Reaseguradora Patria, S.A.

Full Rating Report

Ratings

International

Long-Term IFS	A–
Outlook	Stable

National

Long-Term IFS	AAA(mex)
Outlook	Stable

IFS – Insurer Financial Strength.

Financial Data

Reaseguradora Patria, S.A.

(USD Mil.)	12/31/2017
Equity	102
Catastrophic Reserves	184
Total Assets	629
Operating Revenue	5
Net Income	8
Combined Ratio (%)	103%
ROA (%)	1.1%

Source: Reaseguradora Patria, S.A.

Related Research

Mexico (March 2018)

Global Reinsurance Results Dashboard (January 2018)

2018 Outlook: Mexican Insurance (Moderate Growth and Pressure in Profitability Throughout the Sector) (December 2017)

Analysts

Eugenia Martínez
+52 (81) 8399-9155
eugenia.martinez@fitchratings.com

Rosa Turrubiartes
+52 (81) 8399-9127
rosa.turrubiartes@fitchratings.com

Key Rating Drivers

Moderate Business Profile: Fitch Ratings views Reaseguradora Patria S.A.'s business profile as moderate due to the company's focused position in the Latin American market and the geographic diversification of 67% of its portfolio outside its domestic jurisdiction of Mexico. The ratings also consider Patria's small size relative to its international reinsurer peers, with net written premium of USD149 million in 2017.

Catastrophic Reserves, Surplus to Equity: Considering Mexican regulation, Fitch accounts catastrophic reserves as part of Patria's equity when calibrating leverage, profitability and exposure relative to international reinsurance peers. Patria's regulatory equity (USD102 million) grows 181% when adding the catastrophic reserves (USD285 million). Fitch views this capital as of lower quality than paid in capital or retained earnings, as it can only absorb catastrophe losses and not adversity from other risks.

Strong Leverage Ratios: The company's leverage ratios are lower than those of its relevant international peers. Net leverage ratio was 1.5x (4.2x using stated equity) in 2017 and the regulatory solvency index was 1.6x.

Profitability to Improve: Patria's combined ratio could be below 100% in 2018 absent high impact events, in Fitch's opinion. The expectation considers the company's appropriate underwriting policies, good claims control and conservative retrocession program. Patria's loss ratio was 55% in 2017. However, acquisition costs represented 34% of the net premiums written (NPW, Mexican market average of 18%), which translated to a combined ratio of 103% in 2017.

Efficient Investment Policy: Fitch assesses Patria's investment strategy as aggressive compared to the Mexican market but consistent with international peers. Patria's risky assets ratio was 43% (124% using stated equity) at YE 2017. Of the portfolio, 93% is allocated in investment-grade instruments, of which 71% is concentrated in bonds issued by the Mexican government (rated BBB+). Market risk is less than 3.5% of the portfolio.

Little Reliance on Retrocession: Patria is not dependent on retrocession but buys protection to reduce volatility when market pricing is attractive. The annual exceedance probability (AEP) for an event of one in 1,500 years represented 47% of the company's adjusted capital at YE 2017.

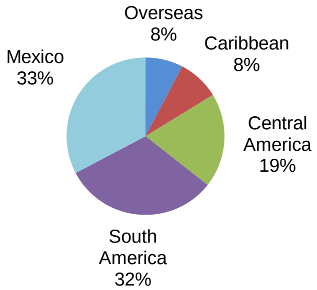
Rating Sensitivities

Limited Business Size: Business profile considerations limit the upside of the rating due to the company's small capital and premium base relative to large global players who compete in the reinsurance market.

Weakened Financial Profile: The rating could be downgraded if the five-year average net leverage ratio rises above 1.5x and profitability is adversely affected by high catastrophic and/or financial losses.

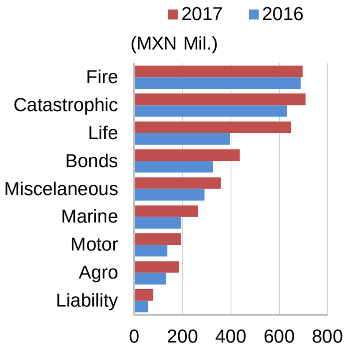
Sovereign Downgrade: Negative movements in Mexico's Country Ceiling and sovereign rating may cause a review of Patria's rating.

Geographic Premium Breakdown
(2017)



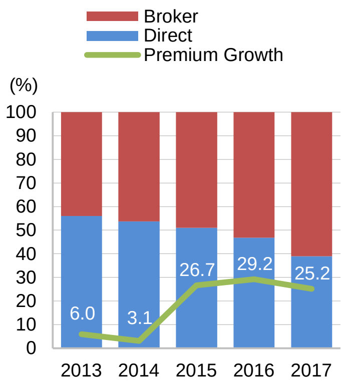
Source: Patria.

