

# RatingsDirect®

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## Belgian Export Credit Agency Credendo ECA

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# Belgian Export Credit Agency Credendo ECA

## Major Rating Factors

### Strengths

- Critical role in supporting Belgium's trade policy.
- Integral link with the Belgian government, which provides a legally binding guarantee for Credendo ECA's obligations.

None

### Weaknesses

- Sensitivity to political risks and global economic cycles.

## Outlook

The stable outlook on Credendo ECA mirrors that on Belgium (unsolicited; AA/Stable/A-1+). 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.

### Downside scenario

We would lower our ratings on Credendo ECA if we were to lower our ratings on Belgium.

### Upside scenario

We would raise our ratings on Credendo ECA if we were to raise our ratings on Belgium.

## Rationale

The ratings on Credendo ECA mirror those on Belgium because, in our opinion, there is an almost certain likelihood that the Belgian government 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, supervises its operations, and provides a legally binding guarantee for Credendo ECA's obligations.

We believe the likelihood of government support will not change. The pandemic has further highlighted Credendo ECA's importance to the government. During the pandemic, the government had given new mandates to the company as part of its strategy to support the Belgian economy. Moreover, given the government's low level of contingent liabilities, 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 in doubt.

The Belgian government established Credendo ECA in 1935 with a mandate to support exports and investments abroad. It fully owns the company, and we expect this ownership structure will continue, in particular because it complies with EU competition rules on state aid. The government has a track record of providing financial support to Credendo ECA, mainly through capital increases in the 1980s following 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 state's guarantee. 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 only applies to Credendo ECA, and not its private subsidiaries. Although the company is debt-free, any debt issuance would automatically carry a government guarantee according to the legal framework.

Belgium's economy relies heavily on exports of goods and services, which accounted for about 85% of GDP in 2021. 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 Organization 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 (the group; not rated). We do not believe 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 are intended to contribute to the group's performance. We regard Credendo Short-Term Non-EU Risks (financial strength rating A/Stable/--) and Credendo Short-Term EU Risks (financial strength rating A/Stable/--) as core subsidiaries of Credendo ECA, operating as dedicated entities selling short-term trade credit insurance policies covering risks, respectively, in emerging and developing markets, and in European markets. We regard Credendo - Guarantees & Speciality Risks (financial strength rating A-/Stable/--) as a highly strategic subsidiary of Credendo ECA, operating as a dedicated specialty (excess-of-loss, single risk) and bonding insurance company. 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 excellent level of capital adequacy. Credendo ECA's consolidated balance sheet totalled €3.56 billion, including €2.94 billion of equity, as of Dec. 31, 2021. 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 less important, 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.

Credendo ECA posted an IFRS net profit of €210 million for 2021, reversing 2020's losses. The loss ratio dropped to 8%, thanks to lower defaults and a release of reserves linked to COVID-19-related claims. Positive financial markets trends in 2021 also supported net profit. In 2022, we anticipate an increase of defaults, especially of small and midsize firms, given the current adverse economic environment: extended rising inflation, commodity supply shock, downturn of financial markets, tightening of monetary policies, and the conflict in Ukraine. We anticipate that it will deteriorate profitability of Credendo ECA's activities and its subsidiaries in 2022 but expect recovery in the following years.

Credendo has exposure to Russian and Ukrainian companies and will be affected by the conflict. Still, we expect risk management actions and portfolio diversification to mitigate that impact. Given its level of capital, we think Credendo ECA will demonstrate high resilience to the adverse environment, especially with the guarantee of the Belgian state ultimately backing it up.

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

## Related Research

- Belgium, March 21, 2022
- Credendo Short-Term Non-EU Risks And Credendo Short-Term EU Risks Assigned 'A' Ratings; Outlooks Stable, Feb. 3, 2022

### Ratings Detail (As Of August 18, 2022)\*

#### Delcredere/Ducroire (Credendo ECA)

Issuer Credit Rating

AA/Stable/A-1+

**Ratings Detail (As Of August 18, 2022)\*(cont.)**

**Related Entities**

**Credendo - Guarantees & Speciality Risks**

Financial Strength Rating

*Local Currency*

A-/Stable/--

**Credendo Short-Term EU Risks**

Financial Strength Rating

*Local Currency*

A/Stable/--

**Credendo Short-Term Non-EU Risks**

Financial Strength Rating

*Local Currency*

A/Stable/--

**Holding Company**

Delcredere/Ducroire (Credendo ECA)

**Domicile**

Belgium

\*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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