COFACE SA

And Core Subsidiaries

Full Rating Report

Ratings

COFACE SA

Long-Term IDR	A+
Short-Term IDR	F1

Compagnie Française d'Assurance pour le Commerce Extérieur S.A.

Insurer Financial Strength	AA-
Long-Term IDR	A+
Short-Term Insurer Financial Strength	F1+

See Appendix for other subsidiaries' ratings.

Sovereign Risk

Long-Term Foreign-Currency IDR	AA
Long-Term Local-Currency IDR	AA

Outlooks

Insurer Financial Strength	Stable
Long-Term IDRs	Stable
Sovereign Long-Term IDRs	Stable

Financial Data

COFACE SA

(EURm)	2017	1H18
Total assets	7,223	7,337
Total equity	1,803	1,791
Gross written premiums	1,220	638
Net combined ratio (%)	87	77
Net profit	83	63
Solvency II cover (x)	1.7	1.6

Source: Coface accounts.

Related Research

French Insurance: Mid-Year Dashboard (September 2018)

Global Economic Outlook (September 2018)

Analysts

Federico Faccio
+44 20 3530 1394
federico.faccio@fitchratings.com

Willem Loots
+44 20 3530 1808
willem.loots@fitchratings.com

Key Rating Drivers

Very Strong Business Profile: The Coface group (Coface) is the world's third-largest credit insurer, with an estimated 16% market share in the credit insurance business. Its main operating entity is Compagnie Française d'Assurance pour le Commerce Extérieur S.A. 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.

Strong Capitalisation: Fitch Ratings 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. Coface's Solvency II ratio was 163% at end-June 2018 (end-2017: 166%), above the company's target range of 140%-160%. Operating leverage (net premiums written to equity) was strong at 0.5x in 2017.

Low Financial Leverage; High TFC: The financial leverage ratio (FLR), excluding factoring assets, was 18% at end-2017 (end-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.

Strong Profitability: Earnings in 2H17 and 1H18 recovered strongly, in line with Fitch's expectations, following effective management actions that had a positive impact on profitability. 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. Coface has significantly strengthened its risk-management framework and Fitch expects this to make profitability less volatile.

Factoring Business Well Funded: Fitch considers Coface's sources of funding for its factoring business to be robust and well diversified by sources (securitisation, commercial paper, bilateral lines, local lines, as well as an emergency line implemented in 2017) and by counterparty, therefore mitigating liquidity risks for this segment.

Strategic Plan On Track: 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. Higher investments are being made into risk management, process transformation and technology, while cost savings targets are likely to be met and/or exceeded.

Rating Sensitivities

Lower Capital; Higher Leverage: The ratings could be downgraded if Coface's net premiums written-to-equity ratio increases to 1.1x (2017: 0.5x) or its FLR rises to 25%.

Deterioration of Profitability: 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.

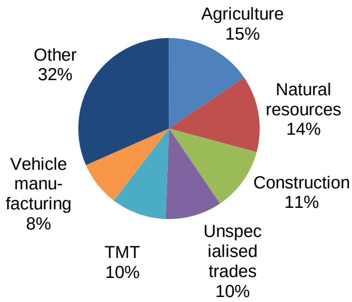
Upgrade Unlikely: A rating upgrade is unlikely in the medium term, given Coface's limited size and level of product diversification compared with larger, higher-rated insurers.

Risk Exposure by Country

Country	(%)	Rating
Germany	14.6	AAA
France	11.5	AA
Italy	9.4	BBB
United States	8.0	AAA
Spain	5.4	A-
UK	4.9	AA
Netherlands	3.1	AAA
China	2.7	A+
Poland	2.4	A-
Japan	2.1	A
Others	35.8	n.a.
Total	**100**	**n.a.**

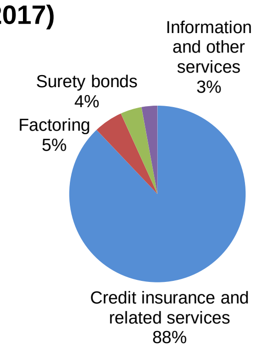
Source: Coface, Fitch. 1H18 data

Group's Debtor Outstandings by Trade Sector (2017)



Source: Coface

Revenue by Business Line (2017)



Source: Coface

Related Criteria

Insurance Rating Methodology (November 2017)

Business Profile

Very Strong Business Profile

- Strong presence worldwide
- Focus on credit insurance
- Specialist but diversified player
- Short-tail business; responsive approach

Strong Presence Worldwide

Coface is the world's third-largest credit insurer after Euler Hermes and Atradius with an estimated market share of 14% within this business line. In 2017, it had more than EUR1.2 billion of gross written premiums. It operates directly or indirectly in 100 countries, predominantly in Germany, France, Italy, North America, the United Kingdom and Spain , and serves about 50,000 customers worldwide.

