

Catalana Occidente Group

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Catalana Occidente Group

Please note that the ratings covered by this full analysis apply only to core entities of the group, which are listed below. These ratings do not apply to any noncore or unrated entities of the group. Ratings assigned to noncore entities of the group are published individually.

Major Rating Factors

Strengths:

- Strong operating performance.
- Strong competitive position.
- Improved capital adequacy to strong levels.

Weaknesses:

- Only good quality of capital due to strong reliance on "soft" forms.
- Inherent volatility of the credit insurance business and vulnerability to swings in economic cycles.

Operating Companies Covered By This Report

Financial Strength Rating

Local Currency

A-/Stable/--

Rationale

The ratings on the core operating entities of Spain-based insurance group Grupo Catalana Occidente, S.A. y Sociedades Dependientes (GCO) reflect Standard & Poor's Ratings Services' view of its strong operating performance, strong competitive position, and improved capital adequacy to strong levels.

We consider these factors to be partly offset by GCO's only good quality of capital, due to strong reliance on "soft" forms. A further constraint is the inherent volatility of the credit insurance business, in which GCO competes, and its vulnerability to swings in economic cycles.

We consider the core operating entities of GCO to be Spain-based Seguros Catalana Occidente S.A. de Seguros y Reaseguros (Seguros Catalana Occidente), Bilbao Compañía Anonima de Seguros y Reaseguros S.A. (Seguros Bilbao), Netherlands-based credit insurer Atradius Credit Insurance N.V. (Atradius), Ireland-based Atradius Reinsurance Ltd., U.S.-based Atradius Trade Credit Insurance Inc., and Spain-based credit insurer Compañía Española de Seguros y Reaseguros de Crédito y Caución S.A. (CyC) (all rated A-/Stable).

In our opinion, GCO's operating performance has been strong over the cycle. The 13% five-year average return on equity (ROE) reflects the company's strong earnings track record underpinned by a strong and stable underwriting performance across all noncredit insurance lines. It also takes into consideration the high (though volatile) margins achieved in trade credit insurance, and GCO's prudent investment strategy, which generates recurring strong investment income. We note that earnings from the trade credit business are volatile and cyclical. However, over the ratings cycle, we believe that these factors have been counterbalanced by the weight of the strong and stable noncredit insurance market in Spain. In addition, earnings from the trade credit business lines have allowed GCO to diversify its sources of income.

GCO's strong competitive position is based on its leading position in the international trade credit insurance sector. In Spain it is grounded on the strength of GCO's tied agency network, well-diversified book of business, and strong

brand recognition. We believe the acquisition of Atradius has reinforced GCO's competitive position through greater business and geographical diversification. However, synergies and commercial benefits are hard to achieve between traditional insurance and credit insurance. Therefore we currently see the scope for such synergies as limited.

We view GCO's investments as strong, supported by a conservative strategy, low credit and market risk as well as strong asset and liability management (ALM) practices. GCO has limited exposures to lower-rated European sovereign debt. However, we see a concentration risk in GCO's exposure to some Spanish financial institutions; the three largest accounted for almost 20% of GCO's total adjusted capital at year-end 2010.

We regard GCO's capitalization as strong, based on strong capital adequacy, conservative reserving, and a comprehensive reinsurance program. Moreover, GCO applies a risk-adjusted approach to managing its capital base, an approach that we view as prudent. The offsetting factor is that quality of capital is only good; more than half of capital is in a soft form. We believe that capital adequacy should remain strong, supported by a more normalized level of retained earnings capacity.

Outlook

The stable outlook reflects our expectation that GCO's earnings and capitalization will remain at least in line with the rating.

We expect to see a combined ratio of less than 95% in 2011 and 2012 for both the credit insurance business and other non-life insurance business. Capital adequacy should also remain in the 'A' category, based on our risk-based capital model.

Our expectation also incorporates a moderate total exposure growth in GCO's credit business, ranging between 3% and 5% for 2011. However, we do not expect further tariff increases for this business line. Non-life gross premium written (GPW) in the noncredit business should remain roughly stable this year, reflecting stiff competition in Spain. In the life business, we anticipate that recurring premiums from pure life risk business will grow moderately, between 2% and 4%. At the same time, we believe growth in savings products will continue to be hampered by competition from the attractive yields of banking short-term deposits.

