Sagicor Financial Co. Ltd.

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Credit Highlights

Overview

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<th>Key strengths</th>
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<td>High capital base and liquidity buffers, and improved profitability prospects.</td>
<td>Operations partially based in low-rated jurisdictions with higher operational and regulatory risks.</td>
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<tr>
<td>Ample geographic and business diversification, bolstered by the recently approved acquisition of Ivari.</td>
<td>Rapid business growth could pressure capital adequacy.</td>
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*We believe the acquisition of Canadian life insurer Ivari (which the company stylizes as ivari) will widen the geographic and business diversification of Sagicor Financial Co. Ltd. (SFC) and support revenue stability.* We expect the acquisition to lower SFC's overall economic, regulatory, and operating risks, because the Canadian life insurance sector benefits from lower country and industry risks than those in the Caribbean and even in the U.S. Roughly two-thirds of the group's premiums would be underwritten in Canada and the U.S. while the rest would be underwritten in the Caribbean.

*We expect the group's geographic and business diversification will increase, because Ivari operates in Canada and underwrites mostly universal and traditional life insurance policies.* However, the offsetting factor will be SFC's overall lower competitive advantage, because about 72% of its insurance underwriting would be done in Canada and the U.S. SFC is still a small player in these markets, the brand is relatively new, and it will mostly use noncontrolled channels to sell its products.

*We expect SFC to continue to look for growth opportunities in the next several years.* The group has significant capital to deploy due to its consistent ability to generate profits and the large capital injection it obtained after the close of the acquisition.
combination transaction agreement with Alignvest Acquisition II Corp., a special purpose acquisition company that raised $450 million in the Canadian markets.

**We expect SFC's debt will remain manageable once the purchase of Ivari closes.** We anticipate the group's financial leverage ratio will remain about 30% after SFC raises additional debt to finance part of the acquisition and consolidates Ivari. In addition, we believe rising earnings will continue to allow the group to service its debt comfortably.

### Outlook

The stable outlook reflects our expectation that SFC will maintain stable debt and total adjusted capital (TAC) above our 'AAA' benchmark in the next two years. We also expect SFC to continue benefiting from dividends from multiple subsidiaries, based in different regulatory jurisdictions, to meet its financial needs.

**Downside scenario**

We could lower the ratings in the next 24 months if the group's TAC falls and remains below our 'AAA' benchmark. This could happen if, for example, SFC experiences unexpected growth, leading to higher risk-based capital requirements, lower loss-absorbing capital, or a combination of both. We would also lower the ratings if the group's financial leverage ratio increases above 40% or if its exposure to high-risk sovereigns or other exposures exceed our expectations.

**Upside scenario**

We consider an upgrade of SFC to be unlikely in the next two years because we believe the acquired businesses will take time to integrate, and we already capture the geographic diversification in the current rating. Over the longer term, an upgrade is possible if the group's results consistently exceed our expectations, it focuses on its existing businesses, there are no additional acquisitions, and it maintains its conservative strategy and TAC well above our 'AAA' benchmark.

### Assumptions

- U.S. real GDP growth of about 3.3% in 2023 and 1.3% in 2024, and Canada real GDP growth of about 1.2% in 2023 and 2024
- U.S. average unemployment rate of 3.6% in 2023 and 4.1% in 2024, and Canada average unemployment rate of 5.4% in 2023 and 6.0% in 2024
- U.S. core Consumer Price Index (CPI) growth of 4.7% in 2023 and 2.6% in 2024, and Canada core CPI growth of 3.7% in 2023 and 2.4% in 2024
- Interest rates likely to stay elevated into 2024 and hard market conditions in short-tail lines to prevail

### Sagicor Financial Co. Ltd.--Key metrics

<table>
<thead>
<tr>
<th>(Mil. $)</th>
<th>2024e</th>
<th>2023e</th>
<th>2022a</th>
<th>2021a</th>
<th>2020a</th>
<th>2019a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total invested assets</td>
<td>18,500-19,000</td>
<td>17,000-18,000</td>
<td>9,546</td>
<td>9,041</td>
<td>7,885</td>
<td>7,336</td>
</tr>
</tbody>
</table>
### Sagicor Financial Co. Ltd.—Key metrics (cont.)