Focus on Credit Insurance

Coface's current strategy focuses on its core credit insurance activities, which account for nearly 88% of total revenue. The group has retained other activities, including factoring (notably in Germany and Poland), surety bonds, as well as information and other services (such as debt collection products), but only those that add value to its core trade credit insurance business.

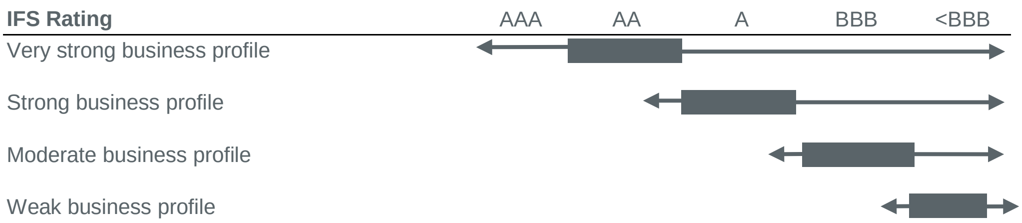
Specialist but Diversified Player

Coface, despite being a specialist player, is well diversified by sector and region. The company operates through a worldwide direct sales network and is present in 100 markets in total. Direct-sales networks and tied agents represent around one third of Coface's total sales force, but more than half of its business is introduced by brokers. Additionally, Coface operates in a wide range of trade sectors, such as agriculture, natural resources and construction, amongst others.

Short-Tail Business; Responsive Approach

Coface's underwriting portfolio consists mainly of short-tail business where the risk is borne by the insurer for up to 180 days and claims are generally reported prompted. Coface is able to respond promptly, when necessary, to adjust the terms and conditions of its policies and to impose stricter underwriting conditions.

Ratings Range Based on Business Profile



Source: Fitch

Corporate Governance and Management

Fitch considers corporate governance and management adequate and neutral to the rating.