We regard a positive rating action as unlikely in the coming months given the current economic and financial environment. We could consider lowering the ratings if GCO does not achieve the above-mentioned expectations regarding earnings and capitalization. A negative rating action could also occur if GCO's investment portfolio deteriorates and weakens the financial profile, due to the concentration on Spanish assets.

Corporate Profile: A Diverse Insurance Group And One Of Only Two Listed Insurers In Spain

GCO's origins date back to about 1865. Catalana Occidente SA was formed in 1988 from the merger of La Catalana Cia de Seguros and Occidente Cia Espanola de Seguros. Approximately 61% of the shares are held by members of the board, representing interests of the Serra family and others. The remainder is listed on the Spanish stock exchange, making it one of only two listed insurers in Spain. GCO has expanded mainly through a series of acquisitions enabling it to increase GPW from €553 million in 1999 to €2,872 million in 2010. Nowadays, it

encompasses a number of insurance and investment companies. Internationally, GCO has gradually increased its ownership stake in Atradius N.V., the world's second-largest credit insurer. This has increased GCO's direct and indirect economic participation in the combined Atradius/Crédito y Caución (Atradius/CyC) group to 74.1% in January 2010, including the acquisition of 26.7% of the noncontrolling interests from Swiss Reinsurance Company Ltd. (Swiss Re; A+/Stable/A-1) and Deutsche Bank AG (A+/Stable/A-1). The remaining 9.1% was acquired at the same time by Inoc S.A. (not rated), GCO's controlling shareholder. Subsequently, GCO acquired 2.6% of Inoc S.A.'s direct holding in Atradius, raising its participation in Atradius to 93.5%.

In Spain, GCO writes life and non-life business through its subsidiaries Seguros Catalana Occidente, Seguros Bilbao, and Nortehispana, the last of which specializes in the funeral expenses business. Of the other operating subsidiaries, Depsa, S.A. Seguros specializes in legal assistance, Cosalud, S.A. in health, and Catoc Vida in life.

Competitive Position: A Spanish Multiline Insurer With A Leading Position In The International Trade Credit Insurance Market

GCO's strong competitive position is based on its leading position in the international trade credit insurance sector. In Spain it is grounded on the strength of its tied agency network, well-diversified book of business, and strong brand recognition. We believe the acquisition of Atradius has reinforced GCO's competitive position through greater business and geographical diversification. However, synergies and commercial benefits are hard to achieve between traditional insurance and credit insurance. Therefore, we currently see the scope for such synergies as limited.

Table 1

Catalana Occidente Group Competitive Position					
	--Year-ended Dec. 31--				
(Mil. €)	2010	2009	2008*	2007	2006
Total revenues	2,311.6	2,961.4	2,985.3	2,158.3	1,982.9
Non-life: Gross premium written	2,437.0	2,514.4	2,741.5	1,499.9	1,431.8
Non-life: annual change in gross premium written (%)	(3.1)	(8.3)	82.8	4.8	3.8
Life: gross premium written	566.2	661.1	610.1	542.8	507.9
Life: annual change in gross premium written (%)	(14.3)	8.3	12.4	6.9	3.9
Non-life: net premium written	1,445.8	1,795.2	1,972.5	1,276.3	1,213.0
Life: net premium written	561.4	656.9	606.0	538.3	503.2
Annual change in net premium written (%)	(18.1)	(4.9)	42.1	5.7	4.7
Total assets under management	6,099.7	6,596.6	6,592.2	6,195.4	5,883.4
Growth in assets under management (%)	(7.5)	0.1	6.4	5.3	11.3

*Full consolidation of Atradius starting 2008.

Historical

GCO had a market share of just under 4% at the end of 2010 and ranked ninth in the Spanish insurance market. It ranks second among international trade credit insurers behind the leading player Euler Hermes (AA-/Stable), boasting a market share of almost 30%.

GCO's portfolio is reasonably well balanced between traditional business (58% of GPW at the end of 2010) and credit insurance (42%). The traditional business is also well diversified between life insurance (19% of GPW at the

end of 2010), multi risk (14%), and motor (14%, considerably below the Spanish market average). The remaining 11% encompasses the specialist lines of funeral expenses, legal assistance, and health. However, the geographical diversification is more limited; about 72% of premiums are underwritten in Spain and 28% internationally through credit insurance activity.

