RATING ACTION COMMENTARY

Fitch Affirms Sagicor Financial Company and ivari's Ratings

Tue 07 Nov, 2023 - 5:15 p.m. ET

Fitch Ratings - New York - 07 Nov 2023: Fitch Ratings has affirmed Sagicor Financial Company Ltd.'s (SFC) Foreign Currency Long Term Issuer Default Rating (IDR) at 'BBB-' and senior unsecured debt at 'BB+'. Also, Fitch has affirmed the Long Term Insurer Financial Strength (IFS) rating of ivari at 'A-'. The Rating Outlook is Stable.

Fitch recently upgraded SFC's ratings following the company's acquisition of ivari from Wilton Re Ltd. This rating action was driven by an improvement in the company's Industry Profile and Operating Environment (IPOE) and company profile, supported by stronger competitive positioning, operating scale, and business mix. Additionally, SFC's investment and asset risk improved due to an increased proportion of investment-grade assets. However, the risky assets ratio will remain elevated relative to the industry due to SFC's below-investment-grade sovereign bond exposure in certain Caribbean jurisdictions to comply with local regulations. The rating continues to reflect SFC's strong capitalization levels and solid operating performance.

KEY RATING DRIVERS

Improved IPOE and Company Profile: The acquisition of ivari strengthens SFC's IPOE and company profile, as it resides in a stronger operating environment and is rated higher than most of SFC's operating subsidiaries. The stronger IPOE of the U.S. and Canada expands SFC'S bespoke IPOE range to 'a' to 'bb+' from 'bb+' to 'b-'. However, the IPOE continues to be impacted by exposure to operating environments in some Caribbean countries, with weaker regulatory frameworks, technical sophistication, and sovereign risk exposure.

SFC's overall company profile is now scored as "favorable" within the new bespoke IPO range. The company profile reflects the company's dominant market position and most favorable operational scale in the Caribbean as one of the largest players in all life products; balanced with ivari's moderate competitive position in Canada, as the second largest player...
in the universal life segment; and more limited operating scale and market position in the U.S.

**Strong Capitalization Levels Persist:** SFC's capitalization levels remain strong and have a high influence on the rating. SFC's strong capitalization is supported by a consolidated Minimum Continuing Capital Surplus Requirements (MCCSR) of 286% as of June 30, 2023, increasing from 276% as Dec. 31, 2022. The ivari transaction is expected to increase the consolidated MCCSR ratio by 10 percentage points. Operating leverage was 10.9x as of June 30, 2023 and is expected to increase modestly to 11.0x, which is very strong relative to life insurance peers. 2023 financial statements consider IFRS 17 standards and reflect the establishment of the contractual service margin (CSM), which is considered by Fitch as high-quality loss absorbing capital.

**Financing Strategy in Line with Expectations:** SFC's financing plan considers new debt used for the ivari acquisition. The new debt is expected to be offset by capital accretion and CSM addition. Fitch expects the company's financial leverage as of Dec. 31, 2023 will be approximately 30.6%, down from 34.2% as June 30, 2023. Going forward, Fitch expects financial leverage to be below 30% and interest coverage to exceed 3.0x. Additionally, the holding company targets to maintain cash and liquid assets at approximately 1.5x financing costs.

**Investment Risk Improves but Remains High:** SFC's investment and asset risk improves with the purchase of ivari. However, the company's overall exposure to risky assets and below-investment-grade assets to shareholders' equity exceeds industry peers, driven by investments in below-investment-grade sovereigns required to meet local regulatory requirements. Total invested assets will increase from USD9.7 billion as of June 30, 2023 to USD16.2 billion on pro forma basis including ivari. Moreover, the company's consolidated exposure to below-investment-grade assets as a percentage of shareholders' equity is expected to be below 90% in 2024 (190% as of June 30, 2023) and the risky assets ratio is expected to be below 210%.

**Robust and Stable Operating Performance:** As June 30, 2023, SFC continued to register a strong net income under IFRS 17 standards. Consolidated net income was USD60 million compared with a loss of USD68 million at the same period of the previous year. This result was driven primarily by favorable net investment income from higher interest rates and positive mark to market movements on financial assets.

SFC's net income will benefit from ivari's net operating income in 2023. The group is expected to double the amount of dividends to SFC. The expected increase in dividends
considers a higher dividend payment ratio by ivari.

**Ivari's Rated Higher than Parent:** ivari is a mid-size Canadian life insurer with a leading position in universal life (UL) insurance, with an emphasis on the middle-income market, which Fitch expects to persist under SFC’s ownership. ivari will largely operate as a standalone entity, with minimal integration with SFC. ivari is rated higher than SFC based on Fitch's view that it is sufficiently insulated from any potential weakness.