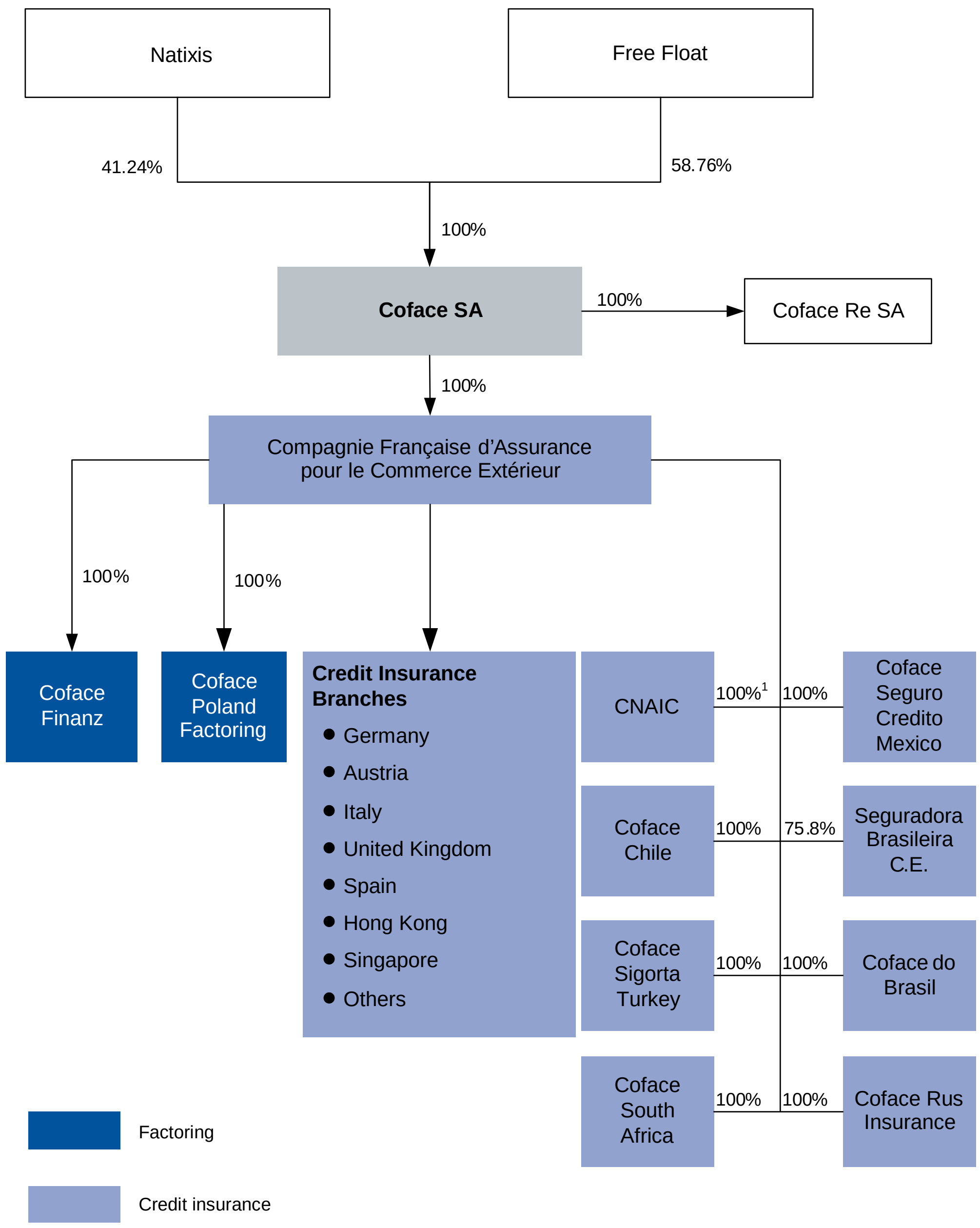
Coface's board of directors has 11 members and the managing board has eight members. (The executive committee, which includes regions' CEOs in addition to the management board, has 15 members.) The company is governed by the French insurance code. The Autorité de Contrôle Prudentiel et de Résolution (ACPR) is its main regulator as Coface is headquartered in France. The Autorité des marchés financiers (AMF) also regulates Coface as listed company in the French financial market.

Ownership Is Neutral to Ratings

Coface has been listed on the French regulated market, Euronext Paris, since June 2014. As at end-June 2018, public shareholders owned 58.52% of the company, with Natixis holding 41.24% and Coface employees 0.24%. We expect Natixis to reduce its stake over time. The Coface ratings reflect the group's own stand-alone credit profile, as we do not view the Natixis shareholding as having any ratings implications (positive or negative) for Coface.

The Coface group legal structure (see diagram below) shows the group's key operating subsidiaries (excluding sub-holdings).

Simplified Group Structure Diagram



Note: [1] via an intermediate holding company, 100% owned
Source: Coface

Sovereign and Country-Related Constraints

Fitch rates France 'AA' with a Stable Outlook, and the Country Ceiling is 'AAA'. The Country Ceiling expresses the maximum limit for foreign-currency ratings of most but not all issuers in a given country. Given these high levels, the ratings of French insurance organisations and other corporate issuers are not likely to be constrained by sovereign or macroeconomic risks, and in the specific case of Coface, no constraints are biting.

Industry Profile and Operating Environment

Operating Environment Remains Challenging

The operating environment remains challenging in the credit insurance industry. High levels of available capacity, a benign claims environment and fierce competition, particularly from government export credit agencies and new capacity in the Chinese market, have driven down prices. Fitch expects pricing decline to continue in 2018 and 2019, albeit at a controlled pace.

The demand for trade credit insurance is linked with global trade trends, as well as political risks. Market-wide premiums have grown at a slow pace since 2009, and have even stagnated in 2016 due to pressures on prices. Fitch expects premiums to continue growing at a slow pace in the short term, while profitability is likely to remain subdued.