Chart 1

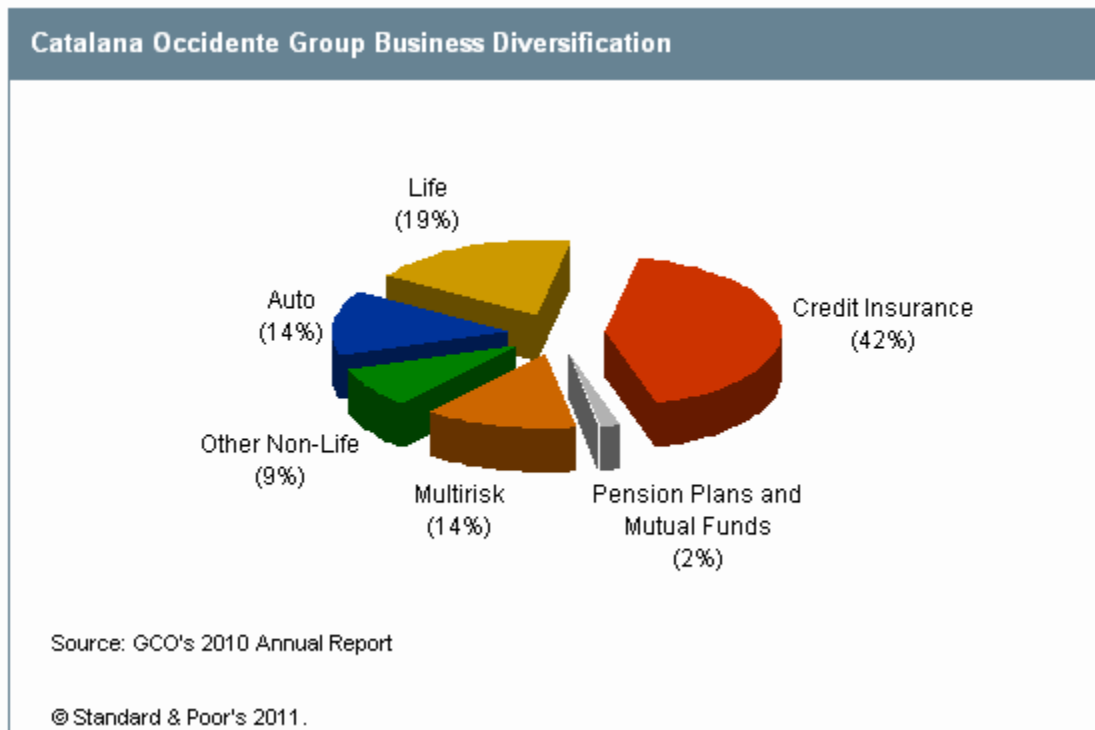
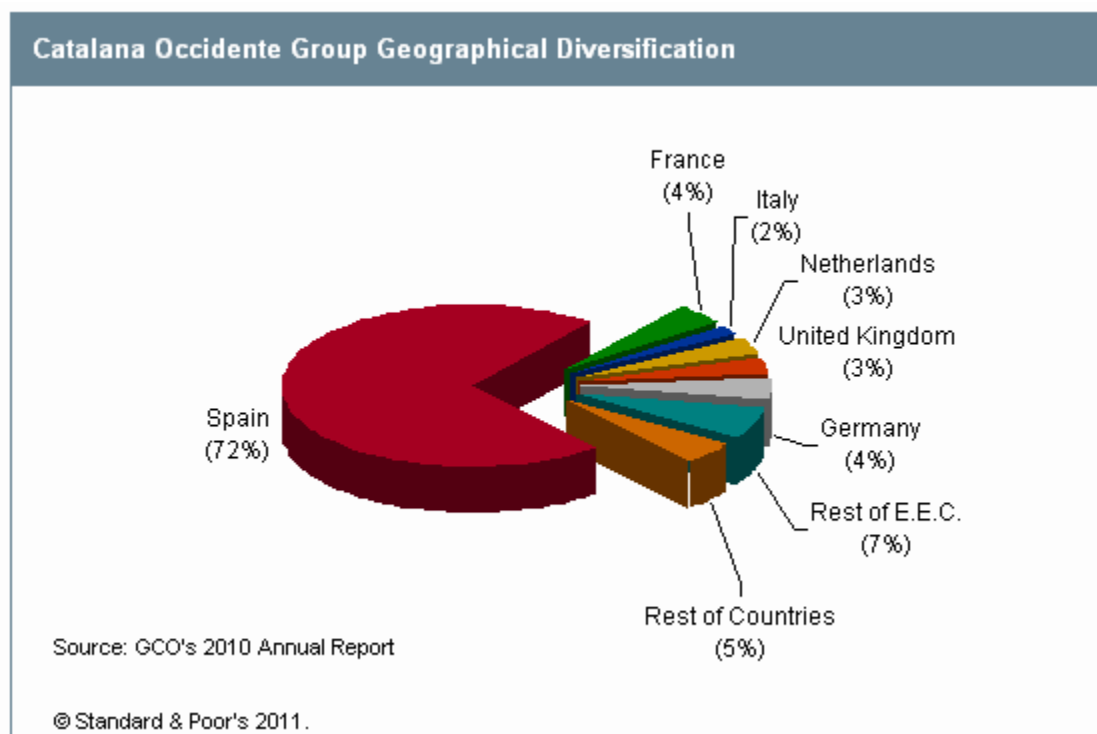


