Research Update:

Belgian Export Credit Agency Credendo ECA 'AA/A-1+' Ratings Affirmed; Outlook Remains Stable

July 19, 2019

Overview

- We see an almost certain likelihood that Belgian export credit agency Credendo ECA would receive timely and sufficient extraordinary support from its owner, the Belgian government, if needed, and we do not see transition risk.
- We therefore continue to equalize our ratings on Credendo ECA with the sovereign ratings on Belgium.
- As a result, we are affirming our 'AA/A-1+' ratings on Credendo ECA.
- The stable outlook on Credendo ECA mirrors that on Belgium.

PRIMARY CREDIT ANALYST

Christophe Dore
Paris
(33) 1-4420-6665
christophe.dore
@spglobal.com

SECONDARY CONTACT

Simon Virmaux
Paris
+ 33 14 075 2519
simon.virmaux
@spglobal.com

ADDITIONAL CONTACT

EMEA Sovereign and IPF
SovereignIPF
@spglobal.com

Rating Action

On July 19, 2019, S&P Global Ratings affirmed its 'AA/A-1+' long- and short-term issuer credit ratings on Belgian state-owned export credit agency Delcredere/Ducroire (Credendo ECA). The outlook remains stable.

Rationale

The ratings on Credendo ECA mirror those on Belgium (unsolicited; AA/Stable/A-1+), since, in our opinion, there is an almost certain likelihood that the government of Belgium will provide timely and sufficient extraordinary support to Credendo ECA if the company experiences financial distress.

We base our view of an almost certain likelihood of government support on our assessment of Credendo ECA's:

- Critical role in supporting Belgium's trade policy regarding countries with significant political, economic, and credit risk; and
- Integral link with the Belgian government, which fully owns the company, has representatives on its boards, appoints its CEO, and supervises its operations, while also providing a legally binding guarantee for Credendo ECA's obligations. We understand the absence of a chairman

and a vice-chairman of the board (since their resignation in 2017 and 2018) have not been disruptive to the board of directors' activities, to the company's strategy, or to the government controls, and we will continue to monitor the situation.

In our view, reflecting the absence of privatization prospects or questions around the importance and activities of Credendo ECA, the likelihood of government support is unlikely to change. Given the Belgian government's low contingent liabilities, moreover, we believe it has the capacity and willingness to support Credendo ECA in a timely manner if needed. More generally, we do not consider the Belgian government's propensity to support government-related entities to be in doubt.

The Belgian government established Credendo ECA in 1935 with a mandate to support exports and investments abroad. The Belgian government fully owns the company, and we expect this ownership structure will remain stable in the future, in particular because it complies with EU competition rules on state aid. We note that the government has a track record of providing financial support to the company, mainly through capital increases in the 1980s and 1990s following the sovereign debt crises in Africa, Latin America, and Asia.

In light of its status as a federal institution of public interest (class 'C' public institution), Credendo ECA is a not-for-profit company under the direct supervision of the Belgian government. The company acts either on behalf of the state (with a specific trustee mandate), or on its own account with the guarantee of the state. By law, the Minister of Finance must approve all decisions taken by Credendo ECA for the account of the state, and the Minister of the Economy has the power to veto decisions that carry a government guarantee. Owing to national and European regulations, this guarantee applies only to Credendo ECA, and we do not expect an extension of the guarantee to its private subsidiaries. Although Credendo ECA is currently debt free, any future debt issuance would automatically carry a government guarantee according to the legal framework.

Belgium's economy relies heavily on exports, which account for about 88% of GDP. While most of these exports are to European countries, Credendo ECA's activities in emerging markets rely on the risk coverage that private-sector insurers do not undertake, due for example to duration, country exposure, or guarantee size. By responding to this market gap, under the Organisation for Economic Cooperation and Development's export credit agency arrangements, Credendo ECA plays a strategic role for the Belgian economy and government.

Credendo ECA is the parent company of Credendo Group (not rated). We do not believe that the company's strategy to diversify away from traditional export credit activities jeopardizes its role for, or link with, the government. The surpluses from the company's market window activities and the operations of its subsidiaries (including Credendo Single Risk; A-/Stable/--) are intended to contribute to the group's performance and the traditional export credit activities, thereby replacing support from the government's budget. In the context of long-lasting budgetary consolidation, we understand the Belgian government, which actively participates in designing the group's strategy and goals, fully supports this diversification strategy.

As an export credit agency, Credendo ECA does not have to abide by the Solvency II framework. Nevertheless, the company has an extremely strong level of capital adequacy. Its credit insurance activity is inherently volatile, given that sector's sensitivity to global economic cycles and political risks. The company's public mission means that its bottom-line results are of lesser importance, as shown by the fluctuations in its profitability. This further demonstrates that Credendo ECA carries out a strategic mission for the Belgian government that a private-sector entity could not readily undertake, in our view.

After posting strong results in 2017, Credendo ECA recorded a loss in 2018 while maintaining a positive operating result, reflecting lower claims recovery and large negative fair-value losses on its investments portfolio due to poor financial market conditions. The company absorbed the loss without requiring government support. Credendo ECA's consolidated balance sheet totaled €3.03 billion, including €2.53 billion of equity, as of Dec. 31, 2018.

Outlook

The stable outlook mirrors that on Belgium. Because we equalize our long-term rating on Credendo ECA with that on Belgium, any rating action on Belgium would result in a similar action on Credendo ECA.

We would reassess our view on state support to Credendo ECA if we saw weaker links with or reduced importance of its activities to the government, or if its financials deteriorated materially, reflecting potentially reduced importance of its financial standing to the government, which could result in a one-notch downgrade of Credendo ECA. However, we view such scenarios as unlikely.

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
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Belgium 'AA/A-1+' Ratings Affirmed; Outlook Stable, March 22, 2019
- Credendo Single Risk Assigned 'A-' Financial Strength Rating; Outlook Stable, Sept. 05, 2018

Ratings List

Ratings Affirmed	
Delcredere/Ducroire (Credendo ECA)	
Issuer Credit Rating	AA/Stable/A-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.