The International Credit Insurance and Surety Association has yet to publish 2017 figures. However, Fitch expects total insured exposure covered by trade credit insurance to have grown in 2017 versus 2016, at a higher pace than market premiums.

Ratings Range Based on Industry Profile/Operating Environment

IFS Rating Debt	AAA AA	AA A	A BBB	BBB BB	<BBB <BB
Non-life insurance					

Source: Fitch

Peer Analysis

A Major Player in the Global Credit Insurance Market

Three major European groups – Euler Hermes, Atradius, and Coface – dominate the global credit insurance market, with an estimated combined market share of around 60% in 2017. The rest of the market comprises smaller companies, which have a strong regional influence (such as China Export & Credit Insurance Corporation).

Credit insurers face challenging market conditions and fierce competition, and their underwriting performance can be volatile. Nonetheless, Fitch considers that earnings remain solid for the leading credit insurers.

Coface's financial performance in 2017 was in line with peers', as shown in the table below. Coface is adequately capitalised and posted a regulatory ratio that was broadly in line with peers. However, Coface is less exposed to debtors relative to its total capital than its peers, meaning that it tends to be less exposed to systemic risks or default risk affecting debtors.

In terms of financial performance, Coface lags behind peers by the absolute amounts of net profit and revenue, reflecting its relative size. Coface's three-year average combined ratio is higher than its peers' mainly due to heavy losses in 2016.

World's Largest Credit Insurers

	Euler Hermes (NR)			Atradius (NR)			Coface (IFS: AA−)		
(EURm)	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**
Total turnover	2,638	2,570	2,567	1,718	1,761	1,837	1,490	1,411	1,355
Gross earned premiums	2,205	2,170	2,165	1,537	1,558	1,588	1,186	1,115	1,110
- % of turnover	84	84	84	89	88	86	80	79	82
Other revenues (services income)	433	400	402	181	203	249	304	296	245
- % of turnover	16	16	16	11	12	14	20	21	18
Retention rate (%)	70	71	71	56	57	57	78	77	73
Net earned premiums	1,549	1,531	1,528	862	894	912	920	858	808
Net loss ratio (%)[a]	53	51	55	44	42	42	53	66	51
Net expense ratio (%)[a]	27	29	30	37	36	36	30	32	35
Combined ratio (%)[a]	81	80	85	81	78	77	83	97	87
- Average last 3 years (2015-2017; %)			82			79			89
Consolidated net income	303	287	315	178	212	186	126	42	83
Total capital[b]	4,551	4,411	4,501	2,408	2,421	2,531	2,889	3,036	3,068
Solvency II regulatory ratio (%)	173	166	166	n.a.	130[c]	175	147	150	166
Total exposure to debtors	890,150	882,592	884,000	562,644	587,104	622,829	475,419	492,657	512,570
Total exposure/total capital (x)	196	200	196	234	243	246	165	162	167

[a] Reported ratios
[b] Equity + claims reserve
[c] Report by Grupo Catalana Occidente, Atradius' parent company
Source: Fitch and annual reports Euler Hermes, Atradius and Coface

Capitalisation and Leverage

(x)	2013	2014	2015	2016	2017	Fitch's expectation
Regulatory capital ratio[a]	8.3	7.1	1.5	1.5	1.7	Fitch expects Coface to remain strongly capitalised. Financial leverage and TFC are expected to remain at or close to their current levels.
Net premium written/equity	0.5	0.6	0.6	0.5	0.5	
Net leverage[b]	1.1	1.2	1.2	1.3	1.2	
Gross leverage[c]	1.5	1.6	1.6	1.6	1.6	
Financial leverage (%)	1	19	19	19	18	
Total financing & commitments ratio	1.2	1.5	1.6	1.6	1.6	
Net credit exposure to equity	41	47	43	39	41	

[a] Solvency I until 2014, Solvency II from 2015
[b] The ratio is calculated by dividing the sum of net premiums written and insurance liabilities, less any ceded reserves, by equity
[c] The ratio is calculated by dividing the sum of direct and assumed premiums written and total gross liabilities by equity
Source: Fitch, Coface

Capitalisation Supportive of Ratings, Low Leverage

- Solvency margin strong, but sensitive to underwriting risk
- Limited utilisation ratios protect capital
- Low and stable financial leverage
- TFC ratio remains relatively high

Solvency Margin Strong but Sensitive to Underwriting Risk

Fitch considers Coface's capitalisation to be strong and supportive of its ratings. This view is based on Coface's moderate multiple of nominal net credit exposure to equity and appropriate reserving. Fitch also views Coface's risk-management framework as robust.