Chart 2



Noncredit insurance

Domestically, one of GCO's main competitive advantages is its own wide network of tied agents, supported by a highly developed database. The strength of the agency network is particularly important in Spain, where contacts with clients are still very much based on trust and face-to-face relationships, especially for non-life insurance. For life insurance, GCO also develops through its tied agent network. Despite the stronghold of bancassurance players in the Spanish market, GCO has a relatively important life portfolio, which generates healthy results.

GCO's competitive position is also reinforced by its brand recognition, which is stronger than all other insurance companies in Catalunya. Seguros Bilbao also has a strong identity within the Basque region, particularly in the small and midsize enterprise sector. However, GCO has to compete with larger players, including Mapfre (AA/Negative), which holds about 40% of the Spanish market. In addition, the traditional Spanish market in non-life is constrained by the country's economic difficulties and intense competition especially in motor business. This limits growth prospects and puts pressure on technical margins. Similarly, growth in life insurance is constrained by competition from banking products.

Trade credit insurance

GCO's competitive position in the credit insurance business is strong, reflecting its no. 2 position in the international trade credit insurance market via Atradius. However, its market share declined in 2008-2009. This was a consequence of strategic portfolio pruning and a more rigorous reduction of exposures compared to peers (total exposure decreased by 46% from its highest point in August 2008 and its lowest point in March 2010). Very few competitors operate in this market, which is characterized by high barriers to entry. Primarily, this is due to the substantial investment required to construct a credible database, capturing the creditworthiness of many thousands of counterparties worldwide.

GCO's strong competitive position is aided by a well-balanced geographical and trade sector spread. The top five countries (Spain, Germany, France, the Netherlands, and the United Kingdom) and the top five sectors accounted for 64% and 52% of the group's total credit insurance exposure at year-end 2010, respectively. The remainder is split among other advanced economies and emerging markets, with the latter steadily increasing in weight. The company now has a better balanced portfolio spread following significant reductions in exposures in the more difficult countries and sectors such as Spain and the construction sector. Compared to peers, GCO has a greater presence in the large global corporate sector, and also in the Spanish SME market (thanks to CyC historical penetration). Spain is one of the largest markets for trade credit insurance worldwide. The company also underwrites reinsurance via Atradius Re and provides related services (such as bonding and debt collection), which further support its diversification. Offsetting these strengths is its reliance on the broker channel.

Prospective

We believe that GCO will maintain its strong competitive position, which is a result of the combination of its multiline operations in Spain and its international trade credit insurance business. In our opinion, the acquisition of Atradius has mitigated the risks associated with geographic concentration in Spain, added significant scale to GCO, and raised its profile internationally. Its competitive position will be further enhanced if it proves able to realize the commercial benefits of this transaction. We believe that synergies with the traditional business of GCO will largely be limited to central functions. This is because cross selling between trade credit insurance and traditional business is almost non-existent due to the differing nature of the distribution channels and client type.

We expect a moderate total exposure growth in GCO's credit business, of between 3% and 5% for 2011. Tariff decreases should be compensated by higher client turnover volumes and new business generation. Non-life GPW in the noncredit business should remain roughly stable this year, reflecting stiff competition in Spain. In the life business, we expect recurring premiums from pure life risk business to grow moderately, between 2% and 4%. At the same time, we believe that growth in savings products will continue to be repressed by competition from the attractive yields of banking short-term deposits.

