MOODY'S
INVESTORS SERVICE

Credit Opinion: Coface Seguro de Credito Mexico, S.A. de C.V.

Global Credit Research - 13 May 2015

Mexico

Ratings

Category	Moody's Rating
Rating Outlook	STA
Insurance Financial Strength	Baa1
Insurance Financial Strength--National Scale	Aa1.mx
Coface SA	
Rating Outlook	STA
Commercial Paper	P-2
LT Issuer Rating	Baa2
Compagnie Francaise d'Assurance pour le Comm.	
Rating Outlook	STA
Insurance Financial Strength	A2
ST Insurance Financial Strength	P-1

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Key Indicators

CofaceSegurodeCreditoMexico,S.A.deC.V.[1][2]

	2014	2013	2012	2011	2010
As Reported (Mexican Peso Millions)					
Gross Premiums Written	217	174	156	135	102
Net Premiums Written	46	52	48	36	18
Net income (loss) attributable to common shareholders	(15)	(32)	0	(0)	(3)
Total Shareholder's Equity	74	76	59	59	44
Moody's Adjusted Ratios					
High Risk Assets % Shareholder's Equity	0.0%	0.0%	0.0%	0.0%	0.0%
Reinsurance Recoverable % Shareholder's Equity	183.5%	169.0%	132.1%	86.7%	92.2%
Goodwill & Intangibles % Shareholder's Equity [3]	-	15.7%	16.5%	17.7%	23.9%
Net Total Exposure % Shareholder's Equity	281.4x	184.3x	281.2x	271.5x	116.4x
Net Underwriting Leverage (Credit Insurers)	70.2%	96.4%	94.0%	64.4%	45.3%
Combined Ratio (1 yr avg)	142.8%	180.1%	81.5%	122.3%	131.0%
Sharpe Ratio of ROC (5 yr. avg)	NM	NM	NA	NA	NA
Financial Leverage [3]	-	5.3%	5.3%	4.8%	17.8%
Total Leverage [3]	-	5.3%	5.3%	4.8%	17.8%
Earnings Coverage (1 yr.) [3]	-	27.5x	27.2x	14.8x	17.7x

[1] Information based on Local GAAP financial statements as of Fiscal YE December 31 [2] Certain items may

have been relabeled and/or reclassified for global consistency [3] Information based on IFRS financial statements of COFACE SA as of Fiscal YE December 31

Opinion

SUMMARY RATING RATIONALE

Moody's Baa1 global local currency and Aa1.mx national scale insurance financial strength ratings (IFSR) for Coface Seguro de Crédito México, S.A. de C.V. ("Coface Mexico") consider both the specific credit fundamentals of Coface Mexico and a combination of implicit and explicit support from its parent company (Compagnie Française d'Assurance pour le Commerce Extérieur S.A. ("COFACE", rated A2 for IFS, stable outlook) in the form of intercompany reinsurance agreements, brand sharing, capital contributions, home office management's oversight and controls over local operations.

The ratings reflect the company's strong position in the local credit insurance industry, favorable asset quality (investment portfolio concentrated in Mexican government securities rated A3, stable outlook), dynamic risk monitoring tools and conservative reserving levels. These strengths are offset by the company's weak local statutory profitability net of reinsurance, and its relatively limited diversification from credit insurance (inherently a cyclical industry that can be vulnerable to sharp deteriorations in economic environment), together with a highly competitive environment in the credit insurance industry as a whole. The ratings also consider the country's operating environment and limited insurance market development, as reflected in the low penetration of insurance products in Mexico's economy.

Credit Strengths

- Ownership by, and implicit and explicit support from, COFACE, rated A2 (stable outlook) for insurance financial strength (IFS)

-Strong group-wide position in local and global credit insurance markets, leading position in Latin America

-Dynamic management of exposure and good risk monitoring tools

-Good-quality investment portfolio

Credit Challenges

-Limited size and development of the credit insurance industry in Mexico

-Limited diversification from credit insurance

-Weak historic profitability on statutory basis

-Highly competitive environment in the credit insurance market as a whole

Rating Outlook

The outlook on Coface Mexico's ratings is stable.

What to Watch For:

- Improvement of profitability on a statutory basis

- Improvement/maintaining regulatory capitalization level

- Maintaining good asset quality

What Could Change the Rating - Up

- Substantial improvements in capitalization measured by significant reduction in net total exposure as a proportion of shareholders' equity (e.g. below 200x on a consistent basis)

- Significant increase in market share, while sustaining strong underwriting results and capitalization

- Stronger support from parent in the form of guarantee or keepwell agreement or an upgrade of the parent company's rating

- Improvement in underwriting profitability (net combined ratios below 100% on a consistent basis)

- Upgrade of the Mexican sovereign bond rating.

What Could Change the Rating - Down

- Substantial deterioration in capitalization measured by significant increase in net total exposure as a proportion of shareholders' equity (e.g. above 350x on a consistent basis)

- Reduction of ownership, support from parent company or a downgrade of the parent company's rating

- Downgrade of government bond rating

- Significant decline in the quality of the company's investment portfolio (e.g. allocation of over 20% of its portfolio in high risk assets).