Coface's Solvency II ratio was 163% at end-June 2018 (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.

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

According to Coface's estimates, a 1:20 stress event (loss ratio of 95%) would reduce the Solvency II coverage to 146%. A loss ratio equivalent to the level during the 2008/2009 economic downturn would reduce the coverage to 126%. Nevertheless, at that level of loss ratio, the contingent equity line would be triggered, adding five percentage points to the solvency coverage ratio (131%). Fitch takes a positive view of the protection offered by the contingent equity line in the event of extreme adverse events.

While Coface's solvency ratio is sensitive to underwriting stresses, its sensitivity to market shocks is limited.

Limited Utilisation Factors Protect Capital

Limits granted by Coface are not fully used by its clients; there is an average utilisation ratio, which contributes to capital protection. Indemnification is usually capped at 85%-90% of the loss, and each policy has a maximum limit of liability.

Low and Stable Financial Leverage

The FLR was 18% at end-2017 (end-2016: 19%), which Fitch views as supportive of the ratings, and has been broadly stable since the EUR380 million issuance in 2014. Fitch does not expect the FLR to rise substantially because we do not see Coface raising additional financial debt in the near future.

TFC Ratio Remains Relatively High

Coface's TFC ratio was relatively high at end-2017, and above the peer average, at 1.6x. The level of the TFC ratio reflects the funding of the factoring business.

Debt-Service Capabilities and Financial Flexibility

(x)	2013	2014	2015	2016	2017	Fitch's expectation
Fixed-charge coverage ratio (excluding realised and unrealised capital gains)	53	13	10	6	8	Fitch expects Coface's fixed-charge coverage ratio to remain commensurate with the ratings.

Source: Fitch, Coface

Strong Fixed-Charge Coverage, Adequate Financial Flexibility

- Fixed-charge coverage ratio expected to improve
- Adequate financial flexibility

Fixed-Charge Coverage Ratio Expected to Improve

Coface's fixed-charge coverage ratio, as calculated by Fitch, was 8x at end-2017 (2016: 6x). Interest payments (EUR18 million, stable compared with 2016) relate mainly to the EUR380 million in subordinated notes issued in March 2014. Fitch expects Coface's coverage ratio to remain commensurate with the ratings, despite the volatility of its earnings.

The total amount of interest expenses should be stable as Coface does not plan to increase financing debt. Fitch expects the coverage ratio to increase to over 9x in 2018, given its high net income at 1H18 as compared with 1H17.

Adequate Financial Flexibility

Fitch believes Coface to have sufficient access to external funding in the form of operating debt, commitments received by banks, or contingent equity line.

The funding of the factoring business is well diversified by source (securitisation 43%, commercial paper 22%, bilateral credit lines 24% and local credit lines 8%), by financial institution (eight banks rated within the 'A' or 'AA' categories), by term (60% short term, 40% medium term) and by concentration (maximum 20%, financed by a single bank).

Holding Company Liquidity/Bank Facilities

Coface SA has a syndicated back-up facility for EUR700 million to back up the commercial paper programme. This facility relates to the factoring business. These back-up credit lines are provided by high-credit-quality banks including: Société Générale (A/Stable), Crédit Agricole (A+/Stable), Natixis (A/Stable), HSBC (AA−/Stable), BNP Paribas (A+/Stable) and BRED Banque Populaire (A/Stable).

In addition, in June 2018 Coface Poland signed an agreement for a €300m syndicated loan, replacing bilateral credit lines lines, as part of the refinancing of its factoring activity. The company is supported in this operation by seven high-credit-quality European banks.

