



## Fitch Affirms Patria's Ratings; Outlook Revised to Stable

Fitch Ratings-Monterrey-18 June 2019: Fitch Ratings has affirmed Reaseguradora Patria S.A.'s (Patria) International Insurer Financial Strength (IFS) rating at 'A-' and removed it from Under Criteria Observation (UCO). The Rating Outlook is revised to Stable from Negative. Fitch has also affirmed Patria's national scale IFS rating at 'AAA(mex)' with a Stable Outlook.

The Outlook revision on the international rating to Stable from Negative follows the revision of Fitch's global master insurance criteria titled Insurance Rating Criteria in January 2019. The agency has determined that the positive impact from the removal of the top-down sovereign constraints used under the prior criteria exceeds the negative pressure from the revised bottom-up country-risk assessment. As a result, Patria's ratings are no longer directly linked to Mexico's sovereign rating.

### KEY RATING DRIVERS

#### International IFS Rating

Fitch assesses Patria's international ratings relative to other reinsurers globally. While the company's business profile is less favorable than that of many international players, Fitch views it as strong within its region. Patria's business profile is weighted heavily in its ratings and acts as a limiting factor. The ratings are also impacted by an investment portfolio concentrated in Latin America and the entity's significant degree of sovereign related risks through investment in Mexican government bonds.

Patria's ratings also reflect relatively strong capitalization and financial performance that is roughly in line with that of other international players.

Patria's operating scale is more modest than that of many international reinsurance players, although its premium diversification by line of business is good. The business portfolio is heavily focused in Latin America and as of 2018 was 54.1% concentrated in investment grade countries, 33.8% in below investment grade, 0.6% in restricted default and 11.5% not rated. Patria has a solid franchise in Latin American, and differentiates itself via specialized customer service.

Fitch expects Patria's business to continue to expand. Five-year average growth from 2014-2018 was 20% (17% at year-end 2018), above Mexico and Latin-Mexican insurance market, largely driven by production in different currencies. Fitch classifies growth levels as "Neutral" to the rating under its criteria.

Historically, Patria has posted technical profits, although net results have been somewhat volatile due to variability in investment performance. At year-end 2018, Patria's net losses were MXP214 million, impacted by stocks portfolio valuations which resulted in MXP108 million of reported losses to income, compared to profits of MXN546 million at year-end 2017. Nonetheless, the combined ratio in 2018 was 87% (98% including catastrophic reserve development) benefited by 50% loss ratio. Fitch expects that Patria's underwriting policy will allow the company to maintain combined ratios below 100% in the mid-term. However, pressure on overall profitability will continue to be influenced by investment performance, the challenging macroeconomic

environment and the periodic occurrence of natural catastrophic events.

While Patria's capital quality is adequate and its leverage ratios exceed the range for the rating category, Fitch's assessment of the company's capital adequacy is impacted by its significant degree of sovereign related risks through investment in government bonds relative to regulatory capital. Patria's capital is 72% distributed in catastrophic reserves, 15% paid in capital, 10% retained earnings and 3% in other items. The three-year average net leverage ratio was 1.3x, less than 1.4x at year-end 2018. In Fitch's opinion, capital quality will continue, nonetheless, leverage ratios will expand driven by organic growth strategy but remain within the assigned rating category in the mid-term.

Patria's investment portfolio complies with Mexican regulations, and although diversified compared to local peers, shows material concentration in the sovereign debt of Mexico. At year-end 2018, the portfolio was 90% concentrated in investment grade instruments, 6% below investment grade and 3% not rated by Fitch. The risky asset ratio was 29%, and liquid assets to loss reserves were very strong at 3.6x. However, Patria's high level of investment in BBB-' rated Mexican sovereign debt (five-year average ratio of 92%) constrains the investment score.

Fitch believes Patria's exposure to catastrophic risks is well managed. The annual exceedance probability (AEP) for an event of one in 200 years represented 40% of the company's capital at year-end 2018.

#### National IFS

Fitch's affirmation of Patria's national scale rating is influenced by the company's intrinsic financial profile. National scale ratings are assessments relative to the entity's financial quality within Mexico's jurisdiction and consider general relationships between the international and national scales for Mexico.

#### RATING SENSITIVITIES

Given the company's current business profile, which Fitch scores at 'bbb+' and is heavily weighted in the rating, Fitch would not envision an upgrade for Patria over the rating horizon.

A downgrade could be driven by a material deterioration in Patria's financial performance reflected in declines in the ROE or increases in the combined ratio. Material declines in capitalization or leverage ratios could also pressure the rating. The ratings would also be sensitive to a downgrade of Mexico's sovereign rating to below investment grade given the large investment concentrations and/or a decline in Mexico's country ceiling to less than 'A-'.

A downgrade of the national scale rating would come from a multi-notch downgrade of the international IFS rating.

#### FULL LIST OF RATING ACTIONS

Fitch has taken the following rating actions:

Reaseguradora Patria S.A.

--International IFS affirmed at 'A-' and removed from Under Criteria Observation; Outlook revised to Stable from Negative;

--National IFS affirmed at 'AAA(mex)'; Outlook Stable.

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#### Applicable Criteria

Insurance Rating Criteria (pub. 11 Jan 2019)

Metodología de Calificaciones en Escala Nacional (pub. 02 Aug 2018)

Metodología de Calificación de Seguros - Efectivo desde enero 12, 2018 hasta mayo 13, 2019 (pub. 12 Jan 2018)

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