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Fitch Affirms Sagicor Financial's Ratings; Outlook Stable

Fitch Ratings - New York - 06 Dec 2021: Fitch Ratings has affirmed Sagicor Financial Company Limited's (SFCL) Long-Term Issuer Default Rating (IDR) at 'BB'. Fitch has also affirmed SFCL's senior debt ratings at 'BB-'. The Rating Outlook is Stable.

Key Rating Drivers

The affirmation of SFCL's ratings considers the company's 'less favorable' business profile, which is heavily influenced by the economic environment and sovereign risks of Barbados and Jamaica. The ratings also consider the company's strong capitalization and profitability, large investment exposure to below-investment grade sovereign debt, and macroeconomic challenges associated with low interest rates.

Fitch's view of SFCL's business profile is heavily influenced by the economic environment and sovereign risks of Barbados and Jamaica. While the company has made progress diversifying its business mix driven by growth in the U.S., the company's operations remain concentrated in Barbados and Jamaica.

SFCL's investment portfolio has considerably above average investment risk relative to the industry. SFCL's investment portfolio has substantial concentrations in Jamaica and Barbados sovereigns. These investments are primarily used to meet regulatory requirements and for insurance liability matching purposes; as a result the portfolio has a significant concentration of below investment-grade debt. While the sovereign concentrations are reasonable given the company's operations in these two countries, the sovereign exposures represent a large concentration risk and a potential source of volatility to capital adequacy in the event of an adverse sovereign scenario.

Fitch views capitalization of SFCL's insurance operations to be strong and supportive of the ratings following the 2019 acquisition by Alignvest II Acquisition Corporation (AQY), which brought in significant capital proceeds. Fitch's view of SFCL's strong capitalization is supported by strong consolidated MCCR reported at 247% as of Sept. 30, 2021 and operating leverage at 7x as of Sept. 30, 2021, which is very strong relative to life insurance peers.

SFCL's financial leverage ratio of 29% (adjusted to exclude non-controlling interests from capital) as of Sept. 30, 2021 is within Fitch's expectations for the current rating. SFCL's financial leverage has historically been high and favorably declined primarily due to additional capital proceeds following completion of the AQY transaction. Financial leverage increased following the debt refinance in the second quarter of 2021.

Fitch considers SFCL's financial performance to be strong and supportive of the ratings. SFCL's strong operating results for the first nine months of 2021 benefited from favorable investment performance, favorable annual assumption review results and strong sales growth in the U.S. SFCL's 2020 financial performance was negatively affected by the pandemic, largely driven by unfavorable marked to market losses and higher overall credit impairments.

SFCL is a Bermuda-based financial holding company and leading provider of insurance products and financial services in the Caribbean. It also provides insurance products in the U.S. as well as banking and investment management services in Jamaica. Primary insurance subsidiaries and the corresponding regions for SFCL include Sagicor Group Jamaica Ltd. (Jamaica and Cayman Islands), Sagicor Life Inc. (Barbados and Trinidad and Tobago), and Sagicor Life USA (U.S.). Aside from these main subsidiaries and regions, the company also has insurance operations in many of the Eastern and Dutch Caribbean islands and select Latin American countries.

RATING SENSITIVITIES

Under its criteria, notching between actual and/or implied Insurer Financial Strength "anchor" ratings and the IDR of a holding company compresses/expands by one notch when the anchor rating migrates between investment grade and non-investment grade. SFCL's implied anchor ratings would move between that cusp point if upgraded by one notch, implying the next potential upgrade in SFCL's holding company IDR and senior debt ratings would be by two notches.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--No material deterioration in economic and operating environments and sovereigns of Jamaica, Trinidad, and Barbados;

--Deployment of capital proceeds from the AQY transaction to grow operations in investment grade jurisdictions;

--Decline in financial leverage ratio below 25% (adjusted to exclude non-controlling interests from capital).

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Significant deterioration in the economic and operating environments and sovereigns of Jamaica, Trinidad, and Barbados which would lead to a material decline in operating performance and/or credit profile of SFCL's investment portfolio;

--Deterioration in key financial metrics, including consolidated MCCSR falling below 180% and financial leverage exceeding 50% and ROE below 5% on a sustained basis.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive

direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Fitch Ratings Analysts

Nelson Ma, CFA

Director

Primary Rating Analyst

+1 212 908 0273

Fitch Ratings, Inc. Hearst Tower 300 W. 57th Street New York, NY 10019

Milena Carrizosa

Senior Director

Secondary Rating Analyst

+60 1 484 6772

Julie Burke, CFA, CPA

Managing Director

Committee Chairperson

+1 312 368 3158

Media Contacts



Sandro Scenga

New York

+1 212 908 0278

sandro.scenga@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Sagicor Financial Company Ltd.	LT IDR	BB 	Affirmed	BB 
• senior unsecured	LT	BB-	Affirmed	BB-

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Insurance Rating Criteria \(pub.26 Nov 2021\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Sagicor Financial Company Ltd. EU Endorsed, UK Endorsed

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