Premium Breakdown
(2016–2017)



Source: Patria.

Distribution Channels



Source: Patria.

Related Criteria

Reinsurance (Global) Sector Credit Factors (February 2018)

Insurance Rating Criteria (November 2017)

Business Profile

Strong Market Position in Latin-America

- Moderate business profile.
- Substantial degree of premium and geographic diversification.
- Consistent strategy.

Moderate Business Profile

According to Fitch's criteria guidelines, Patria's business profile is considered to be moderate, although small relative to most global reinsurer competitors. Patria maintains a relevant market position in Latin America, with total NPW below USD500 million and equity below USD1 billion, despite its small size relative to international peers (Patria's NPW USD149 million and adjusted equity USD285 million). Patria's NPW growth average of 27.9% from 2015 to 2016 was generalized by a line of business confirming the entity's continuous expansion plan, compared with 25% from 2016 to 2017.

Substantial Degree of Premium and Geographic Diversification

In Fitch's opinion, Patria's portfolio is highly diversified and similar to relevant international peers. The company's premium geographic broadening is one of the largest within the Mexican insurance market. Patria's concentration on specific client index is 3.9% as of December 2017, which represents an adequate ratio, according to Fitch.

Patria provides reinsurance coverage to almost all market segments in Latin America through multichannel distribution (brokerage firms: 61% and direct business: 39%), making it one of the region's most complete and diversified reinsurers. The company's reinsurance business is geographically well diversified, given it is conducted in almost all Latin American countries and regions (Mexico, 33%; South America, 32%; Central America, 19%; Caribbean, 9%; overseas, 8%).

The reinsurance P&C branch is the largest activity within the company and is effectively the flagship business. As is usual in reinsurance companies participating in Latin America, written premiums are led by catastrophic and fire coverages, both with 20% of total premiums as of December 2017, while life coverage accounts for 18%. Furthermore, bonds (12%), other miscellaneous branches (10%), marine (7%) and motor (5%) have been growing rapidly, leading to a more balanced split between non-life and short-term life reinsurance.

Consistent Strategy

Patria's holding company, Peña Verde S.A.B., was authorized in December 2015 to open a syndicate at Lloyd's, SPA6125, to develop reinsurance business on a worldwide basis.. Operational guidelines will continue under the scope of Peña Verde, while front and back office will be managed by business partners. The corporation will lead to major opportunities in tightly integrated services around client-defined clusters. Also, clients will continue to benefit from more convenient and better coordinated access to complementary services and improved outcomes that were expensive and unaffordable before. According to Patria, this integration will improve communication and efficiency and develop team expertise. In Fitch's opinion, Patria's holding project, aimed at significantly increasing company's efficiency, has yet to deliver its full benefits.

Ratings Range Based on Business Profile

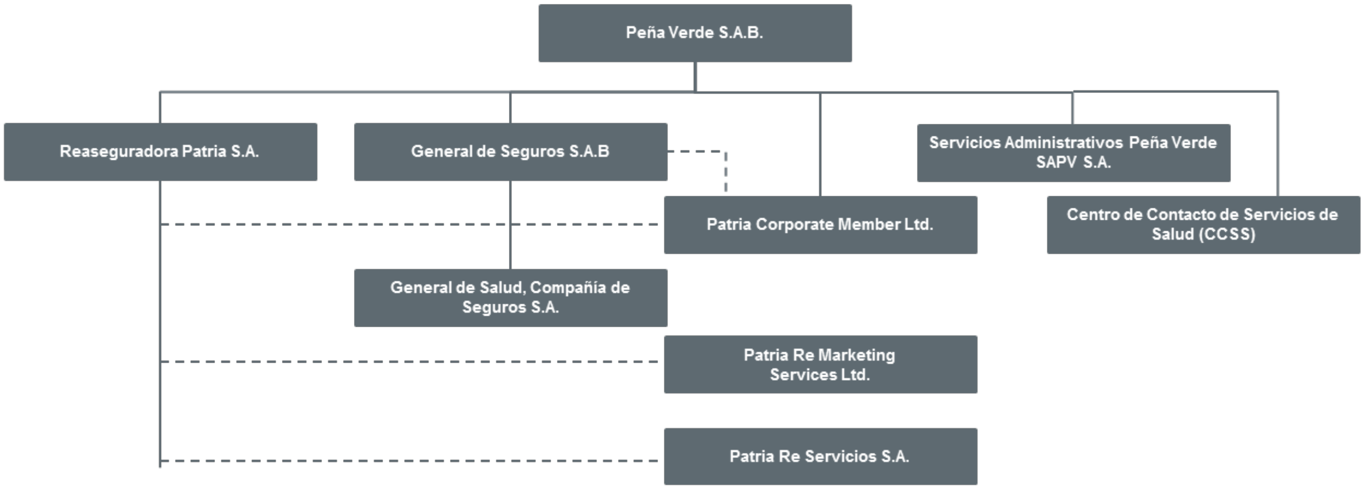
Corporate Governance and Management

Corporate governance and management are adequate and effective, and are considered neutral to the rating. Patria fully complies with Mexican regulatory guidelines in regards of the constitution and responsibilities of the board.

