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Research Update:

Euler Hermes Reinsurance Assigned 'AA-' Rating; Outlook Stable; Euler Hermes Europe Assigned 'A-1+' Short-Term Rating

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Overview

- We consider Euler Hermes Reinsurance AG (EH Re), the captive reinsurer of France-based Euler Hermes group, to be core to its parent group.
- By centralizing the reinsurance needs of all of Euler Hermes' legal entities, EH Re's reinsurance cover matches the group's global reach, which is key to Euler Hermes' risk management.
- We are assigning our 'AA-' long-term rating to EH Re, equal to the ratings on Euler Hermes' core subsidiaries.
- We are also assigning our 'A-1+' short-term rating to Euler Hermes Europe, a core subsidiary of Euler Hermes.
- The stable outlook on Euler Hermes, including EH Re, mirrors the outlook on 68.2%-owner Allianz SE and our expectation that Euler Hermes will remain strategic to its parent company.

Rating Action

On Sept. 22, 2014, Standard & Poor's Ratings Services assigned its 'AA-' counterparty credit and insurer financial strength ratings to Switzerland-based reinsurer Euler Hermes Reinsurance AG (EH Re), the captive reinsurer of France-based Euler Hermes group. The outlook is stable.

We have also assigned our 'A-1+' short-term counterparty credit rating to Euler Hermes Europe SA/NV (EH Europe), a core subsidiary of Euler Hermes, in addition to the existing 'AA-' long-term rating on the company.

Rationale

The ratings on EH Re reflect our view that the reinsurer is core to the Euler Hermes group (core operating entities rated AA-/Stable/A-1+), the leading international trade credit insurance group.

The 'A-1+' short-term rating on EH Europe reflects the 'AA-' long-term ratings on the company. Previously, Germany-based Euler Hermes Deutschland was the only Euler Hermes group entity to which we assigned a short-term rating.

EH Re's core status reflects its full strategic and operational integration with Euler Hermes. EH Re is a captive reinsurer and therefore reinsures only exposures originated by other Euler Hermes group entities. In addition, group

internal cession rates to EH Re and its external reinsurance cover are decided by Euler Hermes, which reinforces our view that EH Re operates more as a division than an autonomous business.

We also base our view of EH Re's core status on the following considerations:

- The Euler Hermes group's franchise has a global reach: Depending on specific regulatory requirements, Euler Hermes must operate in some countries through locally incorporated entities. By centralizing external reinsurance through EH Re, the Euler Hermes group obtains a more effective reinsurance cover based on its global exposure rather than single-country exposures;
- Recourse to external reinsurance is a key part of the Euler Hermes group's strategy to reduce the inherent sensitivity of trade credit to the economic cycle: The use of EH Re facilitates the group's ability to obtain non-proportional reinsurance cover such as stop-loss reinsurance or excess of loss reinsurance on large names, which would mitigate the impact of an unexpected global recession and large obligor default, respectively;
- EH Re's close monitoring of all its inward reinsurance in terms of group underwriting policy reinforces the risk controls of the Euler Hermes group. This applies both to the fully controlled Euler Hermes subsidiaries and the activity of the group's joint ventures; and
- The financial links between EH Re and Euler Hermes are significant: EH Re represented about 50% of group profits in 2013 and close to 30% of the capital base.

We assess Euler Hermes' group credit profile at 'aa-', reflecting our view of its very strong competitive position and strong financial risk profile, as well as its ownership by Germany-based global insurer Allianz SE. The 'AA-' ratings on the Euler Hermes group's core subsidiaries benefit from one notch of support, reflecting the strategic importance of the Euler Hermes group to Allianz SE.

Outlook

The stable outlook reflects that on the ratings on Euler Hermes' other core operating subsidiaries. As a core operating company of Euler Hermes, the ratings and outlook on EH Re will move in tandem with those on the other Euler Hermes core subsidiaries. We do not expect EH Re to lose its core status, but if such an unlikely scenario would occur, we could lower the ratings on EH Re.

The stable outlook on Euler Hermes mirrors the outlook on Allianz SE and our expectation that Euler Hermes will remain strategic to its parent company. A one-notch downgrade of Allianz would result in a similar downgrade of Euler Hermes' core companies. We could lower the rating if we no longer viewed Euler Hermes as strategic to Allianz.

Related Criteria And Research

- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

New Rating

Euler Hermes Reinsurance AG	
Counterparty Credit Rating	AA-/Stable/--
Financial Strength Rating	AA-/Stable/--

New Rating

Euler Hermes Europe	
Short-Term Counterparty Credit Rating	--/--/A-1+

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