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Research Update:

Grupo Catalana Occidente Entities Outlook To Stable On Strong And Sustainable Operating Earnings; 'A-' Ratings Affirmed

Primary Credit Analyst:
Marie-Aude Salinas, Paris (33) 1-4420-6792;marie-aude_salinas@standardandpoors.com

Secondary Contact:
Peter McClean, London (44) 20-7176-7075;peter_mcclean@standardandpoors.com

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Overview

- Spanish insurance group GCO has regained strong and sustainable operating earnings in its credit insurance business and successfully maintained solid performances in its other business lines.
- GCO's recovered earnings generation capacity and sound management of capital support our view of its improved capitalization.
- We are therefore revising the outlook to stable from negative and affirming our 'A-' long-term ratings on GCO's core operating entities.

Rating Action

On March 22, 2011, Standard & Poor's Ratings Services revised its outlook to stable from negative on the core operating entities of Spain-based insurance group Grupo Catalana Occidente, S.A. y Sociedades Dependientes (GCO):

- 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).

At the same time, we affirmed the 'A-' long-term counterparty credit and financial strength ratings on GCO's core operating entities. The 'A-2' short-term counterparty credit rating on Atradius Credit Insurance N.V. was also affirmed.

Rationale

The outlook revision reflects GCO's renewed strong and sustainable operating performance in its credit insurance business and continuing solid results in noncredit business despite the bottoming out of the underwriting cycle in Spain. Furthermore, GCO's recovered earnings generation capacity and sound management of capital support our view of its improved capitalization.

GCO delivered consistently stable earnings in its credit business since the last quarter of 2009, via Atradius Credit Insurance N.V., Credito y Caucion

(CyC), and its other credit insurance entities. The loss ratio for this business decreased markedly to a low 57% throughout 2010 (versus the 114% peak at year-end 2008). We believe the improvement and stability in CyC's underwriting results since the second half of 2010 will sustain its future strong contribution to the group's margins. The improvement alleviates our prior concerns about CyC, which accounts for 34% of the group's total credit insurance premiums, owing to its slower-than-expected recovery and more volatile loss ratios than for peers in the first two quarters of 2010. The upturn in underwriting results also reflects GCO's continuing effort to control its risk exposures 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, resulting in notification of nonpayment from Spanish companies decreasing by 62% in 2010.

GCO's overall combined ratio in the credit insurance business, according to the group's calculations, improved to 90% at year-end 2010, from 111% in 2009 and 118% in 2008, when the global economic downturn hit the group hardest.

The noncredit business also continued to perform strongly with an overall combined ratio of 90.8% at year-end 2010 (against 89.1% in 2009). The slight deterioration in technical margins was noticeable in all lines of business. The weakening stemmed mainly from increasing pressure in the underwriting cycle in Spain and the four natural disasters in 2010 that Consorcio de Compensación de Seguros, the state-backed catastrophe insurer, only partially covered. In addition, we believe GCO will maintain its historically high margins in life insurance thanks to the heavy weight of pure life risk business, which grew 4% in 2010.

These underwriting improvements, coupled with the absence of one-off restructuring charges that constrained net income in previous years, lifted attributable earnings to €181 million at year-end 2010 (from €101 million in 2009). This in turn helped GCO's capital adequacy to comfortably reach the 'A' category, according to Standard & Poor's risk-based capital model. In addition, GCO applies a risk-adjusted approach to managing its capital base. Therefore, the implications arising from growth in exposures (particularly in credit business) or the exercising of the option to purchase the minority shareholding in Atradius are important considerations in GCO's management of capital, which we view as prudent.

The ratings on GCO's core operating entities also reflect the group's strong competitive position, and improved capitalization. These factors are tempered by investment concentration in Spain--representing 41% of total invested assets--and the inherent volatility of the credit insurance business, which is subject to swings in economic cycles.

Outlook

The stable outlook reflects our view that GCO's earnings and capitalization are in line with the rating. It also incorporates our expectation for moderate total exposure growth in GCO's credit business, at least ranging between 3% and 5% for 2011. However, we do not expect further tariff increases for this business line. Non-life gross premiums written (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 will grow moderately, between 2% and 4%, while we believe growth in savings products will continue to be affected by competition from the attractive yields of banking short-term deposits. We expect to see a combined ratio not above 95% for 2011 and 2012 for both the credit insurance business and other non-life insurance business (based on GCO's calculations). Capital adequacy should also remain in the 'A' category, based on our risk-based capital model.

We regard a positive rating action as unlikely in the coming 18 months.

We might envisage a negative rating action if GCO does not achieve the abovementioned expectations or if its financial profile is impaired by a significant deterioration in the investment portfolio, due to the concentration on Spanish assets.

Related Criteria And Research

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

- Group Methodology, April 22, 2009
- Interactive Ratings Methodology, April 22, 2009

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Atradius Credit Insurance N.V.		
Counterparty Credit Rating	A-/Stable/A-2	A-/Negative/A-2
Atradius Credit Insurance N.V. 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.		
Financial Strength Rating	A-/Stable/--	A-/Negative/--

Atradius Reinsurance Ltd.
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.		
Counterparty Credit Rating	A-/Stable/--	A-/Negative/--

Additional Contact:
Insurance Ratings Europe;InsuranceInteractive_Europe@standardandpoors.com

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