Financial Performance and Earnings

(%)	2013	2014	2015	2016	2017	Fitch's expectation
Net income (EURm)	127.4	125.0	126.2	41.5	83.2	Fitch expects Coface's financial performance to continue to improve in 2018 following the execution of its strategic plan.
Net income return on equity[a]	7.2	7.1	7.3	2.4	4.7	
Pre-tax operating profit return on equity[a]	9.1	11.1	10.9	5.8	8.0	
Net combined ratio[b]	82.5	79.7	83.1	100.6	86.6	
Net loss ratio[b]	53.8	50.4	52.5	65.5	51.4	

[a] Fitch calculated
[b] Reported
Source: Fitch

Strong Earnings Profile; Strategic Plan Under Way

- Strong profitability throughout the cycle
- Strategic plan under way
- Selective risk acceptance

Strong Profitability Throughout the Cycle

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, alongside with stronger client activity, contributed to a 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 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 strengthened significantly its risk-management framework, and Fitch expects this to make profitability less volatile.

The factoring business is expected to continue to contribute favourably to Coface's performance.

Strategic Plan Under Way

Coface's "Fit to Win" strategic plan aims to enhance its financial performance over 2016-2019 through the implementation of three transformation initiatives: reinforcement of risk underwriting management, improvement of operational efficiency and prioritisation of value over growth.

Fitch views this plan as positive for Coface's credit profile as it reinforces the group's risk management processes, while cost savings targets are likely to be met and/or exceeded. We believe its implementation is well on track, which could lead to a strengthening in Coface's franchise and a decrease of its risk profile.

Selective Risk Acceptance

Fitch considers Coface's exposure to risk to be adequate, with more than 80% focused on high-rated risks, as measured by Coface's internal risk-assessment system. The risk-acceptance rate is low for the non-investment-grade category but can be volatile.

Investment, Asset Risk and Liquidity Management

(%)	2013	2014	2015	2016	2017	Fitch's expectation
Risky assets[a]/equity	24.6	41.0	38.0	28.6	32.3	Fitch does not expect any material change in Coface's investment strategy, which remains focused on fixed-income assets, with strict rules and diversification guiding the risk portfolio.
Unaffiliated common stocks/equity	11.3	18.0	19.3	14.1	17.9	
Non-investment grade bonds/equity	12.3	21.9	17.5	13.8	13.4	
Investments in affiliates/equity	1.0	1.1	1.1	0.8	0.9	
Liquid assets/technical reserves	182	195	215	196	202	

[a] Risky assets include sub-investment-grade bonds, equities and affiliates (excluding factoring receivables)
Source: Coface, Fitch

Diversified Investment Strategy; Exposure to Factoring Receivables

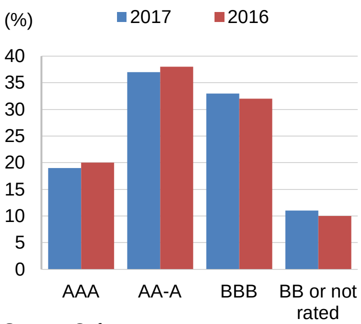
- Diversified investment portfolio
- Foreign-exchange (FX) risk covered by asset-liability matching
- Manageable exposure to factoring receivables
- Strong liquidity

Diversified Investment Portfolio

Coface has a diversified investment strategy and is predominantly invested in fixed-income instruments (64% of total invested assets at end-June 2018) with an average rating of 'A-', and loans (20%) of similar credit quality. The bond portfolio is well diversified by geography, with the eurozone and North America accounting for the largest exposure, and split equally between sovereign and non-sovereign. However, 11% of the bond portfolio was invested in below-investment-grade bonds at end-2017 (stable compared to end-2016).

Equities represented 8% of investments, 30% of which is hedged, and real estate 8%. The risky assets-to-equity ratio, as calculated by Fitch, remains low at around 30%.

Coface Bonds' Portfolio Ratings 2017



Source: Coface

FX Risk Covered by Asset-Liability Matching

A large part of Coface's revenue is earned outside the eurozone, and is therefore exposed to FX risk. However, there is a good currency match between assets and liabilities. The company's strategic asset allocation requires a systematic hedging for euro entities, and asset-liability matching for other entities in case of currency risk.

Manageable Exposure to Factoring Receivables

Coface's factoring receivables accounted for 35% of total assets in 1H18 (in line with the three-year average). Fitch considers these receivables, mainly arising from corporates, as being of moderate quality. Coface has developed an internal scoring system to assess debtor and ceding risks.

The proportion of receivables due and not yet recovered was 26% of total receivables at end-2017 (2016: 21%), an increase linked to business activity, with no non-performing receivables (receivables over 90 days past due), in line with 2016. Fitch considers Coface's exposure to factoring receivables as manageable and that factoring receivables are well diversified across sectors and geographies.