**Ivari's Balance Sheet Strength:** LICAT ratio was 123% as of 1H23. Fitch views ivari’s balance sheet as conservative and risk as generally low, with equity risk primarily borne by UL policyholders. Profitability has been modest and volatile over recent years, in part due to the market-to-market accounting regime and assumption updates, and is expected to exhibit more stability under IFRS 17, though return metrics will trail larger and higher-rated Canadian peers.

**Rating Sensitivities**

*Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade of SFC’s Ratings:*

--Significant improvement in SFCL's consolidated industry profile, operating environment and company profile;

--Risky asset ratio below 150% and, along with an improvement in the sovereign credit rating and minimal exposure to sovereigns to capital specially Barbados, Jamaica and Trinidad;

--Stability in financial performance resulting in a ROAE continuously above 7%;

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

*Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade of SFC's Ratings:*

--A decline in ivari’s IFS rating on a standalone basis to below 'A-'; and/or available cash flows available to the holding company would appear to be lower than expected;

--Financial leverage exceeding 35% and interest coverage ratio below 3.0x;
- Deterioration in key financial metrics, including consolidated MCCSR falling below 180%;

-- Risky asset ratio above 270% and, along with an increase in the exposure to sovereigns to capital specially Barbados, Jamaica and Trinidad;

-- 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 SFC's investment portfolio.

**Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade of ivari's Ratings:**

-- An upgrade is unlikely absent an upgrade in SFC's ratings coupled with improvement in ivari's standalone credit quality, which could be driven by an improved business profile along with a LICAT ratio in excess of 120% and a return on capital exceeding 9%.

**Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade of ivari's Ratings:**

-- A decline in SFC's ratings could lead to a downgrade in ivari's ratings;

-- Deterioration in capital as evidenced by a LICAT ratio below 110%;

-- Deterioration in Fitch's assessment of business profile driven by a change in strategy or increased risk in the product profile;

-- Decline in profitability with a return on capital sustained below 5%.

**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.

**PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS**

Sagicor has acquired ivari and both ratings are materially linked.

**ESG CONSIDERATIONS**
The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

### RATING ACTIONS

<table>
<thead>
<tr>
<th>ENTITY / DEBT</th>
<th>RATING</th>
<th>PRIOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sagicor Financial Company Ltd.</td>
<td>LT IDR BBB- Rating Outlook Stable</td>
<td>BBB- Rating Outlook Stable</td>
</tr>
<tr>
<td></td>
<td>Affirmed</td>
<td></td>
</tr>
<tr>
<td>senior unsecured</td>
<td>LT BB+</td>
<td>Affirmed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>BB+</td>
</tr>
<tr>
<td>ivari</td>
<td>LT IFS A- Rating Outlook Stable</td>
<td>A- Rating Outlook Stable</td>
</tr>
<tr>
<td></td>
<td>Affirmed</td>
<td></td>
</tr>
</tbody>
</table>

### VIEW ADDITIONAL RATING DETAILS

### FITCH RATINGS ANALYSTS

Jamie Tucker, CFA, CPA  
Senior Director  
Primary Rating Analyst  
+1 212 612 7856  
jamie.tucker@fitchratings.com  
Fitch Ratings, Inc.  
Hearst Tower 300 W. 57th Street New York, NY 10019

Jack Rosen  
Director
Primary Rating Analyst
+1 212 612 7881
jack.rosen@fitchratings.com
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Jack Rosen
Director
Secondary Rating Analyst
+1 212 612 7881
jack.rosen@fitchratings.com

Milena Carrizosa
Senior Director
Secondary Rating Analyst
+57 601 484 6772
milena.carrizosa@fitchratings.com

Doriana Gamboa
Managing Director
Committee Chairperson
+1 212 908 0865
doriana.gamboa@fitchratings.com

MEDIA CONTACTS

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer’s available public disclosure.
APPLICABLE CRITERIA

Insurance Rating Criteria (pub. 20 Jul 2023) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

| ivari | EU Endorsed, UK Endorsed |
| Sagicor Financial Company Ltd. | EU Endorsed, UK Endorsed |

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch’s code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters
and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at https://www.fitchratings.com/site/re/10238496

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to
the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROS”) and therefore credit ratings issued by those
subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2023 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch’s approach to endorsement in the EU and the UK can be found on Fitch’s Regulatory Affairs page on Fitch’s website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.