

22 MAY 2023

Fitch Affirms Patria's Ratings; Outlook Stable

Fitch Ratings - Mexico City - 22 May 2023: Fitch Ratings has affirmed Reaseguradora Patria S.A.'s (Patria) international and national Insurer Financial Strength (IFS) ratings at 'BBB+' and 'AAA(mex)', respectively. The Rating Outlooks for both ratings are Stable.

The affirmation reflects Patria's 'Very Strong' capitalization, 'Adequate' investment and liquidity risk, 'Less Favorable' company profile within the global reinsurance sector and 'Very Strong' financial performance.

Key Rating Drivers

Transfer and Convertibility Risk: Patria has transfer and convertibility (T&C) risk with more than 25% of its policy obligations in a foreign currency (YE 2022: 81%). Under Fitch's criteria this means Patria's IFS rating must be treated as a foreign currency (FC) rating, and so it is constrained by Mexico's Country Ceiling. Patria's international FC IFS rating of 'BBB+' reflects a one-notch downward adjustment for T&C risks relative to an implied 'A-' IFS rating excluding such risks. The pre-T&C indication reflects only local currency risks.

Global Reinsurance View: Patria's company profile considers its global reinsurance Industry Profile and Operating Environment (IPOE) because more than 70% of Patria's premium portfolio is from outside of its country of domicile (México).

Steady Company Profile: Fitch views Patria's business profile as less favorable ('bbb+') than other larger global reinsurance companies due to its limited operating scale compared to global reinsurer scale. However, Patria owns a solid franchise in Latin America with good credit quality, significant underwriting experience and deep knowledge of the region. Patria also demonstrates continuous growth overseas with 33% in 2022.

Very Strong Capitalization: Patria's risk-adjusted capitalization is measured by Fitch's Prism Factor-Based Capital Model (Prism FBM) score. In 2022 the score was 'extremely strong' vs. 'very strong' in 2021, as Prism available capital was strengthened by retained earnings and a catastrophe reserves increase. The Prism score is slightly offset by Patria's exposure to catastrophe risks that may pressure capitalization in major catastrophe stress scenarios.

Adequate Investment and Asset Risk: Investment and asset risk is capped by the sovereign investment concentration risk. This ratio was above 100% in 2022 but rated at 'bbb-', as per Fitch criteria. Patria's investment strategy in 2022 focused on reducing the term of their instruments and reinvesting the principal of matured instruments and proceeds of other assets sold in short-term instruments, mainly in sovereign instruments.

Very Strong Financial Performance: Patria's performance and earnings were very strong in 2022. Its combined ratio improved to 84.1% in 2022 from a three-year average of 87.7%, benefited from diversification, growth in premiums from new business and hard reinsurance market and lower claims than expected.

Premiums mix and grew in line of business (LOB) other than catastrophe balanced the increase in catastrophe reserves with the technical result that turned into positive operating income for MXN309 million (USD15.9 million), which historically has been negative, de-leveraging net income from investment income.

Catastrophe Risks: Fitch views a strong management of its exposure to catastrophes risk with a high credit quality retrocession pool. The company's net annual aggregate catastrophe losses-to-capital ratio of 16.0% in 2022 compared better than 25.1% in 2021.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--The ratings would be sensitive to an upgrade of Mexico's sovereign rating and country ceiling;

-- An upgrade in the national scale rating is not possible since the rating is already positioned in the highest level of national scale ratings.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--The ratings would be sensitive to a downgrade of Mexico's sovereign rating to below investment grade given the investment concentrations and/or a decline in Mexico's country ceiling to less than 'BBB+';

--A deterioration of Patria's Prism FBM score to 'strong';

--The national scale rating would be negatively affected by a multi-notch downgrade of Patria's international rating.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR	
Reaseguradora Patria, S.A.	LT IFS	BBB+ ●	Affirmed	BBB+ ●

ENTITY/DEBT	RATING	RECOVERY	PRIOR
	Natl LT IFS	AAA(mex) 	Affirmed
			AAA(mex) 

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Insurance Rating Criteria \(pub.15 Jul 2022\) \(including rating assumption sensitivity\)](#)

[Metodología de Calificaciones en Escala Nacional \(pub.22 Dec 2020\)](#)

[Metodología de Calificación de Seguros \(pub.04 Aug 2022\)](#)

[National Scale Rating Criteria \(pub.22 Dec 2020\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.8.0 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Reaseguradora Patria, S.A. EU Endorsed, UK Endorsed

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