Management And Corporate Strategy: Stable And Knowledgeable Management Team

The strong and knowledgeable management team exercises a stable and prudent strategy. This is reinforced by its track record of achieving its internal goals and the successful integration of acquisitions. We believe the acquisition of Atradius presented GCO with its greatest challenge to date, and as a result, the group has now addressed key execution risks. We also view positively GCO's risk-adjusted approach to managing its capital base.

Strategy

Management's focus is based on three basic principles--profitability, solvency, and growth. To a large extent, management has been successful in achieving these goals, not least due to the close involvement of the top management in day-to-day business decisions. Past growth has mainly been the result of a successful series of acquisitions in its domestic market, and more recently, an international expansion made via Atradius. The group is now focused on consolidating its competitive positions and its structure. This signals the finalization of the operational integration and economic participation in Atradius and in protecting its domestic market shares.

Operational management

GCO's management is regarded as strong and knowledgeable, with a reputation for stability and long service. This has been reinforced by its track record of successfully integrating acquisitions. The organizational structure supports the group's strategies and has control of all operational, financial, and underwriting functions. These are supported by highly integrated information technology systems that enable high quality daily management reporting. In trade credit business, the integration between CyC and Atradius has enabled the group to reduce its cost base (particularly within Atradius). GCO tends to maintain acquired brands that have successfully established themselves with customers, while it exploits the synergies of acquisitions in the commercial and back-offices.

Financial management

GCO's financial management is prudent. The group has demonstrated a stable history of financial performance in its Spanish noncredit business. It exercises strict control of costs and underwriting, and a conservative investment strategy. It also maintains in-house financial controls to assess performance at various levels within the organization against five-year profitability targets. These controls include accounting systems that facilitate embedded value reporting and the monitoring of performance against budgets almost daily. GCO is also developing an equivalent appraisal value reporting system for non-life business, which provides further evidence of the quality of financial management. GCO's risk-adjusted approach to managing its capital base is also a positive factor in our view; the implications for capital form an important part of the strategic decision-making process.

Enterprise Risk Management: Adequate, With Sound Risk Controls

Enterprise risk management (ERM) in the GCO group is considered to be adequate with sound risk controls. We therefore do not expect the insurer to experience losses outside of the normal range from traditional risk areas. Major risks are interest rate risk, market risk, and underwriting risk. We view these risks as being adequately controlled. Improvements in risk controls are further advanced by the preparation for Solvency II. We consider the importance of ERM to the consolidated GCO group to be moderately high. This is especially the case given the increased risk profile of the group following the full acquisition of Atradius, which has an international presence in 42 countries. Following the group's implementation of a formal ERM framework in 2006, there has been a continuous improvement in ERM processes. The company is in the process of developing an economic capital model for its traditional non-life, life, and trade credit businesses.

GCO's risk management culture is currently viewed as adequate because it is faced with the challenge of instilling an ERM culture into all levels of the group. We consider the company's control of underwriting, reserving, and ALM as an area of strength. Then again, other areas of risk control are more traditional and seen as adequate. Strategic risk management has improved following GCO's development of its own internal capital model. Return on capital on a risk-adjusted basis has also recently been introduced to trigger strategic thinking. We therefore anticipate that strategic risk management will further improve as the group develops its ERM processes.

Accounting: Reporting Under International Financial Reporting Standards Now Includes 100% Consolidation Of Atradius

GCO reports under International Financial Reporting Standards (IFRS). That said, it still prepares its local statutory accounts according to Spanish generally accepted accounting principles, which now closely resemble IFRS. Since 2008, Standard & Poor's analysis has been based on consolidated financial statements of the GCO group, including

full consolidation of Atradius/CyC. In its 2010 accounts, we note the group recorded run-off reserves that were also treated as non-recurring income in the group's profit and loss statement. In arriving at its view of capital, Standard & Poor's has made various adjustments to its capital model, the largest of which relates to European Embedded Value (EEV). Other adjustments from financial statements made within this model relate to goodwill and recognition of loss reserve discount. In 2010, total adjusted capital included €117 million hybrid debt to which we assigned intermediate equity content. The company does not publically disclose EEV figures.

