

Best's Credit Rating Effective Date

January 23, 2025

Additional Rating Types

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

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)

<h1>A-</h1> <h2>Excellent</h2> <p>Outlook: Positive Action: Affirmed</p>
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Issuer Credit Rating (ICR)

<h1>a-</h1> <h2>Excellent</h2> <p>Outlook: Positive Action: Affirmed</p>
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Assessment Descriptors

Balance Sheet Strength	Very Strong
Operating Performance	Strong
Business Profile	Neutral
Enterprise Risk Management	Appropriate

Rating Rationale

Balance Sheet Strength: **Very Strong**

- The strongest level of risk-adjusted capitalization remains, 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**

- Sofimex has generated a stable return on gross premium written across different business cycles and changing markets.
- Low volatility in metrics and stable business performance.
- 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 as the fourth-largest surety operation in Mexico as of September 2024.
- 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 exposure limits to risks, which are monitored and reviewed regularly.

Outlook

- The positive outlooks reflect the expectation that Sofimex will continue to strengthen its balance sheet through strong operating results.

Rating Drivers

- Positive rating actions could occur if the company is able to further enhance its balance sheet strength 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.

Key Financial Indicators

AM Best may reclassify 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	66.0	65.0	65.0	64.0

Source: Best's Capital Adequacy Ratio Model - Global

Key Financial Indicators	2023 MXN (000)	2022 MXN (000)	2021 MXN (000)	2020 MXN (000)	2019 MXN (000)
Net Premiums Written:					
Non-Life	1,589,602	1,449,786	1,244,528	1,152,186	1,171,365
Composite	1,589,602	1,449,786	1,244,528	1,152,186	1,171,365
Net Income	760,579	592,134	267,567	553,155	498,585
Total Assets	7,781,137	7,005,483	5,773,428	5,737,623	5,173,162
Total Capital and Surplus	5,138,473	4,484,771	3,910,160	3,599,877	3,251,905

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2023 MXN (000)	2022 MXN (000)	2021 MXN (000)	2020 MXN (000)	2019 MXN (000)	Weighted 5-Year Average
Profitability:						
Balance on Non-Life Technical Account	570,737	448,097	73,975	491,567	453,328	...
Net Income Return on Revenue (%)	39.5	37.3	16.8	44.6	35.9	34.6
Net Income Return on Capital and Surplus (%)	15.8	14.1	7.1	16.1	16.3	13.9
Non-Life Combined Ratio (%)	61.0	66.2	95.3	54.2	61.7	68.4
Net Investment Yield (%)	7.9	5.5	5.2	4.1	5.7	5.9
Leverage:						
Net Premiums Written to Capital and Surplus (%)	30.9	32.3	31.8	32.0	36.0	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

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

Capitalization

The 2023 risk-adjusted capitalization stands at strongest as reflected by Best's Capital Adequacy Ratio (BCAR), underpinned by capital base expansion supported on consistent profitability. Fixed-income risk drives capital requirements.

The company's capital efficiency is well reflected by the low NPW/Surplus ratio.

Capital Generation Analysis	2023 MXN (000)	2022 MXN (000)	2021 MXN (000)	2020 MXN (000)	2019 MXN (000)
Beginning Capital and Surplus	3,609,417	3,135,339	2,893,736	2,619,401	2,305,983
Net Income	717,821	554,160	231,710	515,233	468,731
Net Unrealized Capital Gains (Losses)	11,622	-10,981	9,630	12,676	24,785
Stockholder Dividends	-221,832	-71,500	...	-253,000	-180,000
Other Changes in Capital and Surplus	-883	2,399	263	-574	-98
Net Change in Capital and Surplus	506,728	474,078	241,603	274,335	313,418
Ending Capital and Surplus	4,116,145	3,609,417	3,135,339	2,893,736	2,619,401
Net Change in Capital and Surplus (%)	14.0	15.1	8.3	10.5	13.6

Source: BestLink® - Best's Financial Suite

Liquidity Analysis (%)	2023	2022	2021	2020	2019
Liquid Assets to Total Liabilities	233.0	210.2	235.8	198.9	198.1
Total Investments to Total Liabilities	243.3	221.7	250.1	211.1	211.4

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. The company also has exposure to UDIs and USD-nominated assets.

Composition of Cash and Invested Assets	2023 MXN (000)	2022 MXN (000)	2021 MXN (000)	2020 MXN (000)	2019 MXN (000)
Total Cash and Invested Assets	6,429,532	5,587,754	4,660,003	4,512,319	4,061,699
Cash (%)	0.4	0.2	0.1	0.2	0.2
Bonds (%)	94.5	94.0	92.5	92.0	91.9
Equity Securities (%)	0.9	0.6	1.6	2.0	1.6
Real Estate, Mortgages and Loans (%)	2.3	3.1	3.6	3.6	4.5
Other Invested Assets (%)	1.9	2.1	2.1	2.1	1.8
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 reserves were adequately constituted according to the actuarial external opinion of 2023.

