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Compania Espanola de Seguros de Credito a la Exportacion S.A.

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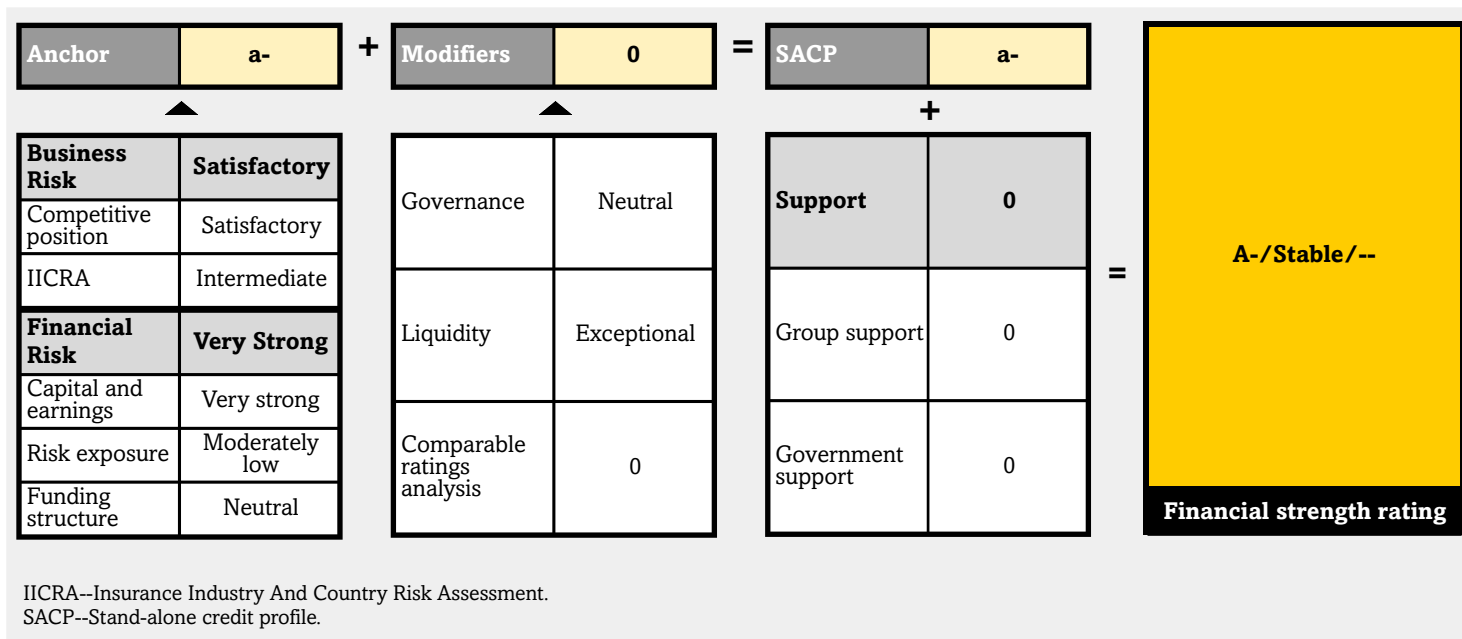
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Compania Espanola de Seguros de Credito a la Exportacion S.A.



Credit Highlights

Overview	
Strengths	Risks
Good position in credit insurance, surety, and information services in Spain and South America.	Potential rise in claims once government support measures expire.
Exclusive agent managing the trade credit insurance on behalf of the Spanish government, which bears the risk.	Limited absolute size and geographic spread compared with its main competitors.
Excellent capital adequacy, according to our risk-based capital model.	High competition in Spain's trade credit market, reducing technical margins.

We anticipate that CESCE will maintain excellent capital adequacy over our forecast period amid the pandemic. We believe that the group will be able to finance increasing capital requirements with retained earnings despite some uncertainties coming from the further development of the pandemic. Furthermore, CESCE has ample capital to absorb capital market volatility and a potential increase in claims.

We expect that CESCE will navigate adverse macroeconomic conditions caused by the pandemic, while maintaining its current position in Spain and South America. We anticipate that losses surging from the pandemic will remain low in 2021 thanks to government support, and we forecast net income of €30 million-€35 million. However, we expect claims will increase in 2022 once support measures expire.

We continue to think that CESCE will remain the exclusive agent of the Spanish government to manage the country's export trade credit activities. Accordingly, we view CESCE as a government-related entity (GRE), although we do not include any explicit support in our ratings on the group.