Operating Performance: Strong Over The Cycle, One Of The Stronger Spanish Players, And Regained Sound Earnings In Trade Credit Insurance

GCO's operating performance is strong over the cycle. The 13% five-year average ROE reflects the company's strong earnings track record underpinned by a strong and stable underwriting performance across all noncredit insurance lines. It also takes into account high (though volatile) margins in trade credit insurance and a prudent investment strategy, which generates recurring investment income. We note that earnings from the credit business are volatile and cyclical. However, over the ratings cycle, we believe that these factors have been counterbalanced by the weight of the strong and stable noncredit insurance market in Spain. In addition, earnings from the credit business have allowed GCO to diversify its sources of income.

Table 2

	--Year-ended Dec. 31--				
	2010	2009	2008*	2007	2006
Non-life: return on revenue (%)	16.2	3.3	(0.4)	18.4	22.0
Non-life: return on revenue including realized and unrealized gains/(losses) (%)	16.2	3.3	(1.5)	19.3	22.0
Return on equity (%)	15.3	2.7	0.2	20.3	21.4
Return on adjusted equity (%)	19.6	4.3	3.6	25.5	22.4
Return on capital (%)	20.4	4.4	3.7	26.0	24.2
Non-life: net loss ratio (%)	53.0	70.0	81.8	60.3	59.3
Non-life: total net expense ratio (%)	42.1	44.7	36.5	29.9	29.0
Non-life: net combined ratio (%)	95.6	114.6	118.6	90.2	88.3
Non-life: net investment income to net premium earned (%)	2.6	4.9	6.7	4.9	10.9
Life: net acquisition expense ratio (%)	9.8	8.6	9.1	10.3	10.3
Life: net administrative expense ratio (%)	1.7	1.4	1.4	1.4	1.7
Life: general expense ratio (%)	11.6	10.0	10.5	11.8	12.0
Life: change in administrative expenses (%)	2.8	13.5	6.0	(10.3)	(41.3)
Life: administrative expenses to reserves (%)	0.3	0.3	0.3	0.2	0.3

*Full consolidation of Atradius starting 2008.

Consolidated

On a consolidated basis, the 16% non-life return on revenue and 20% ROE for 2010 brought the five-year average to 12% and 13%, respectively. This indicates, in our view, a strong performance over the cycle. This mainly reflects GCO's very strong underwriting results and a conservative investment strategy, which provided a steady financial income over that period. In 2010, CGO experienced underwriting improvements in credit business and enjoyed an absence of one-off restructuring charges that have constrained net income in previous years. This lifted attributable

earnings to €181 million at year-end 2010, from €101 million in 2009.

Noncredit business

GCO's performance in non credit business has been one of the strongest of its peer group due to its strict profitability targets. The five-year average net combined ratio of 90%, one of the best in the Spanish market, demonstrates the strength of GCO's underlying performance. In 2010, GCO was still performing strongly with an overall combined ratio of 90.8% at year-end 2010 from 89.1% in 2009. Technical margins decreased in all lines of business reflecting increasing pressure of the underwriting cycle in Spain and four natural events that were almost not covered by the Consorcio. GCO is still performing better than peers, for example, Mapfre, which saw its combined ratio increase to 96% in 2010 from 95% in 2009. In our opinion, this reflects the quality of GCO's book of business, pricing adequacy, and cost containment.

The technical contribution from the life business is strong. In our view, this is mainly thanks to the weight of life risk business in GCO's portfolio that allows for healthy results. In 2010, while the saving products (bearing low margins) decreased by more than 31%, the recurring premiums from risk-carrying business grew 4%. This enabled a high return on assets of 3% in 2010.

Trade credit insurance

Over the cycle, margins in trade credit insurance are higher than in traditional business. However, this business is subject to swings in the economy and earnings are therefore more volatile as observed at year-end 2008 when Atradius' loss ratio reached its historical peak of 119%. Since then, the extensive risk-mitigating measures implemented by management enabled the company to significantly improve its performance. We can see evidence of this in GCO's loss ratio of 50% at year-end 2010 (including a small contribution from positive reserving run-off). The upturn in underwriting results also reflects GCO's continuing effort to control its risk exposures. It does so through adequate tariffs, further introduction of deductibles, prudent risk selection, and close monitoring of total exposure. Equally important is the reduced impact of the weakened Spanish economy; notification of nonpayment from Spanish companies decreased by 62% in 2010.

