

### Best's Credit Rating Effective Date

February 03, 2023

### Best's Country Risk Reports Utilized

[Mexico - CRT - 3](#)

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### Information

[Best's Credit Rating Methodology](#)

[Guide to Best's Credit Ratings](#)

[Market Segment Outlooks](#)

### Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

## Sofimex, Institucion de Garantias S.A.

AMB #: 091478 | AIIN #: AA-2730044

### Best's Credit Ratings

Financial Strength Rating (FSR)

<b>A-</b>
<b>Excellent</b>
Outlook: <b>Stable</b>
Action: <b>Affirmed</b>

Issuer Credit Rating (ICR)

<b>a-</b>
<b>Excellent</b>
Outlook: <b>Stable</b>
Action: <b>Affirmed</b>

### Assessment Descriptors

Balance Sheet Strength	<b>Very Strong</b>
Operating Performance	<b>Strong</b>
Business Profile	<b>Neutral</b>
Enterprise Risk Management	<b>Appropriate</b>

## Rating Rationale

### Balance Sheet Strength: **Very Strong**

- Strongest level of risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), driven by consistently positive bottom-line results.
- Conservative investment portfolio, mainly concentrated in fixed-income securities.
- Highly rated reinsurance panel constituted mostly by proportional contracts.

### Operating Performance: **Strong**

- The company has generated a stable return on gross written premium across different business cycles and changing markets.
- Low volatility in metrics and stable business mix despite bumpy 2021.
- Overall profitability supported by sound underwriting practices backed up by consistent investment results.

### Business Profile: **Neutral**

- Surety and bond insurance company domiciled in Mexico.
- The company is ranked within the top five issuers for surety in Mexico.
- Geographically, premiums are concentrated in Mexico City.

### Enterprise Risk Management: **Appropriate**

- Sofimex complies with all the requirements derived from the Solvency II regulation.
- Appropriate and diversified reinsurance program.
- The company has established limits of exposure to risks, which are monitored and reviewed regularly.

### Outlook

- The stable outlooks reflect the expectation that Sofimex will maintain a balance sheet assessment in the very strong range over the intermediate term with strong operating results contributing to surplus growth needed to support its operation.

### Rating Drivers

- Positive rating actions could occur if the company is able to further strengthen its capital management while maintaining the strongest level of risk-adjusted capitalization.
- Negative rating actions could occur if underwriting performance deteriorates or 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 on infrastructure, which could impact the growth of the surety market.

## Key Financial Indicators

AM Best may recategorize company-reported data to reflect broader international reporting standards and increase global comparability.

### Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	72.0	71.0	71.0	70.0

Source: Best's Capital Adequacy Ratio Model - Global

AMB #: 091478 - Sofimex, Institucion de Garantias S.A.

<b>Key Financial Indicators</b>	<b>2021 MXN (000)</b>	<b>2020 MXN (000)</b>	<b>2019 MXN (000)</b>	<b>2018 MXN (000)</b>	<b>2017 MXN (000)</b>
Net Premiums Written:					
Non-Life	1,244,528	1,152,186	1,171,365	1,122,394	955,006
Composite	1,244,528	1,152,186	1,171,365	1,122,394	955,006
Net Income	267,567	553,155	498,585	434,847	386,110
Total Assets	5,773,428	5,737,623	5,173,162	4,520,404	4,043,614
Total Capital and Surplus	3,910,160	3,599,877	3,251,905	2,862,287	2,536,341

Source: BestLink® - Best's Financial Suite

<b>Key Financial Indicators &amp; Ratios</b>	<b>2021 MXN (000)</b>	<b>2020 MXN (000)</b>	<b>2019 MXN (000)</b>	<b>2018 MXN (000)</b>	<b>2017 MXN (000)</b>	<b>Weighted 5-Year Average</b>
Profitability:						
Balance on Non-Life Technical Account	73,975	491,567	453,328	420,116	357,548	...
Net Income Return on Revenue (%)	16.8	44.6	35.9	35.8	37.5	33.1
Net Income Return on Capital and Surplus (%)	7.1	16.1	16.3	16.1	16.3	14.0
Non-Life Combined Ratio (%)	95.3	54.2	61.7	61.2	61.0	68.2
Net Investment Yield (%)	5.2	4.1	5.7	4.2	4.1	4.7
Leverage:						
Net Premiums Written to Capital and Surplus (%)	31.8	32.0	36.0	39.2	37.7	...