Ownership Is Neutral to Rating

Patria was founded in 1953 by a group of Norwegian investors based in Mexico. General de Seguros was founded in 1970. Ownership is now concentrated in Peña Verde, which now owns 99.5% of Patria and 85.8% of General de Seguros. The ownership of Peña Verde remains concentrated in two family shareholders, Escobedo and Luttman, with a small float in the open market. Public ownership is neutral to the rating.

Organizational Structure — Peña Verde S.A.B.
(As of May 2018)



Source: Peña Verde S.A.B.

Presentation of Accounts

This report was based on audited financial information from 2013 to 2017. Managerial reports and unaudited financial information were also used. Auditor opinion was unqualified.

Sovereign and Country Related Constraints

Fitch rates the long-term local currency sovereign obligations of Mexico at 'BBB+' with a Stable Outlook and the Country Ceiling is 'A'. Fitch places a cap on all foreign currency ratings to reflect the agency's view on risk of transfer and convertibility (T&C) risks due to potential imposition of foreign exchange controls in periods of sovereign crisis. In very select cases, an entity can be rated above the Country Ceiling if it is structurally shielded from T&C risks. According to Fitch's criteria, Patria's Insurer Financial Strength is treated as a foreign currency obligation due to its high level of premium concentration (approximately 67%) in 70 countries, as of YE 2017. Investment allocation is diversified by currency.

Industry Profile and Operating Environment

Reinsurance Sector Outlook Negative Due to Competitive Factors

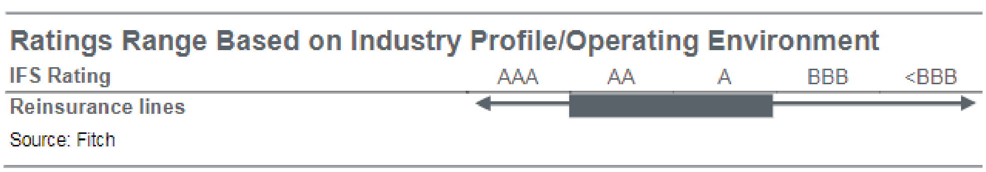
Reinsurers reported lower profitability in 2017 driven by near-record catastrophe losses and soft reinsurance prices. Although the reinsurance market environment is expected to improve as a result of the significant third-quarter 2017 catastrophe losses, uncertainty remains as to the extent and duration of such improvement.

Low investment yields represent an increasing risk to the reinsurance sector, with interest rates potentially set to remain at current low levels. The diminishing reinvestment rate achieved on reinsurers' investment portfolios, many of which have a duration of less than three years, will place a greater strain on earnings, coinciding with inadequate premium rates.

Fitch views the ability for reinsurers to continue to generate positive prior-year reserve development as becoming increasingly important and more challenging within the context of difficult market conditions. Reserves have been prudently managed across the sector in recent years, with most reinsurers demonstrating a positive track record of prior-year development.

Catastrophe bonds and collateralized reinsurance reached record levels in 2017, and strong investor appetite means that market conditions support further issuance into 2018. Fitch expects insurance-linked securities to compete strongly into 2018 and to offer expanded capacity in competition with the traditional market.

Fitch believes there could be further M&A activity across the global reinsurance sector in 2018. Deals could involve foreign entities looking for acquisitions as they seek to diversify and develop business outside of their home regions and core markets.



Peer Analysis

Steady Operating Performance Compared With Peers

Patria has smaller gross premiums and equity than global reinsurers, as the company is domiciled and ruled by Mexican regulation, which has a great impact on Patria's financial profile, especially in terms of investments and reserve constitution. Nevertheless, the entity's premium diversification and financial ratios are consistent compared with relevant international peers.

Fitch believes the company is strong enough to withstand a sovereign crisis and has a wide business profile. We have placed greater importance on key qualitative factors of the company, such as corporate governance and management, the balance sheet, performance and other key quantitative factors. These strengths are relative to peers and industry averages.

