MOODY'S
INVESTORS SERVICE

CREDIT OPINION
5 October 2023

Update

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Atradius N.V.

Update following rating upgrade

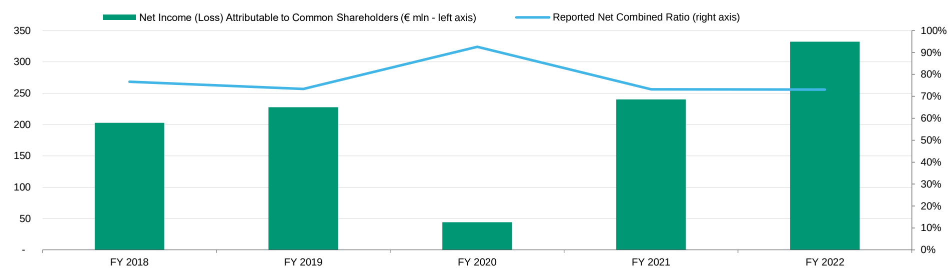
Summary

The credit profile of Atradius N.V. (whose main operating companies are rated A1 for insurance financial strength) is supported by its strong market position as the second largest global credit insurer, strong economic capitalisation, underpinned by Atradius' conservative reserving, and underwriting discipline in a challenging macroeconomic environment. These strengths are partially offset by Atradius' limited diversification beyond credit insurance which increases its susceptibility to economic stresses.

Atradius is owned 83.2% (35.77% directly and 47.43% indirectly) by GCO (Grupo Catalana Occidente), a Spanish insurance group with a well balanced business mix between Life and P&C insurance, in addition to the globally diversified credit insurance activity of Atradius. However, the low business and asset concentration in Spain, reduces linkages between the credit profile of Atradius and that of the Government of Spain (Baa1 stable). The loose linkage is also evidenced by Atradius' ability to finance itself independently from its Spanish parent.

Exhibit 1

Net Income and reported net combined ratio



Sources: Company's filings 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 strong Solvency II ratio, low net underwriting leverage and moderate credit limit exposure relative to capital
- » Dynamic management of exposure and effective underwriting risk monitoring tools

Credit Challenges

- » Maintaining a strong underwriting and pricing discipline, while claims are at low levels but the economy is slowing down and risks of recession increase
- » Limited diversification beyond credit insurance exposes the company to deterioration in the economic environment
- » Some linkage with the credit profile of Spain through its parent GCO and its business exposure to Spain

Outlook

The stable outlook reflects our expectations that Atradius will maintain a conservative underwriting risk appetite and be able to manage credit risk exposures to limit the impact of the deterioration in the economic activity on its profitability. The stable outlook also reflects our expectations that Atradius will maintain strong capital levels, good asset quality and a low financial leverage

Factors that Could Lead to an Upgrade

While unlikely in the next 12-18 months, Atradius' ratings could be upgraded if

- » the group's business profile improves with a meaningfully higher weight of fee-based revenues,
- » the group improves its profitability with a combined ratio below 75% through the cycle, with moderate volatility and limited spikes during credit crisis,
- » the group consistently maintains a Solvency II ratio above 220%, and
- » the group maintains a conservative asset and underwriting risk appetite.

Factors that Could Lead to a Downgrade

Conversely, the following factors could exert downward pressure on the ratings:

- » a volatile underwriting profitability, with for example a spike in the combined ratio materially above 100%,
- » a decline in capital, as evidenced for example by a Solvency II capital coverage below 180%,
- » a meaningful change in asset or underwriting risk appetite, or
- » a meaningful weakening in the credit profile of its parent, Grupo Catalana Occidente, S.A..

Key Indicators

Exhibit 2
Atradius N.V.

Atradius N.V. [1][2]	2022	2021	2020	2019	2018
As Reported (Euro Millions)					
Gross Premiums Written	2,259	1,945	1,706	1,798	1,672
Net Premiums Written	1,399	1,025	775	1,104	998
Net Income (Loss) Attributable to Common Shareholders	332	240	44	228	203
Total Shareholders' Equity	2,175	2,142	1,913	2,009	1,821
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	24.8%	29.0%	26.3%	24.3%	19.0%
Reinsurance Recoverable % Shareholders' Equity	44.8%	39.8%	45.0%	32.2%	34.4%
Goodwill & Intangibles % Shareholders' Equity	13.5%	14.2%	16.6%	16.1%	17.3%
Net Total Exposure % Shareholders' Equity	-	-	-	-	-
Net Underwriting Leverage (Credit Insurers)	120.2%	90.7%	78.1%	89.5%	90.0%
Combined Ratio (1 yr.)	70.4%	62.0%	93.8%	81.6%	77.6%
Sharpe Ratio of ROC (5 yr.)	206.6%	230.5%	225.9%	1291.4%	1289.3%
Adjusted Financial Leverage	12.5%	14.0%	19.6%	18.3%	19.3%
Total Leverage	15.0%	16.5%	22.2%	20.8%	22.0%
Earnings Coverage	25.4x	17.0x	4.5x	14.3x	12.1x

[1] Information based on IFRS financial statements as of the fiscal year ended 31 December. [2] Certain items may have been relabeled and/or reclassified for global consistency.
Sources: Moody's Investors Service and company filings

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).