Source: BestLink® - Best's Financial Suite

## Credit Analysis

### Balance Sheet Strength

Sofimex has an appropriate and diversified reinsurance program. Quality of capital is adequate, considering low underwriting leverage ratios, conservative investment policy and low amount of intangible assets.

### Capitalization

Risk adjusted capital stands at strongest as reflected by BCAR at 99.6% VaR as of YE 2021, underpinned by capital base expansion (12% CAGR) supported on consistent profitability (6% ROE), in conjunction with decreased business risk (contingent claims), and lower net PMLs partially resulting from increased reinsurance capacities. Equity and premiums risk drive capital requirements, the former resulting mainly from affiliated private investments.

Company's capital efficiency well reflected by low NPW/Surplus ratio.

<b>Capital Generation Analysis</b>	<b>2021 MXN (000)</b>	<b>2020 MXN (000)</b>	<b>2019 MXN (000)</b>	<b>2018 MXN (000)</b>	<b>2017 MXN (000)</b>
Beginning Capital and Surplus	2,893,736	2,619,401	2,305,983	2,055,353	1,771,573
Net Income	231,710	515,233	468,731	400,153	357,664
Net Unrealized Capital Gains (Losses)	9,630	12,676	24,785	166	17,377
Stockholder Dividends	...	-253,000	-180,000	-149,995	-89,999
Other Changes in Capital and Surplus	263	-574	-98	306	-1,262
Net Change in Capital and Surplus	241,603	274,335	313,418	250,630	283,780
Ending Capital and Surplus	3,135,339	2,893,736	2,619,401	2,305,983	2,055,353
Net Change in Capital and Surplus (%)	8.3	10.5	13.6	12.2	16.0

Source: BestLink® - Best's Financial Suite

<b>Liquidity Analysis (%)</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Liquid Assets to Total Liabilities	235.8	198.9	198.1	206.2	196.7
Total Investments to Total Liabilities	250.1	211.1	211.4	218.1	209.0

Source: BestLink® - Best's Financial Suite

## Balance Sheet Strength (Continued...)

### Asset Liability Management - Investments

Sofimex's investment portfolio remains highly liquid mostly allocated to fixed income securities, mainly government-backed obligations, in line with its ALM profile. Company also has exposure to UDIs in order to leverage the high inflation landscape, as well as to dollar nominated assets.

<b>Composition of Cash and Invested Assets</b>	<b>2021 MXN (000)</b>	<b>2020 MXN (000)</b>	<b>2019 MXN (000)</b>	<b>2018 MXN (000)</b>	<b>2017 MXN (000)</b>
Total Cash and Invested Assets	4,660,003	4,512,319	4,061,699	3,616,677	3,150,435
Cash (%)	0.1	0.2	0.2	0.1	0.1
Bonds (%)	92.5	92.0	91.9	93.3	92.4
Equity Securities (%)	1.6	2.0	1.6	1.1	1.6
Real Estate, Mortgages and Loans (%)	3.6	3.6	4.5	4.0	4.4
Other Invested Assets (%)	2.1	2.1	1.8	1.5	1.5
Total Cash and Unaffiliated Invested Assets (%)	100.0	100.0	100.0	100.0	100.0
Total Cash and Invested Assets (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

### Reserve Adequacy

The regulatory guidelines in Mexico require two categories of reserves for surety and fidelity writers, in-force reserve and contingency reserve. The technical reserve is reduced upon expiration of the bond or payment of a claim against the bond. Additionally, the Mexican regulation requires surety and fidelity writers to maintain a contingency reserve based on actuarial estimates. This reserve may not be reduced except with the consent of CNSF.