Mexican regulation requires the creation and accumulation of catastrophic reserves, which are material for Patria. Fitch considers catastrophic reserves as part of Patria's equity when calibrating leverage, profitability and exposure to that of international reinsurance peers. Entities operating catastrophic branches must create technical reserves, calculated by best estimate (BEL) plus risk margin, and insurer's must constitute catastrophic reserves to cover policyholder's liabilities only in the occurrence of an event. Patria's catastrophic reserves represent 181% of equity.

Peer Comparison Table

(USD Mil.)	IFS	Net Premium Written (USD)	Equity (USD)	Net Premium Written/ Equity (x)	Combined ratio (%)	Risky assets / Equity (%)	Net Premium Written/Gross Premium Written (%)
Reaseguradora Patria[a]	A–	118	285[a]	0.4[a]	103.6	34.8	83.9
Malaysian Reinsurance Berhad	A–	277	277	0.9	97.2	19.2	N.A.
Sirius International Insurance Corporation	A–	938	2,239	0.4	85.6	39.2	75.6
SIGNAL IDUNA Rueckversicherungs AG	A–	86	143	0.6	102.8	26.8	80.0
Validus	A	2,359	4,004	0.6	86.3	28.8	89.1
Alleghany	A+	5,092	7,940	0.6	90.8	55.3	88.0
Axis	A+	3,753	6,272	0.6	93.9	50.3	67.3
RenaissanceRe	A+	1,871	6,042	0.3	73.8	31.8	69.2
Arch Capital Group	A+	4,031	9,106	0.4	89.6	44.0	79.3
Peer's Median	N.A.	1,405	4,004	0.6	90.8	35.5	79.6

[a]Adjusted equity considers catastrophic reserves. N.A. – Not available.
Source: Patria, Fitch Solutions.

Capitalization and Leverage

	2013	2014	2015	2016	2017	Fitch's Expectation
Total Equity (USD Mil.)	119	102	111	88	102	Capitalization to stabilize and remain around 1.5x after new regulatory framework implementation and highly catastrophic year.
Total Adjusted Equity (USD Mil.)[a]	264	260	282	257	285	
Solvency Regulatory Index	3.2	3.6	3.9	1.5	1.3	
Gross Leverage (x)	1.0	1.0	1.0	1.2	1.6	
Net Premiums Written/Adjusted Equity (x)	0.42	0.38	0.38	0.46	0.52	

[a]Including catastrophic reserves.Note: Before 2015 based on minimum capital requirement and from 2016 based on Solvency Capital Requirement; according to changes in regulatory framework.
Source: Patria, Fitch Solutions.

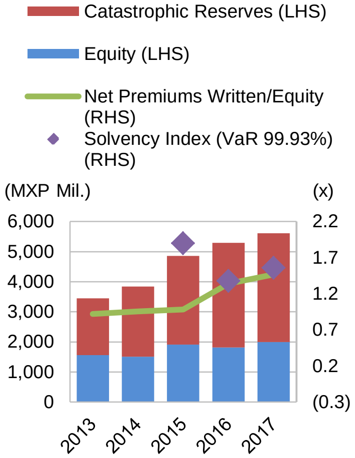
Strong Capitalization, Despite Challenging Environment

- Catastrophic reserves, surplus to equity.
- Leverage pressed by natural events and regulatory changes.
- Strong capital, although concentrated in lower degree of monetization items.

Catastrophic Reserves, Surplus to Equity

Mexican regulation requires the constitution of technical reserves using best estimate liabilities (BEL) plus risk margin methodology. As surplus, regulation also requires a creation of catastrophic reserves; nevertheless, regulator defines a maximum limit for accumulating such reserves. Patria's equity as of YE 2017 totals USD102 million, and expanded 181% to USD285 million when considering catastrophic reserves as equity. Fitch adjusts equity-related ratios, as the agency considers catastrophic reserves to be surplus to equity.

Equity Analysis



Source: CNSF, Patria, Fitch Solutions.

Leverage Pressed by Natural Events and Regulatory Changes

Patria's leverage ratios have grown since 2016 mainly driven by higher reserve development carried out as part of new regulatory framework. Underwriting leverage, measured by NPW/adjusted equity, remains at 0.4x on a five-year average compared with 0.5x at YE 2017, and non-adjusted ratio's five-year average is at 1.1x. Fitch believes the reinsurer's well-sustained capital profile stems from its sound capital management and stringent regulation.

Management slowed the trend of catastrophic reserves growth to release the pressure on capital as of December 2017. Catastrophic reserves grew 4%, below the 19% average from 2012–2016, despite 10% regulatory equity expansion. As an average, technical reserves grew faster at 26% in 2013–2017 compared with NPW at 15%, due to new regulation based on Solvency II principles that adjust Patria's equity and leverage ratios. Technical reserves and NPW grew 46% and 21%, respectively, as of YE 2017 and equity grew 6% from 2016.