DETAILED RATING CONSIDERATIONS

Moody's rates Coface Mexico Baa1 for insurance financial strength, which is two notches higher than the adjusted aggregate credit profile indicated by the Moody's insurance financial strength rating scorecard, due to a combination of implicit and explicit support from the parent in the form of intercompany reinsurance agreements, brand sharing, capital contributions, home office management's oversight and controls over local operations.

Insurance Financial Strength Rating

The key factors currently influencing the rating and outlook are the following:

Business Profile

MARKET POSITION AND DISTRIBUTION: Baa - SOLID MARKET PRESENCE IN LOCAL CREDIT INSURANCE

Coface Mexico has a relatively good market presence in the Mexican credit insurance market, as the second largest participant with approximately 28% of market share as of December 2014 based, on the industry sector's gross written premiums. Mexico's' credit insurance business is highly concentrated among less than 5 companies, where Coface Mexico has a leading position. In addition, the company's distribution is significantly concentrated through its direct sales force, but brokers play a significant role in line with the commercial line nature of credit insurance. In general, we consider that Coface Mexico has adequate controls over its distribution platform. Consequently, Moody's believes that Coface Mexico's market position and distribution is aligned with expectations at the Baa level for insurers on a global basis indicated in the adjusted indicator in the company's scorecard.

PRODUCT RISK AND DIVERSIFICATION: Baa - ADEQUATE BUSINESS DIVERSIFICATION DESPITE THE COMPANY'S MONO-LINE NATURE

As a consequence of the operating nature of Coface Mexico, the company receives its revenue from only one line of business, credit insurance. Moody's considers that Coface Mexico's product risk and diversification is adequate considering the company's relative granular client base and distribution by economic activity. Moody's believes that the company's relatively short policy duration (one-year on average) provides Coface Mexico's with relatively good business flexibility to monitor and review its underwriting conditions on potential market situations. Constant monitoring form parent company is a positive credit consideration. Moody's views Coface Mexico's product risk and diversification in line with Baa-rating on a global basis.

Financial Profile

ASSET QUALITY: A - CONSERVATIVE INVESTMENT GUIDELINES REFLECTED IN GOOD CREDIT QUALITY OF ITS INVESTMENT PORTFOLIO

As of December 2014, Coface Mexico's investment portfolio was totally concentrated in investment grade credit quality Mexican government securities (rated A3, stable outlook). Also, the company has not had any high risk assets in its investment portfolio historically. As of December 2014, Coface Mexico's reinsurance recoverables represented 1.8x the company's share holders' equity, which is relatively high in comparison with local and regional peers. However, we do not view the leverage as a concern due to the company's very high proportion of ceded premiums to its parent company, as a consequence of the group's internal reinsurance agreements. Also, Coface Mexico does not carry any goodwill or intangible assets in its balance sheet. As a consequence of Coface Mexico's high proportion of government securities, we consider the company's asset quality factor score to be in line with A level expectations for insurers, rather than the Aa indication in the unadjusted factor in the scorecard.

CAPITAL ADEQUACY: Baa - SOLID CAPITALIZATION, WHICH HAS BENEFITED FROM PARENTAL SUPPORT, BUT STANDS CLOSE TO REGULATORY MINIMUM LEVEL SOLVENCY RATIOS

Moody's considers that Coface Mexico's a capital adequacy is relatively good, as measured by the company's relatively low net underwriting leverage which stood at 0.7x as of December 2014. In addition, the company is constantly monitored by its parent company which has capitalized the Mexican subsidiary as required. In recent years Coface Mexico on a statutory basis has not shown an internal capital generation capacity as a consequence of the company's reinsurance agreements and fee schemes, which have eroded net income. As a result, Coface Mexico's parent's capital contribution has been essential for local business development. However, we note that Coface Mexico's solvency margin was close to the minimum regulatory ratio (1.01x as of December 2014). We also note that parental support from parent has been important for its Mexican subsidiary business continuity. As a consequence, Moody's considers Coface Mexico's capitalization in line with Baa level expectations for insurers on a global basis.

PROFITABILITY: B - DETERIORATION IN RESULTS ON A NET BASIS AS A CONSEQUENCE OF REINSURANCE AGREEMENTS

Coface Mexico's profitability has shown historic net losses on a net basis as a consequence of the cost of the inter-company reinsurance agreements with its parent. The company's combined ratios have been in a range between 70%-140% in the last five years on a net-basis, indicating that the reinsurance has been a significant net cost to Coface Mexico on a statutory basis. The company's 5-year average return-on-capital (ROC) has been negative. Considering both measures, i.e. constant losses on a local basis and the reinsurance relationship with parent company, but also Coface's total gross profitability for its Mexican operations, Moody's considers that Coface Mexico's profitability to be consistent with B level expectations for insurers on a global basis rather than the Caa rating indication in an unadjusted basis in the scorecard.