### Operating Performance

Despite contraction in the Mexican surety market driven by adverse economic conditions in the past years, business has grown marginally since 2021 supported mainly by administrative bonds providing coverage to government sponsored projects.

Historically, profitability has emanated from both underwriting practices as well as investment results with very low volatility and comparing well with the industry.

Underwriting performance during 2021 suffered a setback led by a large claim non recurrent event. Nonetheless, acquisition and operational expenses continued adequately contained, and investment income also helped offset such loss. As of Sept 2022, combined ratio bounced to recovery levels.

Balance on combined technical account historically has shown a positive growth trend despite the slow growth of the Mexican market in recent years. The company has generated a stable return on gross written premium across different business cycles and changing markets.

The company posts consistently good and stable underwriting performance metrics, derived from competent claim management, as well as constant efforts to make the company more efficient, and adaptable to changes in the market.

<b>Financial Performance Summary</b>	<b>2021 MXN (000)</b>	<b>2020 MXN (000)</b>	<b>2019 MXN (000)</b>	<b>2018 MXN (000)</b>	<b>2017 MXN (000)</b>
Pre-Tax Income	289,040	737,250	685,742	573,443	486,453
Net Income after Non-Controlling Interests	267,567	553,155	498,585	434,847	386,110

Source: BestLink® - Best's Financial Suite

## Operating Performance (Continued...)

Operating and Performance Ratios (%)	2021	2020	2019	2018	2017
Overall Performance:					
Return on Assets	4.6	10.1	10.3	10.2	10.0
Return on Capital and Surplus	7.1	16.1	16.3	16.1	16.3
Non-Life Performance:					
Loss and LAE Ratio	55.0	6.9	10.4	7.9	17.2
Expense Ratio	40.3	47.3	51.3	53.3	43.8
Non-Life Combined Ratio	95.3	54.2	61.7	61.2	61.0

Source: BestLink® - Best's Financial Suite

## Business Profile

Sofimex, Institucion de Garantias S.A. (formerly Afianzadora Sofimex, S.A.) is a Mexico domiciled surety and bond insurance company that was established in 1940. The company offers surety and fidelity coverages ranging from low limit judicial bonds to high limit contract bonds. The company is also authorized to conduct trust operations and has a designated area to service this business.

Main clients are individuals or corporations that are suppliers of goods or services and contractors that have been awarded construction, procurement and concession contracts by local and federal government agencies, as well as individuals, which require guaranteeing such contracts through surety bonds; mainly of the administrative business line.

The portfolio mix continues spearheaded by administrative bond, providing also coverages for credit, judicial, and fidelity. Competitively, the company places within top five in the surety market in Mexico.

Business was mainly distributed through agents in Mexico City and 13 states.

Economic environment for the surety market has remained slow. During the last years surety market has been contracting, consistent with the fact that the performance of the surety sector is linked to economic cycles, nonetheless reactivation was seen in 2022. Reaching an adequate volume of business has been challenging, however, the participants are shifting their attention to the private sector to compensate for the revenues coming from the state and seeking to diversify their business models with the surety and credit insurance in order to improve the expansion perspective.

In March 2019, Sofimex was authorized to operate as a surety insurance entity, changing its name to Sofimex, Institucion de Garantias S.A.

Sofimex is supervised by the Comision Nacional de Seguros y Fianzas (CNSF) which regulates all aspects of the segment including pricing, minimum capital, and liquidity requirements and solvency.

## Enterprise Risk Management

The Mexican insurance regulator (CSNF) requires insurance and surety companies to establish guidelines for the management of financial risks by preparing a comprehensive strategic plan, setting up a risk committee, and maintaining a risk management manual that identifies potential risks and policies and procedures for managing those risks. Furthermore, insurers and surety companies are required to obtain an evaluation and report from an internal or independent auditor of their risk management framework.

Sofimex has set up a risk committee to identify and assess the company's risks. This risk committee considers financial risks specifically from investments as well as market, credit, liquidity, operational, and legal risks.

The company has also made good advances in creating its actuarial area that reports directly to the board.