Strong Capital, Although Concentrated in Lower Degree of Monetization Items

The agency has limited entity's capitalization and leverage risk factor due its high concentration in a lower degree of monetization items, such as catastrophic reserves, despite Patria's higher rating category leverage ratios. Patria's higher quality equity items based on monetization level, such as paid in capital and retained earnings, averaged 19% and 16%, respectively, while the company's catastrophic reserves of lower quality items averaged 64% from 2013 to 2017.

Fitch expects the company to maintain ratios within guidelines, despite Patria's leverage ratio growth since 2016. Furthermore, solvency regulatory index stood at 1.3x as of 2017, compared with 1.5x at 2016.

Financial Performance and Earnings

(%)	2013	2014	2015	2016	2017	Fitch's Expectation
Return on Equity	(3.8)	(3.6)	25.8	1.8	6.6	Patria's adjusted combined ratio likely to stabilize around 100%.. The company should continue to generate underwriting results in line with or better than peers over time.
Combined Ratio	96	108	102	109	103	
Acquisition Costs / Net Written Premium	37	38	33	35	34	
Changes in Gross Premium	(5.4)	3.1	26.5	29.4	25.2	
Financial Income / Net Written Premium	3	12	36	16	19	

Source: Patria, CNSF.

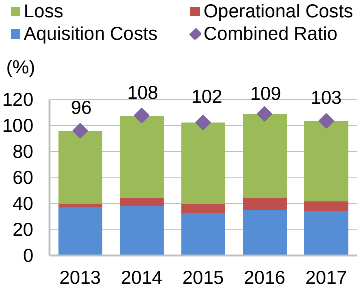
Decelerated Operating Performance

- Prudent underwriting to manage bottom line profitability.
- Loss ratio pressed by regulatory changes and catastrophic events.
- Underwriting costs — still room for improvement.
- Earnings volatility from new regulatory rules and financial income.

Prudent Underwriting to Manage Bottom Line Profitability

Fitch assessed Patria's premium growth relative to the industry as neutral. Patria's expansion above 20% is higher than the Mexican market's average (14%) as of YE 2017 due to its large diversification outside of Mexico. The company adopts a prudent underwriting approach with careful risk selection. Fitch believes Patria's efforts will favor its projected growth of 19% in 2018, mainly through the representation office in Chile, deeper penetration in current business lines and markets, and developing new lines of business. Another growth factor is the company's diversification plan according to geographic region, branch and type of business.

Adjusted Combined Ratio Performance
(2013–2017)



Source: CNSF, Patria, Fitch Solutions.

Loss Ratio Pressed by Regulatory Changes and Catastrophic Events

Patria's five-year average combined ratio (104%) stood in the upper bound of relevant peers. The entity maintains its appropriate underwriting policies and pricing techniques, its low participation in high-frequency business lines (auto/health), good internal claims control and its conservative retrocession protection. Patria has been able to maintain below-average loss ratios over the past five years (53% average from 2013 to 2017). Patria's loss ratio stood at 55% at YE 2017 compared with 62% at YE 2016, due to the regulator's inclusion of agriculture risk margin into its models.

Patria also faced a high-catastrophe related year in 2017, accounting USD67 million in losses, more than 65%, due to Windstorm Maria that affected the Caribbean region. Nevertheless, net losses expanded only 1% compared with 2016, supported by Patria's retrocession program. According to catastrophic reserves, reinsurance receivables of ongoing claims reached USD94 million, from USD37 million in 2016.

Fitch expects Patria's combined ratio to fall below 100% in 2018 due to the stabilization of regulation implementation, although performance is constrained by the absence of high magnitude events.

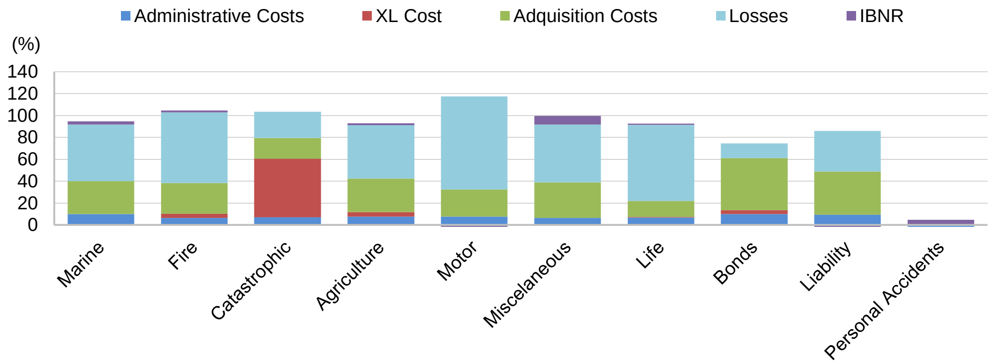
Underwriting Costs — Still Room for Improvement