Nonetheless, its size and lower diversification still constrain the ratings. The group's high business concentration and the pronounced competitiveness in the Spanish credit insurance market continue to influence the rating. CESCE's volumes increased by 8% in 2020, driven by higher volumes and prices due to pandemic-related uncertainties. We expect premiums to further increase by more than 3% in 2021-2022 although low claims in the current year are putting pressure on rates. However, this could revert if claims materially increased following a reduction of state support to the economy. CESCE's limited absolute size and geographic spread compared with its main competitors remain its major rating weaknesses, in our view.

Outlook : Stable

The stable outlook reflects our expectation that the ratings will not change over the next two years. We estimate that CESCE will maintain capital adequacy at excellent levels, according to our risk-based capital model, in spite of the current global recession, while maintaining its premiums base and preserving a good position in the Spanish credit insurance, surety, and information services markets. We also anticipate that CESCE will continue to display good earnings in 2021, with a potential decline in 2022 in light of the pandemic's impact and stabilize again thereafter. We also expect that the company will maintain its exclusive agreement with the Spanish government.

Downside scenario

We could lower our ratings on CESCE if we see a prolonged deterioration of its capital position or its earnings. We may also take a negative rating action if we lower the ratings on Spain to 'BBB+' or lower.

Upside scenario

Ratings upside is unlikely based on CESCE's stand-alone credit characteristics because it would require a significant improvement in the insurer's competitive strength and diversification. For CESCE to benefit from its GRE status under our criteria, we would need to raise our long-term ratings on Spain to 'AA-.

Key Assumptions

- Projected Spanish real GDP average annual growth of 6.3% in 2021 and 6.4% in 2022.
- Spain's unemployment rate increasing to about 15.8% for 2021 from 15.6% in 2020, recovering to 15.0% in 2022.
- Historic low long-term interest rates at 0.6% in 2021 and 1.0% in 2022 from 0.1% in 2020.

CESCE--Key Metrics

	2022f	2021e	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
Gross premium written (mil. €)	>185	>180	175.6	163.2	161.0	156.0
Net income (mil. €)	~5	30-35	35.3	23.6	35.2	22.0
Return on shareholders' equity (%)	~1.5	7.5-8.0	8.0	5.5	8.2	5.1

f--S&P Global Ratings forecast. e--S&P Global Ratings estimate.

Business Risk Profile : Satisfactory

CESCE group has a good position in the Spanish credit insurance and South American surety markets.

The insurer's competitive position and overall profitability benefit from its exclusive agreement with the Spanish government, its main shareholder (50.25%), acting as the trade credit insurer on behalf of the state. For that, CESCE receives fees for the administration of contracts on account of the state without assuming any technical risks. During the pandemic, the Spanish sovereign used CESCE as a vehicle to support the Spanish economy. More specifically, CESCE has been mandated by the Spanish government to provide liquidity access to corporates via credit lines (the total of credit lines can reach €2 billion), with the government bearing the ultimate risk. We also view positively CESCE's information services businesses, which generates fees for the provision of information on counterparties' creditworthiness, with no risk taking.

On its own account operations, CESCE enjoys a market share of about 20% in the Spanish credit insurance sector. It is the third-largest credit insurer in Spain after Credito y Caucion (Grupo Atradius/Catalana Occidente) and Solunion. CESCE is also a leading surety provider in different South American markets, with a contribution to consolidated group premiums of about 30%.

We expect premiums will increase by around 5% in 2021, with price increases mitigating the negative impact of the recession. CESCE's overall earnings will continue to benefit from its state-related business and the information provision business via its subsidiary, Informa.

CESCE cedes between 30% and 40% of its premiums to its reinsurers, as the insurer retains very little risk outside Spain. CESCE's concentration in one segment--which is very competitive and highly sensitive to economic swings--as well as its limited scale and geographic diversification compared with its main competitors, constrain our assessment.

Financial Risk Profile : Very Strong

CESCE's financial risk profile benefits from excellent capital adequacy, which comfortably exceeds the level expected at the 'AAA' range according to our model. Nonetheless, we adjust our view to reflect the absolute small size of the group capital base. CESCE group also displayed a regulatory Solvency II ratio at 242% at year-end 2020.