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 the 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

Sofimex gross written premiums increased by 2.1% during 2023, totaling MXN 2,544 million. The business has been driven by administrative bonds held by contractors involved in public infrastructure projects.

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

Underwriting performance remained strong during 2023. Loss ratio remains contained. Acquisition costs slightly increased as higher commissions were paid to agents and for taken reinsurance. Administrative costs increased driven by higher salaries and benefits paid to employees and expenses linked to the increase in sales.

Investment income further strengthened bottom line results adding MXN 464 million to a record net income of MXN 717 million.

Balance on combined technical account historically has shown a positive trend. Moreover, the company has remained profitable with a stable return on gross premiums written 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.

Financial Performance Summary	2023 MXN (000)	2022 MXN (000)	2021 MXN (000)	2020 MXN (000)	2019 MXN (000)
Pre-Tax Income	1,042,671	713,716	289,040	737,250	685,742
Net Income after Non-Controlling Interests	760,579	592,134	267,567	553,155	498,585

Source: BestLink® - Best's Financial Suite

Operating Performance (Continued...)

Operating and Performance Ratios (%)	2023	2022	2021	2020	2019
Overall Performance:					
Return on Assets	10.3	9.3	4.6	10.1	10.3
Return on Capital and Surplus	15.8	14.1	7.1	16.1	16.3
Non-Life Performance:					
Loss and LAE Ratio	6.8	16.2	55.0	6.9	10.4
Expense Ratio	54.3	49.9	40.3	47.3	51.3
Non-Life Combined Ratio	61.0	66.2	95.3	54.2	61.7

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 and 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, and geographically concentrated in Mexico City.

The economic environment for the surety market has been growing consistently since 2021. During 2023, total premiums increased 9%. Reaching an adequate volume of business remains challenging, however, participants are active within 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 (CNSF) 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.

Reinsurance Summary

Sofimex employs quota share agreements with different surplus underwriters for its different types of sureties. The program is diversified among 13 highly rated reinsurers.

Enterprise Risk Management (Continued...)

Environmental, Social & Governance

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

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

Financial Statements

	12/31/2023		12/31/2023
	MXN (000)	%	USD (000)
Balance Sheet			
Cash and Short Term Investments	25,559	0.3	1,507
Bonds	6,076,340	78.1	358,200
Equity Securities	55,680	0.7	3,282
Other Invested Assets	271,953	3.5	16,032
Total Cash and Invested Assets	6,429,532	82.6	379,021
Reinsurers' Share of Reserves	753,609	9.7	44,425
Debtors / Amounts Receivable	217,948	2.8	12,848
Other Assets	380,048	4.9	22,404
Total Assets	7,781,137	100.0	458,698
Unearned Premiums	1,842,736	23.7	108,629
Total Gross Technical Reserves	1,842,736	23.7	108,629
Other Liabilities	799,928	10.3	47,156
Total Liabilities	2,642,664	34.0	155,785
Capital Stock	180,254	2.3	10,626
Retained Earnings	3,622,962	46.6	213,574
Other Capital and Surplus	1,335,257	17.2	78,713
Total Capital and Surplus	5,138,473	66.0	302,913
Total Liabilities and Surplus	7,781,137	100.0	458,698

Source: BestLink® - Best's Financial Suite

				12/31/2023	12/31/2023
	Non-Life MXN (000)	Life MXN (000)	Other MXN (000)	Total MXN (000)	Total USD (000)
Income Statement					
Gross Premiums Written	2,544,796	...	...	2,544,796	150,016
Net Premiums Earned	1,439,399	...	...	1,439,399	84,853
Net Investment Income	...	...	477,414	477,414	28,144
Realized capital gains/(losses)	...	...	5,764	5,764	340
Unrealized capital gains/(losses)	...	...	-19,109	-19,109	-1,126
Other Income	9,831	...	...	9,831	580
Total Revenue	1,449,230	...	464,069	1,913,299	112,789
Benefits And Claims	97,210	...	...	97,210	5,731
Net Operating And Other Expenses	781,283	...	-7,865	773,418	45,593
Total Benefits, Claims And Expenses	878,493	...	-7,865	870,628	51,324
Pre-Tax Income	570,737	...	471,934	1,042,671	61,465
Income Taxes Incurred	...	...	...	282,092	16,629
Net Income before Non-Controlling Interests	...	...	...	760,579	44,836
Net Income/(loss)	...	...	...	760,579	44,836

Source: BestLink® - Best's Financial Suite

Related Methodology and Criteria

[Best's National Scale Ratings, 05/16/2024](#)

[Best's Credit Rating Methodology, 08/29/2024](#)

[Available Capital and Insurance Holding Company Analysis, 08/15/2024](#)

[Evaluating Country Risk, 06/06/2024](#)



[Rating Surety Companies, 04/25/2024](#)

[Scoring and Assessing Innovation, 02/27/2023](#)

[Understanding Global BCAR, 08/01/2024](#)

Additional Rating Types

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

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