GCO, the parent of Atradius, owns 83.2% of its capital. GCO is a listed Spanish insurance group with a diversified portfolio of life and non-life insurance operations in Spain, and a global credit insurance business. The group operates through several insurance entities and brands, including Atradius. In 2022, GCO reported €2,225 million and €355 million in earned premiums and recurring results for its credit insurance business respectively.

Detailed credit considerations

Moody's rates Atradius A1 for insurance financial strength, which is in line with the adjusted outcome produced by Moody's rating scorecard.

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

As the second largest trade credit insurer by premiums, with a market share of around 26.1%, Atradius has a very strong position in the global credit insurance market. The group has reinforced its second position since 2020 and gradually strengthened its market share.

Consistent with its credit insurance peers, brokers (72% of earned premiums) are Atradius' main form of distribution, followed by direct sales (15%), and agents (13%). Tied agents and direct sales 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 good country diversification amongst insured exposures, but limited diversification beyond credit insurance - A

Consistent with its peers, Atradius is heavily focused on credit insurance, with approximately 84% of its 2022 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. As at end December 2022, the group's largest country exposures for its credit insurance business were Germany (14.5%), Spain & Portugal (11.3%), USA (11.1%), Italy (7.2%), UK (6.9%), and France (6.8%).

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 offset by more stringent policy conditions and underwriting relative to policies with cancelable limits.

The low average duration of credit insurance policies enables the company to act quickly and to actively manage its exposure. Hence, Atradius has reshaped its risk portfolio to reduce limits and exposure to sectors the most affected by the coronavirus crisis and the increase in inflation.

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

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 24.8% as at YE2022, and is comprised mainly of equities. The majority of the portfolio is comprised of high-quality short-term and fixed income securities.

Moody's 2022 ratio of reinsurance recoverables as a percentage of equity was higher than the historical average. In 2020 and 2021 the ratio was affected by governments support schemes ended in June 2021. However, in 2022, reinsurance recoverables remained relatively stable as higher business volumes (of premiums and therefore claims) compensated the lower portion of premiums ceded.

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 c.13.5% of shareholders' equity at YE2022.

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

Moody's views Atradius' capitalisation as strong, driven by strong capital metrics and good quality of capital. In recent years, Atradius has continued to build up its capitalisation, thanks to robust earnings and a conservative dividend policy which has allowed the company to reinvest a significant portion of its profits into the business.

The very strong net underwriting leverage ratios and net exposure as a percentage of equity ratios reported in 2020 and 2021 were enhanced by the government reinsurance schemes implemented during the pandemic, but as these schemes terminated in June 2021, these ratios are normalising. In 2022 net underwriting leverage ratio peaked at 120% as result of record high earned premiums and reserve increase, suggesting a deterioration in capital adequacy. Similarly, the ratio of net total exposure over shareholders' equity increased significantly (see chart below). However, these measures do not reflect the risk of the exposures covered by Atradius.

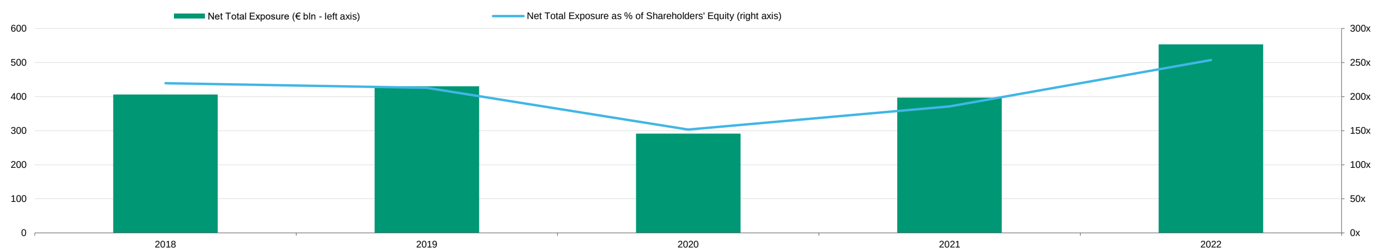
Atradius' good capitalisation is evidenced by the group's strong Solvency II ratio. As at 31 December 2022, Atradius N.V.'s Solvency II coverage ratio (based on a partial internal model used for the underwriting risk requirements of credit and bonding lines of business) remained resilient at above 200%. Although the group only has a formal 175% target, we expect the ratio to remain very strong.

