



Fitch Affirms Coface's IFS at 'AA-'; Outlook Stable

Fitch Ratings-London-29 August 2018: Fitch Ratings has affirmed the Insurer Financial Strength (IFS) ratings of Compagnie française d'assurance pour le commerce extérieur (Coface France), Coface North America Insurance Company and Coface Re SA at 'AA-'. The issuers are the major insurance operating entities in the Coface group (Coface).

Fitch has also affirmed Coface France's Long-Term Issuer Default Rating (IDR) at 'A+' and COFACE SA's Long-Term IDR at 'A+' and Short-Term IDR at 'F1'. COFACE SA is the group's top holding company. The Outlooks on the IFS ratings and IDRs are Stable. A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS

The ratings reflect Coface's very strong business profile in credit insurance, very strong 'capitalisation and leverage', and recovering profitability, after earnings were hit by adverse claims experience in 2016.

Coface is the world's third-largest credit insurer with an estimated market share of 16% in the credit insurance industry. Coface is a specialist insurer, but has a strong and diversified franchise in credit insurance, as it operates directly or indirectly in 100 countries and in multiple economic sectors, such as agriculture, natural resources and construction. In 2017, it had more than EUR1.2 billion of gross written premiums.

Fitch believes Coface's capitalisation is strong and the insurer's risk-management framework is robust. This view is based on Coface's moderate multiple of nominal net credit exposure to equity and appropriate reserving. At end-June 2018, Coface's Solvency II ratio was 163% (end-2017: 166%), above the company's target range of 140%-160%. Operating leverage (net premiums written to equity) was also strong at 0.5x in 2017.

The factoring activities comprise 5% of revenues and represent 15% of the solvency margin requirement. However their capital requirements increased in 2017 and Fitch understands that they will further increase in 2018, negatively impacting the group's solvency position. However, Fitch expects this impact to be manageable. The factoring activities remain central to Coface's strategy as they provide cross-selling opportunities and product diversification.

The financial leverage ratio (FLR), which excludes factoring assets, was 18% at end-2017 (2016: 19%), which Fitch views as supportive of the ratings. Fitch does not expect Coface to raise additional financial debt over the medium term. However, Coface's total financing and commitments (TFC) ratio - a measure of debt and debt-like obligations - was high albeit stable at 1.6x. The level of the TFC ratio reflects the funding of the factoring business.

Fitch views positively Coface's 'Fit to Win' strategic plan, which is well on track. This plan aims to enhance the company's financial performance through stronger risk management, greater operational efficiency and the prioritisation of value over growth. In 2017, Coface executed its strategic plan, repriced business and enhanced risk selection. Furthermore, Coface is targeting EUR30 million of cost savings through the plan period and is ahead of schedule to achieve this. Coface also relies on external reinsurance to absorb some loss ratio volatility. These actions, along with stronger client activity, contributed to much improved profitability in 2H17 and 1H18. The net

combined ratio improved to 77% in 1H18 from 93.7% in 1H17. It was 86.6% for FY17 (FY16: 100.6%). The Fitch-calculated return on equity (ROE) increased to 4.7% in 2017 from 2.4% in 2016 and is likely to exceed 6% in 2018.

Against the backdrop of stronger economic activity leading to higher volumes, soft pricing conditions in mature markets persist and weigh on Coface's earnings. Its financial results remain also pressured by low interest rates. A certain level of volatility is inherent in credit insurers' business. However, Coface has significantly strengthened its risk management framework and Fitch expects this to make profitability less volatile.

Fitch believes Coface to have sufficient access to external funding in the form of operating debt, commitments received by banks, or contingent equity line. Coface's sources of funding for its factoring business are robust and well diversified by source (securitisation, commercial paper, bilateral lines, local lines, as well as an emergency line implemented in 2017) and by counterparty, mitigating liquidity risks for this segment.

RATING SENSITIVITIES

The ratings could be downgraded if Coface's net premiums written-to-equity ratio increases to 1.1x or the FLR increases to 25%. The ratings could also be downgraded if the combined ratio increases to above 100% or the Fitch-calculated ROE remains below 5%, over a sustained period.

An upgrade is unlikely in the medium term, given Coface's size and level of product diversification compared with higher rated insurers.

FULL LIST OF RATING ACTIONS

COFACE SA:

Long-Term IDR affirmed at 'A+'; Outlook Stable

Short-Term IDR affirmed at 'F1'

Commercial paper affirmed at 'F1'

Subordinated debt affirmed at A-

Compagnie française d'assurance pour le commerce extérieur (Coface France):

IFS affirmed at 'AA-'; Outlook Stable

Long-Term IDR affirmed at 'A+'; Outlook Stable

Short-Term IFS affirmed at 'F1+'

Coface North America Insurance Company:

IFS affirmed at 'AA-'; Outlook Stable

Coface Finanz GmbH:

Long-Term IDR affirmed at 'A+'; Outlook Stable

Coface Re SA:

IFS affirmed at 'AA-'; Outlook Stable

Contact:

Primary Analyst

Federico Faccio

Senior Director

+44 20 3530 1394

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Secondary Analyst

Willem Loots
Senior Director
+44 203 530 1808

Committee Chairperson
Dr. Stephan Kalb
Senior Director
+49 69 768076 118

Media Relations: Athos Larkou, London, Tel: +44 20 3530 1549, Email:
athos.larkou@fitchratings.com

Additional information is available on www.fitchratings.com

Applicable Criteria

Insurance Rating Criteria (pub. 30 Nov 2017) (<https://www.fitchratings.com/site/re/905036>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (<https://www.fitchratings.com/site/dodd-frank-disclosure/10042194>)

Solicitation Status (<https://www.fitchratings.com/site/pr/10042194#solicitation>)

Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an

enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. Learn more (<https://www.thefitchgroup.com/site/policies>).

Endorsement Policy

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.