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AM Best Affirms Credit Ratings of Sofimex, Institucion de Garantias S.A.

MEXICO CITY, January 28, 2021—AM Best has affirmed the Financial Strength Rating of A- (Excellent), the Long-Term Issuer Credit Rating of “a-” and the Mexico National Scale Rating of “aaa.MX” of Sofimex, Institucion de Garantias S.A. (Sofimex) (Mexico City, Mexico). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect Sofimex’s balance sheet strength, which AM Best categorizes as very strong, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management.

The ratings also reflect Sofimex’s strong operating performance in terms of profitability and competitiveness within Mexico’s surety bond market, as well as its strongest level of risk-adjusted capitalization, as measured by Best’s Capital Adequacy Ratio (BCAR). These positive rating factors are limited by AM Best’s view of the highly competitive market in which the company operates, and the currently challenging economic environment.

Sofimex is a Mexico-domiciled surety and bond company that was established in 1940. The company offers surety and fidelity coverages, ranging from low limit judicial bonds to high limit contract bonds. As of September 2020, Sofimex’s business portfolio was composed of administrative sureties (86.5%), credit (6.1%), judicial (3.8%) and fidelity (3.6%).

Sofimex projects an 11% gross written premium growth rate for 2021 while staying in line with its recent

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profitability metrics. AM Best believes that, as one of Mexico’s largest surety underwriters, and with a good distribution network and disciplined underwriting, Sofimex has sufficient resources to maintain a stable stream of net income amid current market conditions.

Sofimex continued to post a sound underwriting performance in 2019 and up to September 2020. In 2019, the company’s loss ratio increased to 10.4% from 7.9%, which was offset by a decline in acquisition costs. The company’s operating performance metrics show very low volatility, a positive trend in premium sufficiency, and compare well with the industry. Retention remained stable at 67%. Overall, the company has been able to maintain a combined ratio below 70% over the past five years.

Sofimex’s risk-adjusted capitalization has remained at the strongest level, as measured by BCAR, and supportive of its ratings, even when stressed by possible losses from contingent claims. Furthermore, Sofimex has an appropriate reinsurance program with highly rated reinsurers and long-term business relationships.

Positive rating actions could occur if the company is able to maintain its current levels of premium sufficiency, increase profitability and, as a consequence, further strengthen its risk-adjusted capitalization. Negative rating actions could occur if underwriting performance deteriorates, if there is a significant increase in business risk, as a result of a high concentration in the construction sector, or as a result of uncertainty with regard to the government’s spending in infrastructure, which could impact the growth of the surety market.

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)

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- Available Capital & Holding Company Analysis (Version Oct. 13, 2017)
- Rating Surety Companies (Version Oct. 13, 2017)
- A.M. 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: Jan. 24, 2020
- Date Range of Financial Data Used: Dec. 31, 2013-Sept. 30, 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.

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