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 2022 Atradius ceded 37% of its traditional business to reinsurers under quota-share agreements.

The group has also improved its risk management framework in the last decade, 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.

Exhibit 3

Net total exposure in absolute terms and relative to shareholders' equity



Sources: Company reports and Moody's Investors Service

Profitability: Good profitability across the cycle - A

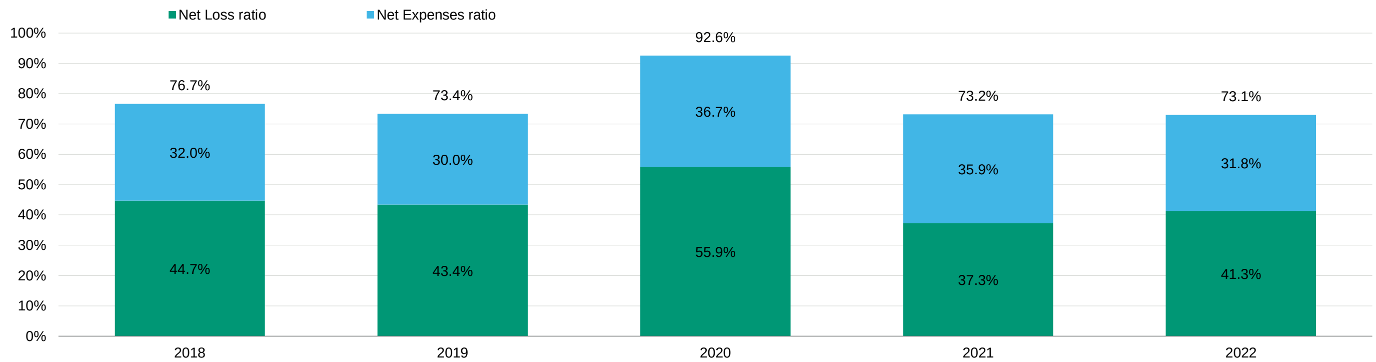
Consistent with peers, our view of Atradius' profitability is tempered by the intrinsic volatility of credit insurance through the cycle. However, Atradius has taken tangible steps to limit the volatility of its underwriting results, including reducing its exposure to the Iberian market to 11% as at year-end 2022 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.

Atradius' results were distorted in 2020 and 2021 by the reinsurance schemes implemented during the pandemic. These schemes, mostly made of large quota-shares, have depleted the revenue base of credit insurers and have not always compensated for their expenses.

Since 2022, prices have been decreasing in the credit insurance market, as a result of the competition after a period of low claims. Nevertheless revenues are increasing, with 2022 earned premiums up 43% year-on-year, driven by inflation and the increased turnover of Atradius' clients. The level of claims also remains very low by historical standards, supporting very low combined ratios (72.8% in 2022 and 71.4% in Q2 2023 reported by GCO for its credit insurance business). Neither the military conflict in Ukraine, nor the bankruptcy in January 2023 of Brazilian retailer Americanas undermined the group's profitability.

More negatively, the scenario of global recession would likely lead to a significant increase in claims. Inflation will also weigh on costs, while the likely hardening reinsurance pricing cycle may also put pressure on expenses.

Exhibit 4
Atradius' reported net combined ratio



Sources: Company's filings and Moody's Investors Service

Reserve Adequacy: Short-tail business and consistent positive reserve development moderates reserving risk - A

Atradius has reported consistent reserve releases in the last nine 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.

Taking advantage of the low claims environment, Atradius has taken a conservative reserving stance since 2020. In countries where credit insurers have benefitted from government reinsurance schemes, movement in reserves (mostly positive developments) were largely offset by these schemes for underwriting years 2020 and 2021. However, this will not be the case for underwriting years 2022 and 2023. We consider that Atradius' level of provisioning for underwriting year 2022 and underwriting year 2023 (thus far) is relatively conservative in light of the low level of reported claims.

Financial Flexibility: Very strong stand-alone financial flexibility, some ability to finance independently from the parent company - A

Atradius' standalone financial flexibility metrics are very strong, with Moody's adjusted financial leverage of 12.5% at year-end 2022 and earnings coverage of debt service at 25x in 2022 (5yr average: 15x). Despite the ownership by a Spanish-based insurance group, Atradius has demonstrated some ability to finance independently from its parent. Although Atradius is not a frequent debt issuer, it has issued from Atradius Finance B.V., a company domiciled in the Netherlands At YE 2022, the group's capital structure consisted of Tier I equity capital, along with €250 million in subordinated notes, guaranteed by Atradius N.V.. The €75 million subordinated loan was repaid in Q3 2021, thus reducing leverage by around 2.5% (when keeping shareholders' equity constant at YE 2020 levels).