Prospective

In 2011, we expect pretax earnings to continue to improve, reflecting the very positive contribution from trade credit. We have already seen healthy trends at the end of June 2011 and a combined ratio of 84% that should offset continuing pressure in Spanish noncredit operations. We believe that the deteriorating economic environment and increased number of notifications of nonpayment in mature countries will spell an end in 2012 to the very high margins observed in trade credit business this year. However, we still believe that the trade credit business will demonstrate a strong operating performance owing to the close monitoring of its exposures. Consequently we expect to see a combined ratio of less than 95% for 2011 and 2012 for both the credit insurance business and other non-life insurance business.

Despite competition from the attractive yields of Spanish short-term banking deposits, GCO's life business should continue to contribute positively to the operating profit because of the weight of life risk business in its portfolio.

Investments: Prudent Strategy With Low Market And Credit Risks, Although Some Concentration In Top Spanish Financial Institutions

Strategy

We regard GCO's investments as strong underpinned by a conservative strategy, low credit and market risk as well as strong ALM practices. GCO has limited exposures to lower-rated European sovereign debt. However, its exposure to some Spanish financial institutions such as Banco Bilbao Vizcaya Argentaria, S.A. (AA-/Negative/A-1+), Santander (AA-/Negative/A-1+), and Caja de Ahorros y Pensiones de Barcelona (A-/Negative/A-2) accounted for almost 20% of GCO total adjusted capital at year-end 2010. This gave rise to some concentration risk. Asset class limits and tolerances are assigned by GCO to all the operating entities. GCO has active responsibility for the investment management of all group companies excluding Atradius, which has its own management division (although there is GCO supervision). A very small proportion of this activity is outsourced to external fund managers.

Credit risk

The overall credit risk carried by GCO's bond portfolio is low. At Dec. 31, 2010, the portfolio of fixed-income securities consists of 56% of bonds rated 'AA' or higher and 96% rated 'A' or higher. The remainder consists mainly of 'BBB' rated corporate issues. GCO has limited exposure to Southern European Sovereign debt, the obvious exception being Spain; bonds of Spanish issuers accounts for 42% of the total bond portfolio in 2011).

Market risk

Market risk is low and accounts for about 8% of total invested assets. There are no obvious concentrations apart from some highly rated Spanish banks with worldwide presence. The company has sound ALM practices, which lowers the risk attached to duration mismatch. Derivatives are used solely to hedge currency fluctuations, while fluctuations in interest rates are covered via a variety of instruments.

Table 3

Catalana Occidente Group Investment Statistics					
	--Year-ended Dec. 31--				
	2010	2009	2008*	2007	2006
High-risk assets to total invested assets (%)	20.0	18.6	18.7	26.5	25.8
Illiquid invested assets to total invested assets (%)	12.0	10.7	11.4	17.4	17.1
Net investment yield (%)	2.5	4.3	3.4	5.5	5.0
Net investment yield including all capital gains/(losses) (%)	2.5	4.3	2.9	5.7	5.8
Investment portfolio composition					
Cash and cash equivalents (%)	20.1	22.9	19.2	18.7	15.0
Bonds (%)	58.9	57.4	61.1	53.7	57.7
Common stock (%)	9.1	9.0	8.3	10.3	10.2
Real estate (%)	7.4	6.4	6.3	6.0	6.2
Mortgages and loans (%)	1.1	1.0	1.0	1.2	1.4
Investments in affiliates (%)	2.0	1.8	2.3	10.0	9.2
Other investments (%)	1.5	1.5	1.8	0.1	0.3
Total portfolio composition (%)	100	100	100	100	100

*Full consolidation of Atradius starting 2008.

Liquidity: Strong, And A High Ratio Of Liquid Assets Reflecting Liquidity Needs Of The Credit Business

Owing to the liquidity needs of its trade credit business, GCO's liquidity is strong, driven by a high percentage of readily realizable bond and cash instruments of high quality. The ratio of non-life liquid assets to technical reserves remained strong at 168% in 2010, despite the reduced holdings of cash after the purchase of 2.6% of Inoc S.A.'s shares in Atradius.

Capitalization: Strong, And Tight Monitoring Of Strong Capital Adequacy

We regard GCO's capitalization as strong and base our assessment on its strong capital adequacy, conservative reserving, and comprehensive reinsurance program. In addition, GCO applies a risk-adjusted approach to managing its capital base. We believe that capital adequacy should remain strong, supported by a more normal level of retained earnings capacity.