We expect CESCE will continue to benefit from unusually low claims in 2021, broadly maintaining technical results in line with 2020. We expect that the combined ratio will be at 85%-90% in 2021, including fees and costs related to the state business. This results in a net income of €30 million-€35 million, also supported by its information services business and benefitting from high investment income due to capital gains from the sale of one participation.

We expect that claims will increase in 2022, which will weaken the claims ratio and reduce contribution from investment income. We therefore anticipate a combined ratio of around 100% and net income of about €5 million. We expect the group's overall performance will continue to benefit from strong dividends paid by Informa, the group entity that specializes in the provision of financial information.

CESCE has in place adequate risk controls for all its major risks, with a strong track record of disciplined underwriting. It has demonstrated its ability to increase or cut exposures to countries, sectors, and counterparties quickly via centralized underwriting systems. It has again demonstrated this ability to control risks in 2020 context of the pandemic.

The insurer's investment strategy has historically focused on liquid investments. CESCE's investments are concentrated in Spain (above 80% of the portfolio), mostly in government bonds, meaning the average credit quality of its portfolio is in the 'A' category. We do not expect major changes in CESCE's investment policy or risk appetite that could impact its risk position. Taking into account the low interest environment, however, we expect the company to invest around €6 million-€8 million in real estate, make minor investments in illiquid assets, and extend the maturity of its debt assets.

CESCE has no debt, and we consider its need for extraordinary additional funds to be modest given the capital adequacy, which should be enough to absorb shocks from heightened volatility, as well as growth aspirations.

Other Key Credit Considerations

Governance

The insurer demonstrates a sound risk culture, having maintained strong underwriting in tough market conditions and under different management. We see the strategic planning process as consistent with the insurer's capabilities and market conditions.

Liquidity

CESCE benefits from exceptional liquidity, holding its investments mostly in sovereign bonds and bank deposits.

Government support

We regard CESCE as a GRE that is not insulated from potential intervention by the Spanish government. As such, our ratings on the group cannot be higher than those on Spain.

We think there is a moderately high likelihood of extraordinary government support. Our assessment is based on:

- CESCE's important role for the government, owing to its exclusive remit to support the expansion of Spain's export business with guarantees from the Spanish government; the importance of the credit insurance business to the Spanish economy; the state's record of supporting the credit insurance sector (both domestic and export business) in 2009 via the Consorcio; and the state's support of the economy thanks to credit lines offered via CESCE in the context of the pandemic; and
- CESCE's strong link with the government, following the state's confirmation of intentions to maintain its majority ownership in CESCE (50.25% of shares).

Accounting considerations

In evaluating the property and casualty technical performance, we include the state accounts fees and related costs into CESCE's own accounts on the trade credit and surety business.

Overall profitability and performance also consider revenues generated by CESCE from its other activity as data

provider.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Insurance | Specialty: Trade Credit Insurance Capital Requirements Under S&P Global Ratings' Capital Adequacy Model, Dec. 6, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Appendix

CE SCE--Credit Metrics History

Ratio/Metric	2020	2019	2018	2017
S&P Global Ratings capital adequacy*	Excellent	Excellent	Excellent	Excellent
Total shareholder equity	453.9	425.7	431.0	431.0
Gross premiums written	175.6	163.2	161.0	156.0
Net premiums written	111.3	108.7	101.0	90.0
Net premiums earned	106.4	102.7	93.0	89.0
Reinsurance utilization (%)	36.6	33.4	38.0	42.0
EBIT	45.5	33.1	44.0	30.0
Net income (attributable to all shareholders)	35.3	23.6	35.0	22.0
Return on revenue (%)	21.3	14.4	17.6	11.3
Return on shareholders' equity (reported) (%)	8.0	5.5	8.2	5.1
P/C: net combined ratio (%)	85.0	90.4	93.2	103.7
P/C: net loss ratio (%)	53.7	78.7	73.1	67.2
P/C: net expense ratio (%)	31.3	11.7	20.1	36.5
P/C: return on revenue (%)	26.8	21.5	27.6	20.4
Financial leverage including pension deficit as debt (%)	0.0	0.0	0.0	0.0
Net investment yield (%)	2.8	2.7	5.0	5.0
Net investment yield including investment gains/(losses) (%)	2.3	2.8	5.3	5.9

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of July 29, 2021)***Operating Company Covered By This Report****Compania Espanola de Seguros de Credito a la Exportacion S.A.**

Financial Strength Rating

Local Currency

A-/Stable/--

Issuer Credit Rating

Local Currency

A-/Stable/A-1

Domicile

Spain

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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