ESG considerations

Atradius Finance B.V.'s ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 5
ESG Credit Impact Score

CIS-2
Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

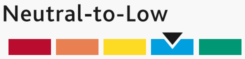
Source: Moody's Investors Service

Atradius' **CIS-2** reflects the limited credit impact of environmental and social risks on the rating to date. The group's strong governance, including risk management and capitalisation, along with its predominant focus on trade credit insurance and its diversified portfolio of very short-tail exposures help reduce its physical climate and social risks.

Exhibit 6
ESG Issuer Profile Scores

ENVIRONMENTAL
E-2
Neutral-to-Low

SOCIAL
S-2
Neutral-to-Low



GOVERNANCE
G-2
Neutral-to-Low

Source: Moody's Investors Service

Environmental
Atradius has low exposure to environmental risk, although it does have indirect exposure to environmental risk through the exposures the group insures. These include, for example, companies in the automotive sector which are exposed to carbon transition risk, and manufacturers and retailers with large physical footprints that are meaningfully exposed to physical climate risks. These indirect risks are mitigated by the significant geographic and sectoral diversification of Atradius' portfolio and the very short-term nature of these exposures, which allows credit insurers to quickly manage down their exposures to sectors facing rising environmental risks.

Social
Atradius faces low exposure to social risks. Social pressures may affect indirectly Atradius because its clients or its insured exposures may be affected by new societal trends, but the impact is low because of the exposures' short-term nature and extensive diversification. Nonetheless, as credit insurers also play a role in the global economy by facilitating the development of trade, they are subject to an increasing level of political scrutiny which could result in new business or financial constraints.

Governance
Atradius faces low governance risks. As a leading credit insurer, Atradius is committed to maintain a strong level of solvency, which is a key requirement from brokers and clients. Risk management is also a pillar of the business model of credit insurers which monitor the quality of their exposures and can cut limits quickly to adapt their risk profile. Atradius' supervisory board includes board members independent from the parent company, which helps offset governance risk related to the concentrated ownership of its parent company.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

Exhibit 7
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	24.8%								
-Reinsurance Recoverable % Shareholders' Equity		44.8%							
-Goodwill & Intangibles % Shareholders' Equity	13.5%								
Capital Adequacy (20%)								A	A
-Net Total Exposure to Shareholders' Equity			X						
-Net Underwriting Leverage (Credit Insurers)		1.2x							
Profitability (20%)								A	A
-Combined Ratio (5 yr. avg.)			77.1%						
-Sharpe Ratio of ROC (5 yr.)			206.6%						
Reserve Adequacy (5%)								Aaa	A
-Worst Reserve Development for the Last 10 Years % Beg. Reserves	-0.8%								
Financial Flexibility (10%)								Aaa	A
-Adjusted Financial Leverage	12.5%								
-Earnings Coverage (5 yr. avg.)	14.7x								
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								Aa3	A1

[1] Information based on IFRS financial statements as of fiscal year ended December 31, 2022. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.
Source: Moody's Investors Service

Support and structural considerations

Atradius' A1, 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) our 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 the Spanish sovereign is primarily driven by its fixed income portfolio that has significant exposure to domestic assets, in the extent of 49% of the total portfolio at year-end 2022. Similar to other domestic Spanish insurers, GCO maintains significant domestic assets to match its domestic life insurance technical liabilities. Positively, GCO is currently well capitalized (consolidated Solvency II ratio of 247% at YE 2022, with transitionals) and its traditional businesses have a low-risk business profile, a strong track record of profitability and very modest financial leverage.

The backed subordinated notes issued by Atradius Finance B.V. are rated Baa1(hyb), three notches below Atradius's 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, 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.

Ratings

Exhibit 8

Category	Moody's Rating
ATRADIUS CREDITO Y CAUCION S.A.	
Rating Outlook	STA
Insurance Financial Strength	A1
ST Insurance Financial Strength	P-1
ATRADIUS TRADE CREDIT INSURANCE INC.	
Rating Outlook	STA
Insurance Financial Strength	A1
ATRADIUS REINSURANCE DAC	
Rating Outlook	STA
Insurance Financial Strength	A1
ATRADIUS FINANCE B.V.	
Rating Outlook	STA
BACKED Subordinate	Baa1 (hyb)

Source: Moody's Investors Service

Moody's related publications

Sector In-Debt

» Credit insurers face new challenges from position of strength (February 2023)

REPORT NUMBER 1382068

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