Acquisition costs represent a large share of Patria's income statement (34% of NPW in December 2017) similar to other reinsurance companies operating in the region. This is due to the relevance of proportional treaties in the portfolios of most insurers in the region (65% in Patria's book as of December 2017). Patria's relatively high acquisition cost ratio is also explained largely by the participation in bonds, with an acquisition cost of 49% as of

December 2017 and fire (35%), which require relatively high commissions to ceding companies or intermediaries.

Fitch considers Patria exposed to a potential deterioration in the competitive environment, although the agency expects its efforts will reduce operating expenses to gradually lower its combined ratio and sustain its financial performance during the downward part of the reinsurance cycle. In addition, the larger proportion of Patria's premiums is generated outside the broker channel, which may mitigate its sensitivity to the inherent cyclicality of the underwriting environment.

Profitability by Product
(2017)



Source: Patria.

Earnings Volatility from New Regulatory Rules and Financial Income

The company's net financial income is volatile following the trend in the macroeconomic environment, which averaged 17% of Patria's NPW from 2013–2017; the volatility measured as standard deviation of the period was 11%, which reflected a lowest level of 3% in 2013 and a maximum level of 36% in 2015.

Investment and Asset Risk

(%)	2013	2014	2015	2016	2017	Fitch's Expectation
Liquid Assets/ Loss Reserves[a]	288	263	282	259	194	Patria's exposure to risky assets will remain high. However, financial risk is monitored and stable.
Cash and Deposits / Loss Reserves	9	7	14	8	5	
Risky Assets / Equity	64	77	70	137	124	
Risky Assets / Adjusted Equity	28	29	27	46	43	
Investment Yield	3.7	2.7	15	16.6	8.0	

[a]Liquid assets: Cash and Deposits plus Government Bonds; Adjusted Equity includes catastrophic reserves.
Source: CNSF, Patria, Fitch Solutions.

Adequate Investment Portfolio Management

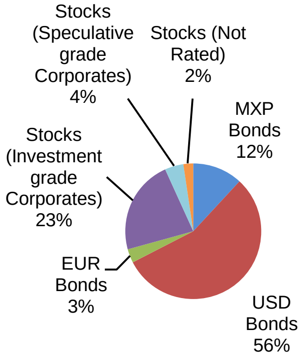
- Good portfolio quality, despite high risky assets/equity ratio.
- Manageable balance of losses recoverable from reinsurers.

Good Portfolio Quality, Despite High Risky Assets/Equity Ratio

Fitch believes the company's investment policy is aggressive, as it has a large exposure in stock portfolio due to higher yields, lower overall portfolio concentration and fiscal savings. Fitch's assessment toward Patria's risky assets/equity ratio addresses how the company would potentially generate sufficient liquidity to fund claims. Stringent Mexican regulation requires conservative catastrophic reserves constitution policy along with high allocation on government bonds and investments listed only on Mexican stock exchange market.

Patria exhibits on its balance sheet a participation of 65% in government bonds and 26% in variable-income investments (Mexican industry: 12%) as of December 2017, risky assets/regulatory equity ratio stood at 124% compared with 137% at YE 2016. Exposure is higher than company's five-year average (95%) due to the regulatory requirement of accounting investments at market value instead of book value, applicable since 2016. Fitch's adjusted ratio considers the high base of catastrophic reserves (190% of equity) assuming that catastrophic reserves may be used to cover such obligations, should the reinsurer suffer a catastrophic event. Patria's risky assets/adjusted equity ratio fell to 43% as of 2017 (five-year average 35%), which is in the upper bound of international peers.

Market Value Portfolio Breakdown
(2017)



Source. Patria.

Patria's portfolio quality is stable with 93% of investments allocated in above-investment grade instruments as of 2017, according to Patria's international business model. Market, credit and liquidity risk, measured as value-at-risk (VaR) models, resulted in 3.15%, 0.48% and 0.17% of equity (market) and admissible own funds (credit and liquidity), respectively, with a 95% confidence level as of March 2018. The company performs a detailed analysis on financial risks due to the volatility implied on stocks.

