

Morningstar DBRS Assigns Issuer Rating of BBB (low) to Sagicor Financial Company Ltd. and Financial Strength Rating of A (low) to its Operating Subsidiaries; Stable Trends

INSURANCE ORGANIZATIONS

DBRS Limited (Morningstar DBRS) assigned an Issuer Rating and a Senior Debt credit rating of BBB (low) to Sagicor Financial Company Ltd. In addition, Morningstar DBRS assigned a Financial Strength Rating of A (low) to Sagicor Life Insurance Company and ivari. The trends on all credit ratings are Stable.

KEY CREDIT RATING CONSIDERATIONS

Sagicor Financial Company Ltd. (Sagicor or the Company) has an established financial services franchise in the Caribbean and a growing presence in the U.S. and, more recently, in Canada through the acquisition of ivari in 2023. Sagicor has an ambitious strategy to become a leading North American life insurer and, in recent years, has raised capital and built an experienced executive team to achieve it. The Company has a relatively diversified product offering in the life insurance and annuities space and a conservative fixed income oriented portfolio with some exposure to non-investment-grade sovereign debt and bank loans in the Caribbean. Sagicor has delivered resilient earnings in recent years and is expected to generate a low double-digit return on equity (ROE) following the acquisition of ivari and the transition to IFRS 17. Sagicor has adequate capital and liquidity buffers for its risk exposures, and while it has raised significant debt to fund its strategic objectives, Morningstar DBRS expects the Company to be able to generate sufficient capital from the acquisition of ivari to lessen its debt burden over time.

CREDIT RATING DRIVERS

Morningstar DBRS would upgrade the credit ratings if the Company enhances its financial flexibility by materially reducing its financial leverage and improving its fixed-charge coverage ratio. A sustained improvement in the Company's profitability and risk profile would also result in a credit ratings upgrade. Conversely, Morningstar DBRS would downgrade the credit ratings if the ivari acquisition does not lead to the expected levels of additional profitability and capital generation. A significant decline in solvency ratios at the group or operating entity level would also result in a credit ratings downgrade.

CREDIT RATING RATIONALE

Franchise Strength Building Block Assessment: Good

Sagicor is a diversified financial services provider with a long history and a dominant position in the Caribbean market, as well as a growing presence in Canada and the U.S. It has established distribution relationships across various life, health, and property and casualty insurance products as well as banking, retirement, and wealth management services in the Caribbean. It targets specific distribution channels in Canada and the U.S. with a narrower product offering focused on universal life insurance and fixed annuities, respectively. Through its 2019 public listing and its 2023 acquisition of Canadian life insurer ivari, Sagicor has embarked on a transformation to become a leading North American financial services provider, which entails integration, execution, and strategy risks.

Risk Profile Building Block Assessment: Good/Moderate

Sagicor's diverse product offering across multiple markets and jurisdictions mitigates insurance risk. The product portfolio acquired

through ivari includes legacy high-risk, long-term guaranteed life insurance contracts, which ivari discontinued several years ago. Sagicor's U.S. segment mainly sells five-year fixed annuity contracts, which the Company matches with corresponding duration assets, limiting interest rate risk. Sagicor has credit risk exposure to non-investment-grade sovereigns in the Caribbean and other non-investment-grade loans, adding up to 16% of its portfolio, which is reasonable considering the location of its business. Sagicor's main market risk exposure is to movement in interest rates, which affect its earnings, especially under the new IFRS 17 accounting rules. While it doesn't have large equity investments in its portfolio, future fee income on its universal life products will be sensitive to market fluctuations. Sagicor has invested important resources into improving its risk management and reporting functions in recent years, helping alleviate the operational and integration risk concerns brought by the transformational changes at the Company.

Earnings Ability Building Block Assessment: Good

The Company has delivered good profitability in recent years and reported a significant gain in 2023 because of the discount on the price paid for ivari compared with its IFRS net asset value. Excluding this gain, Sagicor's net income of \$136 million was slightly lower than in prior years as economic conditions were weaker despite a market rebound in the fourth quarter. The transition to IFRS 17 was also negative for Sagicor's earnings as it requires long-term insurance profits to be deferred through the contractual service margin (CSM). Morningstar DBRS expects Sagicor's ROE to hover in the low double digits in the future, as ivari is now a large contributor to the business and has a slightly lower ROE than the rest of Sagicor's operations. Earnings volatility is likely to remain driven by the impact of market movements on Sagicor's substantial balance sheet.