Strong Liquidity

Coface's high liquidity ratio, which is stable at around 200%, suggests liquidity is strong, supported by the quality and short duration (around three years on average, or a maximum of four) of its investment portfolio.

Reserve Adequacy

(%)	2013	2014	2015	2016	2017	Fitch's expectation
Loss reserves/current-year incurred losses (x)	1.9	1.9	1.8	1.7	2.4	Fitch expects Coface to continue to maintain strong reserve levels. Prior-year reserves should continue to contribute positively to results.
Loss reserves/equity (x)	0.5	0.5	0.5	0.6	0.5	
Current-year paid losses/incurred losses (x)	1.0	1.0	0.9	0.8	1.0	
Change in loss reserves/earned premium	0.5	-6.6	0.0	21.4	0.7	
One-year reserve development/prior-year equity	-9.0	-11.8	-11.4	-4.4	-11.5	
One-year reserve development/prior-year loss reserves	-18.5	-25.4	-23.4	-8.8	-20.0	

Source: Fitch

Strong Reserving Practices

- Consistently favourable claims development
- Conservative Reserving Practices

Consistently Favourable Claims Development

Coface's reserving practices have been favourable since 2003 (excluding the underwriting year 2008). The previous years' reserve release impact on the loss ratio was 19% on average over 2013-2017.

Fitch does not expect material changes to reserving practices in the next years, and we believe that the group's conservative reserve levels will support profitability through reserve releases in the coming years.

Conservative Reserving Practices

The technical provisions in the financial statements are valued with a quantile level of 90%, which is significantly higher than the best estimate liabilities. Fitch views Coface's reserving practices as conservative.

Reinsurance, Risk Management and Catastrophe Risk

(%)	2013	2014	2015	2016	2017	Fitch's expectation
Net premiums written/gross premiums written	73.9	79.1	78.9	79.2	74.2	Fitch expects Coface to maintain a ceding ratio at current levels and to continue to purchase prudent reinsurance protection.
Reinsurance recoverables/equity	19.3	18.9	21.7	22.8	24.9	

Source: Fitch

Conservative Reinsurance Programme

- Conservative level of reinsurance programmes
- Reinsurance centralised at group level via Coface Re
- Strong quality of reinsurance providers

Conservative Level of Reinsurance Programmes

Coface has a relatively high reinsurance utilisation ratio due to the nature of the credit insurance business. In 2017, 26% of gross written premiums were ceded to reinsurers (21% in 2016). Fitch views this use of reinsurance positively, as it can absorb some loss-ratio volatility, although it could have a detrimental impact on profitability.

In 2017, Coface increased the limits of its two external excess-of-loss treaties, one per risk and another per country for single risk. Coface also raised its quota-share treaty to 26% from 20% to cover attrition claims. Coface had already added a stop-loss treaty to its reinsurance programme to cover the retention. Deductibles are adjusted annually in relation to the group's net assets and the net annual probable maximum loss (at a 99% confidence level), taking into account internal sharing mechanisms.

Reinsurance programmes are structured so that no more than 3% of the group's total adjusted equity is at risk (net of taxes) from an individual claim, which Fitch views as conservative.

Reinsurance Centralised at Group Level via Coface Re

Since January 2015, Coface Re – the captive reinsurance company of Coface group – has provided internal reinsurance to Coface (including its subsidiaries and branches). The company provides its reinsurance services on a global basis and manages the group's external reinsurance arrangements.

Coface has had a reinsurance policy centralised at group level since 2003, the main objectives of which are to mitigate aggregated losses through a quota-share treaty and excess-of-loss cover, and to protect individual subsidiaries through internal stop-loss programmes. This programme provides the company with a view of the entire group, enabling it to take appropriate actions quickly, which Fitch views positively.

Strong Quality of Reinsurance Providers

The quality of the reinsurance panel is satisfactory: core providers are rated within the 'AA' and 'A' categories. The group's main reinsurance providers are: Hannover Rueck SE (IFS Rating: AA-/Stable); SCOR S.E. (IFS Rating: AA-/Stable); Partner Reinsurance Company Ltd (IFS Rating: A+/Stable); R+V (AA/Stable) and Munich Reinsurance Company (IFS Rating: AA/Stable).

