



ISSUER RATING

Long-term Rating

Outlook: Observation

First rating date: 06/07/2020

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Executive Summary

Our unsolicited credit rating of Coface S.A. (hereinafter, Coface) of A / Under Observation is based on the company's outstanding efficiency, exceeding its peers, in addition to its leading position in the credit insurance market and its solid capitalization, which has been continuously improved in recent years.

We highlight the insurance company's flexibility to adapt to changing conditions in the macroeconomic and sector environment, its remarkable profitability and limited financial leverage. In addition, we highlight the integration of ESG principles into its activity, as well as its internal organization structure.

Conversely, our credit rating is limited by the low diversification of income by product - which is primarily concentrated in credit insurance -, the higher risk appetite of its investment profile compared to its peers, and the greater weight of its business in emerging markets despite its geographical diversification, in addition to the difficult economic environment from which we expect to see a greater impact on corporate delinquency.

Fundamentals

- ▶ Global leadership position as the third largest credit insurance company in the world.
- ▶ Great commitment to digitalization in its latest strategic plans with the aim of adapting to the digital era in its operating model.
- ▶ High concentration of its business in credit insurance, partially offset by its wide geographical diversification, although the weight of the business in emerging markets is growing.
- ▶ Flexible business model to deal with complex macroeconomic scenarios.
- ▶ Strong profitability of the company supported by an outstanding efficiency with a combined ratio outperforming its peers.
- ▶ Investment portfolio focused on fixed-income securities, with high credit quality and liquidity, but with a more aggressive risk profile than its main competitors to obtain higher returns.
- ▶ Remarkable evolution in its capitalization, placing its solvency ratio well above the requirements of the regulator and limited financial leverage.
- ▶ Adequate organizational structure with risk management guided by well-defined policies, roles and independent committees. Integration of ESG principles into the entity's organization.

Main Figures

Main Figures (thousands €)		
	2018	2019
Gross premiums written	1.263.364	1.327.636
Premium refunds	(106.526)	(95.079)
Premium refunds % Gross premiums written	28,7%	28,6%
Net premiums written	1.142.608	1.235.598
Operating income	208.880	224.877
Net income	122.332	146.730
Assets	7.304.435	7.382.922
Cash	302.419	320.777
Cash % Assets	4,1%	4,3%
Financial investments	2.742.533	2.911.034
Financial Investments % Assets	37,5%	39,4%
Liabilities	5.497.835	5.458.181
Borrowings	388.729	389.261
Total shareholder's Equity	1.806.600	1.924.741
Regulatory capital ratio	169%	190%
ROA*	1,7%	2,04%
ROE*	6,8%	7,9%
Combined ratio	79,6%	77,7%
Net written premiums to equity*	63,3%	64,2%

Fuentes: Cofacey Axesor*

Outlook

We consider this trend to be under observation due to the current difficult macroeconomic environment caused by Covid-19 and the high uncertainty that is especially demanding with a company whose core business is credit insurance.

Sensitivity analysis

Coface's rating could be improved if we observe less dependence on its main product, as well as a greater focus of its investments on a more conservative profile and a continuous increase in the company's capitalization. On the other hand, the rating could deteriorate if the loss ratio is considerably affected in the coming years, weighing down the group's profitability, if there is a deterioration in the quality of the assets in its investment portfolio or if there is an increase in financial leverage.

Regulatory information

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Quarterly Financial Report.
3. Corporate Website.
4. Corporate Governance Report.
5. Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, Axesor Rating assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies, and in accordance with the Insurance Rating Methodology and Outlook Methodology that can be consulted on www.axesor-rating.com/en/about-axesor/methodology and according to the Long-term Corporate Rating scale available at www.axesor-rating.com/en/about-axesor/rating-scale.
- Axesor publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months axesor has provided ancillary services to related third parties of the rated entity, but not to the rated entity. However, according to our Conflict of Interest Policy, it does not involve a conflict of interest, since the aggregate sale does not exceed 5% of net turnover.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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