- We are therefore affirming the 'A-' rating on GCO's core operating entities.
- The stable outlook reflects our belief that GCO will continue to demonstrate resilience in both revenues and earnings.

## Rating Action

On April 30, 2012, Standard & Poor's Ratings Services affirmed its 'A-' long-term counterparty credit and financial strength ratings on the core operating entities of Spanish insurance group Grupo Catalana Occidente, S.A. y Sociedades Dependientes (GCO). The outlook on all entities is stable.

The core operating entities are:

- Spain-based Seguros Catalana Occidente, S.A. de Seguros y Reaseguros, Bilbao Compañía Anonima de Seguros y Reaseguros, S.A., and Compañia Espanola de Seguros y Reaseguros de Credito y Caucion S.A.;
- Netherlands-based credit insurer Atradius Credit Insurance N.V. (Atradius);
- Ireland-based Atradius Reinsurance Ltd.; and
- U.S.-based Atradius Trade Credit Insurance Inc.

## Rationale

The affirmation of GCO's core operating entities follows the downgrade of the Kingdom of Spain to 'BBB+/A-2' from 'A/A-1' on April 26, 2012 (see "Ratings On Spain Lowered To 'BBB+/A-2' On Debt Concerns; Outlook Negative," published on RatingsDirect on the Global Credit Portal).

Under our criteria, we allow up to a two-notch differential between the ratings on the core operating entities of GCO and the ratings on the Spanish sovereign (see "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions", published June 14, 2011). This is based on GCO's

significant exposure to higher-rated eurozone sovereigns through its trade credit insurance business. The two-notch rating differential is also based on the sovereign's current rating level, GCO's geographic diversification, and the insurance sector's sensitivity to country risk, which we consider to be high.

The ratings on GCO reflect our view of its strong operating performance, strong competitive position, and strong capitalization. We consider these factors to be partly offset by GCO's only good quality of capital. A further constraint is the inherent volatility of the credit insurance business and its sensitivity to swings in economic cycles.

We believe that GCO will maintain its strong competitive position, with revenues in both main business areas remaining stable in 2012 despite the uncertain economic environment, and also maintain a sound earnings track record. We expect a slight deterioration in the group's trade credit insurance business results, but expect its combined ratio to remain below 95% in 2012. (Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.) We estimate net income for 2012 to be in excess of €150 million.

We consider that sovereign downgrade has had limited impact on GCO's group capitalization, which remains strong. We do not expect capitalization to decrease below its current level in 2012, as we believe that strong retained earnings will reinforce the group's capital base.

## Outlook

The stable outlook reflects our belief that GCO will continue to demonstrate resilience in both revenues and earnings.

We could lower the ratings if:

- We lower the long-term rating on the Kingdom of Spain by more than two notches;
- The adverse economic environment has a stronger impact on GCO's profitability than we currently expect, particularly through the performance of Atradius; or
- The group's capitalization falls to levels that we no longer consider to be supportive of the ratings.

Based on current information, we consider the potential for an upgrade as unlikely, given the maximum two-notch differential between the ratings on GCO and the long-term rating on the sovereign, which currently has a negative outlook.

## Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Group Methodology, April 22, 2009
- Interactive Ratings Methodology, April 22, 2009
- Ratings On Spain Lowered To 'BBB+/A-2' On Debt Concerns; Outlook Negative, April 26, 2012

## Ratings List

Ratings Affirmed

Seguros Catalana Occidente S.A. de Seguros y Reaseguros  
Compania Espanola de Seguros y Reaseguros de Credito y Caucion S.A.  
Bilbao, Compania Anonima de Seguros y Reaseguros S.A.  
Atradius Trade Credit Insurance Inc.

Atradius Reinsurance Ltd.

Counterparty Credit Rating	A-/Stable/--
Financial Strength Rating	A-/Stable/--

Atradius Credit Insurance N.V.

Counterparty Credit Rating	A-/Stable/A-2
Financial Strength Rating	A-/Stable/--

Atradius Finance B.V.

Subordinated*	BBB
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\*Guaranteed by Atradius N.V. and Atradius Credit insurance N.V.

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