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AM Best Affirms Credit Ratings of Reaseguradora Patria, S.A.

MEXICO CITY, November 5, 2020—AM Best has affirmed the Financial Strength Rating of A (Excellent), the Long-Term Issuer Credit Rating (Long-Term ICR) of “a” and the Mexico National Scale Rating of “aaa.MX” of Reaseguradora Patria, S.A. (Patria Re) (Mexico). AM Best also has affirmed the Long-Term ICR of “bbb” of Patria Re’s ultimate parent, Peña Verde, S.A.B. (Peña Verde) (Mexico). The outlook of these Credit Ratings (ratings) is stable. Per AM Best’s criteria procedure on insurance holding companies, Peña Verde’s rating reflects a standard notching from Patria Re’s Long-Term ICR and is in line with companies at the same rating level.

The ratings reflect Patria Re’s balance sheet strength, which AM Best categorizes as strongest, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management.

Patria Re’s balance sheet assessment of strongest is supported by the same assessment on its risk-adjusted capitalization, as measured by Best’s Capital Adequacy Ratio (BCAR), as well as low underwriting leverage, a robust reinsurance program and strong liquidity metrics. The ratings also reflect its comprehensive enterprise risk management infrastructure and expansive knowledge of its core markets in Latin America, which are reflected in the company’s smooth implementation of its expansion strategy. Furthermore, the company continues to conservatively expand its overseas operations despite the current limitations due to the COVID-19 pandemic.

Partially offsetting these strengths is Patria Re’s recent operating performance, impacted by volatile investment market conditions due to Mexico’s unfavorable economic environment, and more recently due to the

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COVID-19 crisis. However, the company continues to re-underwrite and improve the quality of its underlying book of business. Although concerns remain related to the company's equity holdings, as well as with some catastrophe-prone lines of business, Patria Re has implemented actions to mitigate these exposures.

Patria Re has established a solid niche position in Mexico and Latin America, which provides it access to profitable and diversified product offerings tailored to specific markets. This strategy has resulted in consistently favorable underwriting results and has contributed to Patria Re's enhanced risk-adjusted capitalization. A well-balanced reinsurance program placed among counterparties with a strong security level also reinforces the company's risk-adjusted capitalization. Furthermore, the company's underwriting leverage has remained at conservative levels for the past five years.

As of August 2020, the company reported a negative bottom-line result, mainly due to the establishment of catastrophe reserves. However, without these reserves, the company would have generated favorable results, driven mainly by underwriting improvement initiatives. The company's efforts to maintain stable claims and management expenses, coupled with strong underwriting practices, will remain key to maintaining a profitable profile.

The stable outlooks on Patria Re's ratings are derived from its strongest level of balance sheet strength, the hardening of the reinsurance market and adequate strategy in terms of market development and capital efficiencies.

Factors that could lead to positive rating actions include continued strong underwriting and overall results in conjunction with the maintenance of risk-adjusted capitalization at the strongest level, as well as the continued and successful operation of Patria Re's overseas expansion. Factors that may lead to negative rating actions include a sustained decline in profitability, significant deterioration in risk-adjusted capitalization and unsuccessful operations of the company's overseas expansion plans.

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The methodology used in determining these ratings is Best’s Credit Rating Methodology, which provides a comprehensive explanation of AM Best’s rating process and contains the different rating criteria employed in the rating process. Best’s Credit Rating Methodology can be found at www.ambest.com/ratings/methodology.

Key insurance criteria reports utilized:

- Evaluating Country Risk (Version Oct. 13, 2017)
- Understanding Universal BCAR (Version June 11, 2020)
- Catastrophe Analysis in AM Best Ratings (Version Oct. 13, 2017)
- Available Capital & Holding Company Analysis (Version Oct. 13, 2017)
- AM Best’s Ratings on a National Scale (Version Oct. 13, 2017)
- Scoring and Assessing Innovation (Version March 5, 2020)

View a general description of the [policies and procedures](#) used to determine credit ratings. For information on the meaning of ratings, structure, voting and the committee process for determining the ratings and monitoring activities, please refer to [Guide to Best’s Credit Ratings](#).

- Previous Rating Date: Nov. 1, 2019.
- Date Range of Financial Data Used: Dec. 31, 2014-Aug. 31, 2020

This press release relates to rating(s) that have been published on AM Best's website. For additional rating information relating to the release and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this release, please see AM Best’s [Recent Rating Activity](#) web page.

AM Best does not validate or certify the information provided by the client in order to issue a credit rating.

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