Key Non-Insurance Operations/Exposure

(%)	2013	2014	2015	2016	2017	Fitch's expectation
Factoring business/total revenue	5	5	5	5	5	Fitch expects other activities to remain at current levels, consistent with Coface's intention to focus on its credit insurance activity.
Surety bonds business/total revenue	4	4	3	4	4	

Source: Coface, Fitch

Ancillary Non-Insurance Activities Neutral to Ratings

- Stable factoring business and surety bonds businesses
- Non-insurance activities (debt collection and information services) provide diversification

Stable Factoring and Surety Bonds Businesses

In 2017, factoring activities comprised 5% of total revenue, in line with previous years, and Fitch expects this segment's contribution to remain constant, in line with Coface's strategy to maintain its strong position in Germany and Poland in this segment.

In addition, Coface's offers surety bond solutions in certain markets such as France, Italy, Germany and Austria, which aim to help clients win trade contracts. This activity represented about 4% of Coface's total revenue in 2017, broadly stable compared with previous years.

Non-Insurance Activities Provide Diversification

Fitch views the non-insurance operations (debt collection and information services) as neutral to Coface's ratings, as they remain small compared with the core trade credit insurance services. Revenue generated by the factoring business and ancillary services contributes to earnings diversification, but they are operationally different in terms of risk management, accounting and solvency-reporting standards, and this can absorb resources from the core activities.

Complete Ratings List

Compagnie Francaise d'Assurance pour le Commerce Exterieur S.A.

Long-Term IDR ‘A+’/Stable

IFS Rating ‘AA-’/Stable

Short-Term IFS Rating ‘F1+’

COFACE SA (holding co)

Long-Term IDR ‘A+’/Stable

Short-Term IDR ‘F1’

Commercial paper ‘F1’

Subordinated debt ‘A-’

Coface North America Insurance Company (CNAIC)

IFS Rating ‘AA-’/Stable

Coface Finanz GmbH

Long-Term IDR ‘A+’/Stable

Appendix: Other Ratings Considerations

Below is a summary of additional ratings considerations of a “technical” nature that are part of Fitch’s ratings criteria.

Group IFS Rating Approach

Coface is rated on a group approach, with its main subsidiaries being considered ‘Core’. The ratings of the core entities are therefore based on our evaluation of the strength of the group as a whole.

Notching

For notching purposes, the regulatory environment of France is assessed by Fitch as being Effective, and classified as following a Group Solvency approach.

Notching Summary

IFS Ratings

A baseline recovery assumption of ‘Good’ applies to the IFS rating, and standard notching was used from the IFS “anchor” rating to the operating company IDRs.

Operating company debt

Not applicable.

Holding company IDR

Standard notching was applied between the insurance operating company and holding company IDRs for a group solvency regulatory environment.

Holding company debt

Not applicable.

Hybrids

For the EUR380m subordinated debt issued by Coface SA, and taking into account the irrevocable and unconditional subordinated guarantee of Compagnie française d’assurance pour le commerce extérieur, a baseline recovery assumption of ‘Below Average’ and a non-performance risk assessment of ‘Moderate’ were used. Notching of minus 2 was applied relative to the Compagnie française d’assurance pour le commerce extérieur IDR, which was based on minus 1 for recovery and minus 1 for non-performance risk.

Source: Fitch

Short-Term Ratings

Coface’s Short-Term IFS Rating is ‘F1+’, which is standard when the Long-Term IFS rating is ‘AA-’.

The short-term debt rating of the EUR650 million commercial paper issued by COFACE SA is ‘F1’, which is standard when the Long-Term IDR is ‘A+’. The issue is entirely backed by five credit lines.

Hybrids – Equity/Debt Treatment

Hybrids Treatment

Hybrid	Initial amount (EURm)	FBM[a] Fitch (%)	FBM[a] reg. override (%)	FLR[b] debt (%)
COFACE SA Subordinated debt	380	0	100	100

[a] FBM: Prism factor-based capital model
[b] FLR: Financial leverage ratio. For FLR, % tells portion of hybrid value included as debt in numerator of leverage ratio
Source: Fitch

Criteria Variations

None.

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