Manageable Balance of Losses Recoverable from Reinsurers

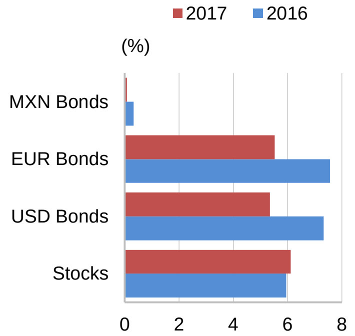
Patria's consolidated reinsurance receivables on unpaid losses and loss expenses totaled USD125 million at YE 2017 and USD59 million at YE 2016 following a high-catastrophic year. The magnitude of reinsurance balances creates a credit risk exposure to retrocessionary entities as well as increased potential for retrocessionary disputes, which represents a manageable 22% and 42% of corresponding adjusted equity in 2017 and 2016, respectively. However, in Fitch's opinion, this risk is mitigated by the company's proven record in recovering losses from the reinsurance markets. The good credit quality of Patria's security list also helps mitigate this risk, as the largest reinsurance receivables are due mainly from highly rated reinsurers.

Asset/Liability and Liquidity Management

(%)	2013	2014	2015	2016	2017	Fitch's Expectation
Liquid Assets / Loss Reserves	288	263	282	259	194	Asset/liability and liquidity management to remain according to historical performance due to Mexican regulatory framework.
Liquid Assets / Unearned Premium and Loss Reserves	153	144	157	147	118	
Bond Portfolio Average Duration	3.88	4.11	2.31	1.83	1.56	

Source: Patria.

Market Value-at-Risk



Source: Patria.

Strong Asset and Liability Management

- Strong liquidity to support insurance liabilities.
- Robust financial risk management.

Strong Liquidity to Support Insurance Liabilities

Patria's balance sheet supports its insurance claims and payments comfortably, with liquid assets accounting for 194% of loss reserves and 118% of both unearned and loss reserves in YE 2017. The ratio has been maintained consistently above 100% over the last five years, highlighting the company's well-sustained liquidity strength. The company's bond portfolio averaged 1.56 years in December 2017, consistent to its short-tailed liabilities.

Robust Financial Risk Management

Patria's portfolio market risk, measured as VaR, was at 95% and confidence level stood at a low 3.15%, while liquidity risk for a 20-year period resulted in 0.17% of admissible own funds as of March 2017. Due to its core financial structure, bonds credit risk is quite low and is measured on both, national and international scale basis.

Reserve Adequacy

	2013	2014	2015	2016	2017	Fitch's Expectation
Loss Reserves / Incurred Losses (x)	1.58	1.64	1.47	1.56	2.42	Strong reserve adequacy to remain due to Mexican regulatory framework and Patria's experience in reserving.
Loss Reserves / Adjusted Equity (x)	0.27	0.30	0.27	0.37	0.55	
Reserve Development / Net Written Premium (%)	7	3	3	13	18	
Technical Reserves / Adjusted Equity (x)	0.50	0.54	0.49	0.65	0.90	

Source: Patria.

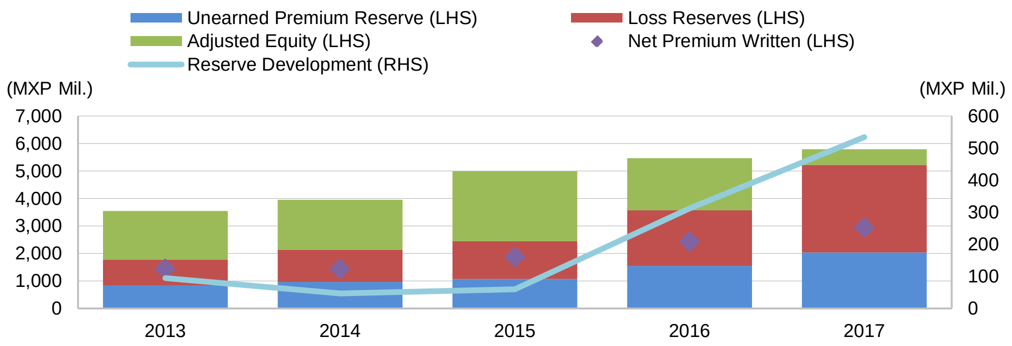
Reserves Remain Strong, Despite Catastrophic Events

- Strong reserve adequacy.
- Reserving in accordance with regulations.

Strong Reserve Adequacy

Fitch calculated Patria's loss reserves relative to incurred losses and adjusted equity and assessed the company's reserve profile as Medium. Patria's net reserves totaled USD265 million at December 2017, up from USD173 million at YE 2016 due to added reserves from the third-quarter 2017 catastrophe losses. Net reserves will decline as catastrophe claims are paid out. Patria's business is more short tail, with property reinsurance as the largest line, causing a low level of net reserve adjusted leverage five-year average of 0.62x, which results in somewhat less reserve volatility compared with other, longer-tail reinsurers.