Capital adequacy

The improvement in earnings in 2010 helped to strengthen GCO's capital adequacy, which now sits comfortably in the 'A' range, according to Standard & Poor's risk-based capital model. Our view of capital is supported by GCO's risk-adjusted approach to managing its capital base. The implications of growth in exposures (particularly in credit business) or exercising the option to purchase the minority shareholding in Atradius are important considerations in GCO's management of capital, which we view as prudent. That said, quality of capital is only good because more than half of the total adjusted capital is made up of soft capital items such as value in force and unrealized gains.

Reserves

Reserving is conservative, as is demonstrated by the positive development seen in past underwriting years. Although the ratio of non-life net claims reserves to NPW appears low at 80% in 2010, it mainly reflects the weight of the credit business, which has a quicker claims settlement pattern. In addition, the decreasing trend of this ratio observed over the past years also reflects the lower level of claims in the credit business. GCO uses a variety of external statistical models in order to support its own analysis using a variety of methodologies and it annually assesses reserving adequacy.

Reinsurance

On a consolidated basis, the reinsurance utilization appears high at 33% in 2010. This mainly reflects the inclusion of Atradius, which, in line with its credit insurer peers, remains highly dependent on reinsurance as a source of capital. Atradius has different reinsurance protections in place within its group, depending on the needs of each entity. These include an internal reinsurance program and separate proportional external programs for Atradius (stand alone), CyC, and the Italian bonding activity. The group retention is managed on a consolidated basis, allowing for a better view of the group exposure to severity risk and better terms and conditions from external reinsurers. If we were to leave out Atradius, the ratio would decline to a very low 3%. Any reinsurer credit risk is offset by the very high quality of the reinsurance panel (all holding a minimum 'A' rating), led by Munich Re (-AA/Stable/--), and the largely short-tail nature of the business.

Financial Flexibility: Strong Earnings Generation And Ability To Access Capital Markets

GCO's financial flexibility is strong. It benefits from a virtually debt-free balance sheet and as a listed company, it has the ability to raise both equity and debt.

Table 4

Catalana Occidente Group/Financial Statistics					
	--Year-ended Dec. 31--				
	2010	2009	2008*	2007	2006
Reinsurance utilization (%)	33.2	22.8	23.1	11.2	11.5
Debt leverage including additional pension deficit as debt (%)	15.3	25.7	14.6	3.3	0.0

*Full consolidation of Atradius starting 2008.

Needs and sources

We consider GCO's future needs to be moderate in the short to medium term, given the company's current focus on consolidating its group structure. Its main sources of financial flexibility include its historically strong earnings and a virtual debt-free balance sheet (with just €117 million of hybrid debt at year-end 2010). As one of only two insurers listed on the Spanish stock exchange, GCO can also rely on its ability to access the capital markets. Although we have limited information on the financial strength of the ultimate shareholders, there is a good track record of shareholder support. This was recently demonstrated by their assistance in the buy-out of minority shares of Atradius.

Ratings Detail (As Of October 20, 2011)

Operating Companies Covered By This Report

Seguros Catalana Occidente S.A. de Seguros y Reaseguros

Financial Strength Rating

Local Currency

A-/Stable/--

Counterparty Credit Rating

Local Currency

A-/Stable/--

Atradius Credit Insurance N.V.

Financial Strength Rating

Local Currency

A-/Stable/--

Issuer Credit Rating

Local Currency

A-/Stable/A-2

Subordinated (1 Issue)

BBB

Atradius Reinsurance Ltd.

Financial Strength Rating

Local Currency

A-/Stable/--

Issuer Credit Rating

Local Currency

A-/Stable/--

Atradius Trade Credit Insurance Inc.

Financial Strength Rating

Local Currency

A-/Stable/--

Ratings Detail (As Of October 20, 2011) (cont.)	
Issuer Credit Rating	
<i>Local Currency</i>	A-/Stable/--
Bilbao, Compania Anonima de Seguros y Reaseguros S.A.	
Financial Strength Rating	
<i>Local Currency</i>	A-/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A-/Stable/--
Compania Espanola de Seguros y Reaseguros de Credito y Caucion S.A.	
Financial Strength Rating	
<i>Local Currency</i>	A-/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A-/Stable/--
Domicile	Spain

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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