RESERVE ADEQUACY: Baa - ADEQUATE RESERVE EVOLUTION WITH PERMANENT PARENT OVERSIGHT

Coface Mexico's maintains an adequate level of reserves in Moody's opinion, consistent with the risk undertaken. The company is exposed to long-tail casualty liabilities; however, Coface Mexico's parent permanent oversight and constant monitoring are considered positive credit factors. We don't see any indication of reserve inadequacy. As a consequence, our adjusted factor score reflects the company's uncertainties in claim frequency and severity which we consider consistent with the Baa-rating factor indicator in Coface Mexico's adjusted risk factor in the scorecard.

FINANCIAL FLEXIBILITY: Baa - LIMITED BY ITS SMALL SUBSIDIARY STATUS BUT BENEFITING FORM PARENT SUPPORT

Coface Mexico does not have any debt on its balance sheet, and the financial flexibility metrics appearing on our scorecard are those of the consolidated financials of Compagnie Française d'Assurance pour le Commerce Extérieur S.A. ("COFACE"). Moody's considers that Coface Mexico's ownership and operational integration with its ultimate parent company to be a positive credit consideration. However, we also consider Coface Mexico's intrinsic financial flexibility to be limited on a stand-alone basis, given its relatively small subsidiary status. Also, another consideration for this factor assessment is the Mexican capital markets' relatively modest degree of development. We therefore view the company's financial flexibility as being more appropriately positioned at the Baa level, just below the level of the Sovereign rating, and consistent with the highest financial flexibility factor score currently published for insurers in the Latin America region.

Operating Environment: A - INSURANCE INDUSTRY SUPPORTED BY HIGH INSTITUTIONAL STRENGTH

In addition to the company's own business and financial fundamentals, Moody's considers Mexico's operating environment in arriving at our final rating indication for Coface Mexico. Our overall A-level insurance operating environment score, which carries no weight in the scorecard as it is higher than the company's otherwise stand-alone credit profile, is based on an A-range score for systemic risk (reflecting consideration of Moody's Sovereign Risk group's assessment of the country's economic strength (high +), institutional strength (moderate +) and susceptibility to event risk (low)). Overall, the country's operating environment exerts no meaningful impact on Coface Mexico's overall credit profile.

Implicit/Explicit Support

Coface Mexico benefits from the ownership and strong support of Compagnie Française d'Assurance pour le Commerce Extérieur S.A., rated A2 for insurance financial strength. The support is provided through reinsurance arrangements (quota share and excess of loss treaties), as well as the sharing of the parent's brand name, expertise, experience and oversight with its local operations. The combined implicit and explicit parental support results in a two-notch uplift, to Baa1, from Coface Mexico's indicated Baa3 stand-alone credit profile, as indicated on the accompanying scorecard.

Global Local Currency and National Scale Insurance Financial Strength Ratings

Moody's National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale ratings, please refer to Moody's Credit Rating Methodology published in June 2014 entitled "Mapping Moody's National Scale Ratings to Global Scale Ratings".

Coface Mexico's Aa1.mx national scale insurance financial strength (IFS) rating is based on the application of Moody's mapping criteria for a Baa1 global local currency IFS rating to the Mexican national scale.

At the Baa1 global local currency rating level, Coface Mexico's Aa1.mx rating is at the lower of two possible outcomes on the Mexican national scale, as we would likely expect a A3 global rating in order to achieve a Aaa.mx national scale rating.

Rating Factors

CofaceSegurodeCreditoMexico,S.A.deC.V.[1][2]

Financial Strength Rating Scorecard	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adjusted Score
Business Profile								**Baa**	**Baa**
Market Position and Brand (10%)								**Ba**	**Baa**
- Relative Market Share Ratio							**X**		
- Distribution and Access to New Markets			**X**						
Product Focus and Diversification (20%)								**Baa**	**Baa**
- Business Diversification					**X**				
- Flexibility of Underwriting				**X**					
- Risk Diversification					**X**				
Financial Profile								**Baa**	**Baa**
Asset Quality (15%)								**Aa**	**A**
- High Risk Assets % Shareholder's Equity	**0.0%**								
- Reinsurance Recoverable % Shareholder's Equity					**183.5%**				
- Goodwill & Intangibles % Shareholder's Equity [3]	**15.7%**								
Capital Adequacy (20%)								**Aa**	**Baa**
- Net Total Exposure % Shareholder's Equity			**281.4x**						
- Net Underwriting Leverage (Credit Insurers)	**0.7x**								
Profitability (20%)								**Caa**	**B**
- Combined Ratio (5 yr. avg)							**131.6%**		

- Sharpe Ratio of ROC (5 yr. avg)							**NM**		
Reserve Adequacy (5%) - Worst Reserve Development for the Last 10 Years % Beg. Reserves	**0.0%**							**Aaa**	**Baa**
Financial Flexibility (10%) - Financial Leverage [3] - Earnings Coverage (5 yr. avg) [3]	**5.3%**	**13.7x**						**A**	**Baa**
Operating Environment								**Aaa - A**	**Aaa - A**
Aggregate Profile								**Baa2**	**Baa3**

[1] Information based on Local GAAP financial statements as of Fiscal YE December 31 [2] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis [3] Information based on IFRS financial statements of COFACE SA as of Fiscal YE December 31

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

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