Reserve Leverage
(Evolution)



Source. Patria.

Reserve growth is evaluated as Neutral considering Patria's five-year average loss reserve growth of 28% and net earned premium expansion of 11%, compared with 57% and 14%, respectively, in 2017 due to severe catastrophic events. Experience in reserving considers company's reserve evolution relative to NPW, which maintains a high correlation with regulatory changes which explains reserve development since 2016, according to the implementation of new regulatory framework.

Reserving in Accordance With Regulations

Patria adopts a prudent loss-reserving approach, estimating reserves through an internal actuary that uses best estimate plus risk margin calculation, as required by regulator. An external actuarial auditor reviews Patria's reserves on a yearly basis. The company also owns a highly-technical actuarial team whose recommendations are followed.

Reinsurance, Risk Management and Catastrophe Risk

- Sound retrocession backing and robust risk management.
- Increased losses recoverable from reinsurers.
- Well-managed catastrophe exposure.

Sound Retrocession Backing and Robust Risk Management

Patria was historically more reliant on retrocession than other major reinsurers participating in the region, although similar to international peers. Over the past 10 years the company maintained an 85% NPW/gross premium written ratio average (82% at YE 2017 with a target minimal retention of 75%).

The reinsurance buying strategy enables Patria to decrease volatility by 27.3% and decrease risk capital by 51% over 200 years. Patria is not dependent on retrocession but rather, buys catastrophic protections to reduce the volatility of its results by taking advantage of the retrocession market offered.

Patria’s retrocession security pool remains strong in its life and non-life segments, with a large number of good credit quality reinsurance companies. The largest reinsurance companies participating in Patria’s retrocession contracts are with highly rated international reinsurers. The selection is dynamic as Patria evaluates retrocession purchase, taking advantage of the opportunities, but establishing a long-term partnership with retrocessionaries.

Patria’s risk management model is advanced and has proven effective in monitoring and mitigating the company’s risks as worldwide economic conditions have deteriorated. Risk management has taken a central role within the organization and Fitch expects further progress in enterprise risk management to aid in the identification, quantification and control of risks. Fitch views Patria’s exposure management as effective and will continue to follow the rating developments in Patria’s new business.

Increased Losses Recoverable from Reinsurers

Reinsurance recoverables totaled USD94 million at YE 2017, up from USD37 million at YE 2016 due to recoveries from third-quarter 2017 catastrophe losses, but still represent a manageable 32% of adjusted equity. Reinsurers are generally of a high credit quality, with the vast majority of reinsurers rated in the ‘A’ or ‘AA’ range.

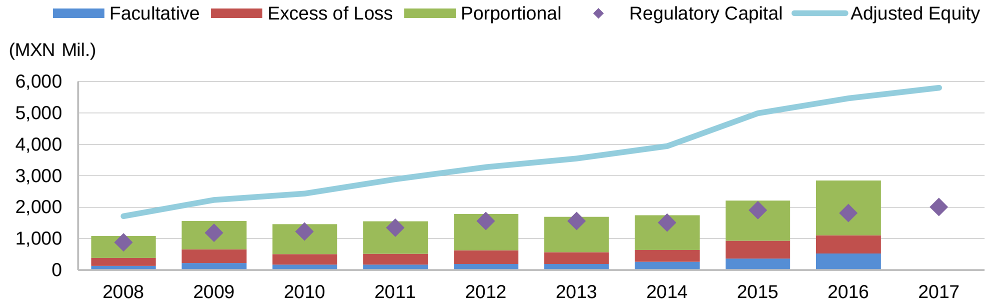
Well-Managed Catastrophe Exposure

Patria is exposed to catastrophe events, such as windstorms and earthquakes in Mexico, Chile and the Caribbean. The company’s largest AEP net loss estimate was USD135 million at March 2018 for both earthquake and windstorm perils occurring at the same time, which represents about 47% of adjusted equity and 73% of catastrophic reserves.

In Patria’s retrocession assessment, Fitch considers the target regulation, which requires accumulating catastrophic reserves until the companies are 90% solvent for an event of 1,500 years probable maximum loss (PML) without reinsurance cover.

Appendix A: Additional Financial Exhibits

Premium and Equity Development
(10 years)



Source: Patria.

Appendix B: Other Ratings Considerations

Group Insurer Financial Strength (IFS) Rating Approach

The group IFS rating approach is not applicable for this company.

Notching

Fitch classifies Mexican regulatory environment as following a ring-fencing regime. Patria is a licensed reinsurance company in Mexico.

Criteria Variations

None.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.