Liquidity Building Block Assessment: Strong/Good

The Company's investment portfolio primarily consists of high-quality, liquid fixed income securities. However, some of its bank loans and Caribbean sovereign debt will not be as available for liquidity needs. The Company has a mostly undrawn \$125 million revolver credit facility to supplement its cash position. Sagicor's claim profile is diversified and stable, and the risk of claim concentration resulting in liquidity issues is well managed. Policyholder behaviour could affect the liquidity needs of the Company on universal life and annuity contracts, but redemption penalties, tax implications, and other contractual terms on these products help mitigate the liquidity risk.

Capitalization Building Block Assessment: Moderate

Sagicor has an adequate capital buffer for its risk exposures and reports a group total Life Insurance Capital Adequacy Test ratio of 136% despite not being regulated at the group level in Canada. The Company's operating subsidiaries also have solvency ratios comfortably over local requirements in the major jurisdictions where they operate. To fund the acquisition of ivari, Sagicor issued \$320 million in debt in Q4 2023, which resulted in total indebtedness of \$946 million as at YE2023 and a leverage ratio of 41.6% as calculated by Morningstar DBRS (26.6% per the Company's calculation, which includes the CSM in total capitalization). While Sagicor added substantial equity and the CSM to its balance sheet in excess of the purchase price for the ivari acquisition, the integration and future performance of ivari will be critical to demonstrate the value created by the transaction. When considering the annual cost of the newly issued debt and adjusting for gains from the ivari acquisition, Morningstar DBRS expects the fixed-charge coverage ratio to remain moderate at approximately 5 times, which is lower than some of the Company's peers but provides enough flexibility to make interest payments, especially when combined with the Company's \$125 million undrawn revolving credit facility. Sagicor has demonstrated its ability to access capital markets in recent years by raising substantial debt and equity capital. Morningstar DBRS expects ivari to significantly contribute to the Company's excess capital generation in the future, which will be subject to integration risk.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

Environmental Factors

Environmental factors do not affect the credit ratings or trends assigned to Sagicor but are relevant to the credit analysis. While Sagicor does not directly sell any products that contribute to material carbon emissions or that will be materially affected by carbon pricing, it is exposed to climate risk through its banking and property and casualty segments in the Caribbean where severe weather risk is high. These business segments are not substantial components of Sagicor's operations but could be subject to losses because

of worsening severe weather in the future. The Company uses reinsurance to mitigate this exposure.

There were no Social/Governance factors that had a relevant or significant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (January 23, 2024), <https://dbrs.morningstar.com/research/427030>.

Notes:

All figures are in U.S. dollars unless otherwise noted.

The principal methodology is the Global Methodology for Rating Insurance Companies and Insurance Organizations (April 15, 2024), <https://dbrs.morningstar.com/research/431180>. In addition, Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (January 23, 2024) <https://dbrs.morningstar.com/research/427030> in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: <https://dbrs.morningstar.com/about/methodologies>.

The related regulatory disclosures pursuant to the National Instrument 25-101 Designated Rating Organizations are hereby incorporated by reference and can be found on the issuer page at dbrs.morningstar.com.

The credit rating was initiated at the request of the rated entity.

The rated entity or its related entities did participate in the credit rating process for this credit rating action.

Morningstar DBRS had access to the accounts, management, and other relevant internal documents of the rated entity or its related entities in connection with this credit rating action.

This is a solicited credit rating.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS' outlooks and credit ratings are under regular surveillance.

Morningstar DBRS will publish a full report shortly that will provide additional analytical detail on this rating action. If you are interested in receiving this report, contact us at info-DBRS@morningstar.com.

For more information on this credit or on this industry, visit dbrs.morningstar.com.

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Ratings

Sagicor Financial Company Ltd

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
17-Apr-24	Issuer Rating	New Rating	BBB (low)	Stb	CA
17-Apr-24	Senior Debt	New Rating	BBB (low)	Stb	CA

Sagicor Life Insurance Company

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
17-Apr-24	Financial Strength Rating	New Rating	A (low)	Stb	CA

ivari

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
17-Apr-24	Financial Strength Rating	New Rating	A (low)	Stb	CA

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