During 2021 the company partially managed to maintain profitability by offsetting its non recurrent large claim through its liquid investment strategy, which reflects appropriate ERM capabilities.

## Enterprise Risk Management (Continued...)

### Reinsurance Summary

Sofimex retains over 65% of its business, and employs quota share agreements with different surplus underwriters for its different types of sureties. The program is diversified among 12 highly rated insurers.

### Environmental, Social & Governance

The company's corporate governance historically has reflected and adequate management of its risks and opportunities, and thus its has experienced little volatility in results over the long haul.

No material ESG factors that could impact the company's creditworthiness.

## Financial Statements

	12/31/2021		12/31/2021
	MXN (000)	%	USD (000)
<b>Balance Sheet</b>			
Cash and Short Term Investments	6,313	0.1	307
Bonds	4,310,083	74.7	209,815
Equity Securities	76,795	1.3	3,738
Other Invested Assets	266,812	4.6	12,988
<b>Total Cash and Invested Assets</b>	4,660,003	80.7	226,849
Reinsurers' Share of Reserves	533,067	9.2	25,950
Debtors / Amounts Receivable	220,262	3.8	10,722
Other Assets	360,096	6.2	17,529
<b>Total Assets</b>	5,773,428	100.0	281,050
Other Technical Reserves	1,317,300	22.8	64,126
<b>Total Gross Technical Reserves</b>	1,317,300	22.8	64,126
Other Liabilities	545,968	9.5	26,578
<b>Total Liabilities</b>	1,863,268	32.3	90,704
Capital Stock	180,254	3.1	8,775
Retained Earnings	2,644,313	45.8	128,725
Other Capital and Surplus	1,085,593	18.8	52,847
<b>Total Capital and Surplus</b>	3,910,160	67.7	190,347
<b>Total Liabilities and Surplus</b>	5,773,428	100.0	281,050

Source: BestLink® - Best's Financial Suite  
US \$ per Local Currency Unit .04868 = 1 Mexican Peso (MXN)

	Non-Life MXN (000)	Life MXN (000)	Other MXN (000)	12/31/2021	12/31/2021
				Total MXN (000)	Total USD (000)
<b>Income Statement</b>					
Gross Premiums Written	1,846,291	...	...	1,846,291	89,877
Net Premiums Earned	1,339,597	...	...	1,339,597	65,212
Net Investment Income	...	...	238,443	238,443	11,607
Realized capital gains / (losses)	...	...	-837	-837	-41
Unrealized capital gains / (losses)	...	...	-8,043	-8,043	-392
Other Income	10,675	...	...	10,675	520
<b>Total Revenue</b>	1,350,272	...	229,563	1,579,835	76,906
Benefits and Claims	736,840	...	...	736,840	35,869
Net Operating and Other Expense	539,457	...	14,498	553,955	26,967
<b>Total Benefits, Claims and Expenses</b>	1,276,297	...	14,498	1,290,795	62,836
<b>Pre-Tax Income</b>	73,975	...	215,065	289,040	14,070
Income Taxes Incurred	...	...	...	21,473	1,045
<b>Net Income before Non-Controlling Interests</b>	...	...	...	267,567	13,025
<b>Net Income/(loss)</b>	...	...	...	267,567	13,025

Source: BestLink® - Best's Financial Suite  
US \$ per Local Currency Unit .04868 = 1 Mexican Peso (MXN)

## Related Methodology and Criteria

[A.M. Best's Ratings On a National Scale, 10/13/2017](#)

[Best's Credit Rating Methodology, 11/13/2020](#)



[Available Capital & Holding Company Analysis, 10/13/2017](#)

[Evaluating Country Risk, 10/13/2017](#)

[Rating Surety Companies, 04/07/2021](#)

[Scoring and Assessing Innovation, 03/05/2020](#)

[Understanding Global BCAR, 06/30/2022](#)

## Additional Rating Types

National Scale Rating for [Sofimex Institucion Garantias \(AMB#091478\)](#) is aaa.MX

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

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