

RATING ACTION COMMENTARY

Fitch Affirms Patria's Ratings; Outlook Stable

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Fitch Ratings - Mexico City - 21 May 2024: 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: Reaseguradora Patria, S.A. has transfer and convertibility (T&C) risk, with more than 25% of its policy obligations in a foreign currency (YE 2023: 81%). Under Fitch's criteria, this means Patria's IFS rating must be treated as a Foreign Currency (FC) Rating, and therefore, 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.

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Solid Capitalization: Patria's risk-adjusted capitalization was extremely strong at year-end 2023, as indicated by Fitch's Prism Global model, bolstered by increases in shareholders' equity through retained earnings and heightened catastrophe reserves. While Patria's catastrophe risk exposure has grown, due to portfolio expansion and inflation, potentially impacting its Prism model score, this hasn't affected the overall capitalization assessment.

In 2023, Patria's solvency capital requirement (SCR) coverage ratio decreased to 1.25x from 1.37x in the previous year. This reduction was mainly due to an increase in the company's risk exposure. Despite the decline, the ratio still met the minimum regulatory standards. Patria intends to bolster its capital primarily through the earnings it generates, rather than by adding to its catastrophe reserve. The capital, which is recognized as tier 1 capital according to local regulations, will maintain the SCR coverage ratio within Patria's target range of 1.4x to 1.6x.

Adequate Investment and Asset Risk: Investment and asset risk is capped by the sovereign investment concentration risk. This ratio was above 100% in 2023, but rated 'bbb-' per Fitch criteria. Patria shifted its investment strategy in 2023, opting to extend the duration of its instruments, concentrated in sovereign instruments, to capitalize on higher interest rates, which led to an increase in the proportion of risky assets to capital to 48.5% in 2023 from 29.5% in 2022.

Financial Performance Remains Strong: Patria's financial performance was very strong despite challenges in 2023, such as claims from Hurricane Otis and higher retrocession costs. This was offset by premium growth and higher investment income. The three-year average combined ratio remained favorable at 83.1%. Acquisition costs were higher, but could be mitigated by improved pricing.

Net income fell slightly to MXN201 million in 2023 from MXN237 million in the previous year, with the return on average equity (ROAE) at year-end down to 2.0% from a three-year average of 2.6%. Fitch anticipates Patria's performance to recover in 2024, supported by normal catastrophe events, risk diversification, strategic retrocession, and solid investment income.

Catastrophe Risks: Fitch views the company's exposure to catastrophes risk as strongly

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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 at the highest level of Fitch's national ratings scale.

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 Global model score to 'Strong';

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

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

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Reaseguradora Patria,
S.A.

LT IFS BBB+ Rating Outlook Stable

BBB+ Rating
Outlook
Stable

Affirmed

Natl LT IFS

AAA(mex) Rating
Outlook
Stable

AAA(mex) Rating Outlook Stable Affirmed

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APPLICABLE CRITERIA

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

[Metodología de Calificación de Seguros – Efectiva del 28 de agosto de 2023 al 2 de abril de 2024 \(pub. 28 Aug 2023\)](#)

[Insurance Rating Criteria \(pub. 04 Mar 2024\) \(including rating assumption sensitivity\)](#)

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 \(1\)](#)

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