<table>
<thead>
<tr>
<th></th>
<th>2024e</th>
<th>2023e</th>
<th>2022a</th>
<th>2021a</th>
<th>2020a</th>
<th>2019a</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total shareholder equity</strong></td>
<td>2,600-2,800</td>
<td>2,400-2,500</td>
<td>1,503</td>
<td>1,666</td>
<td>1,658</td>
<td>1,750</td>
</tr>
<tr>
<td><strong>Gross premium written</strong></td>
<td>2,600-2,700</td>
<td>2,500-2,600</td>
<td>2,160</td>
<td>1,817</td>
<td>1,502</td>
<td>1,323</td>
</tr>
<tr>
<td><strong>Net income (attributable to all shareholders)</strong></td>
<td>230-250</td>
<td>210-220</td>
<td>170</td>
<td>196</td>
<td>-15</td>
<td>104</td>
</tr>
<tr>
<td><strong>Return on revenue (%)</strong></td>
<td>13.0-13.5</td>
<td>12.0-12.5</td>
<td>12</td>
<td>13</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td><strong>Return on assets (excluding investment gains/losses) (%)</strong></td>
<td>2.3-2.5</td>
<td>2.6-2.9</td>
<td>3.03</td>
<td>3.39</td>
<td>0.88</td>
<td>2.83</td>
</tr>
<tr>
<td><strong>Return on shareholders' equity (%)</strong></td>
<td>8.0-9.0</td>
<td>9.0-10.0</td>
<td>10.70</td>
<td>11.82</td>
<td>-0.89</td>
<td>7.18</td>
</tr>
<tr>
<td><strong>EBITDA fixed-charge coverage (x)</strong></td>
<td>8.1-8.3</td>
<td>10.0-10.2</td>
<td>8.42</td>
<td>7.60</td>
<td>2.50</td>
<td>5.56</td>
</tr>
</tbody>
</table>

*--Actual. e--Estimate. Source: S&P Global Ratings.*

### Business Risk Profile

SFC faces diverse economic, regulatory, and other operational risks in each of the countries where it has insurance operations. We base our assessment of these risks on our insurance industry and country risk assessments on the life, pension, and health sectors in the countries where the group operates.

The group has been rapidly growing its underwriting of insurance policies in the U.S. life market in the last few years, taking advantage of the healthy demand for life and retirement products and competitive interest rates in the multiyear guarantee annuity segment. Thus, gross premium written (GPW) in the U.S. now represents at least 42% of SFC’s total underwriting, and we expect this share to continue growing in 2024-2025. However, SFC is still a small player in the U.S. and mostly uses noncontrolled channels to sell its products.

With the recent acquisition of Ivari, the group’s exposure to Canada represents about 26% of GPW. Ivari is a middle-market insurer in Canada with an over 90 year history. It provides insurance and investment products and services to middle-market customers in Canada. The company offers predominantly universal life and term insurance.

The group’s subsidiaries operating in the Caribbean provide the remaining premium, mostly in Jamaica, Trinidad and Tobago, and Barbados. In our view, the U.S. and Canada life insurance markets face lower country and insurance risks than those in the Caribbean. SFC benefits from solid brand recognition and has maintained strong relationships with policyholders and dealers over decades in the Caribbean, where it retains dominant market positions.

The group has healthy income diversification by business line and region because it operates in 21 countries across the Caribbean, Canada, and the U.S., providing life, health, and property/casualty insurance, annuities, and pension products to individuals and groups. In addition, Sagicor’s commercial and investment banking operations, asset management, trading, and wealth management in Jamaica and the Cayman Islands diversify its revenue.
Sagicor's sound capitalization and liquidity, along with its business and geographic diversification, have enabled it to adequately absorb shocks, like the pandemic-induced lockdowns and strains on the global economy. The group's earnings capability has been recovering, principally thanks to sound underwriting in the U.S., the stabilization of morbidity and mortality trends, and the rebound of investment income. We expect the group's focus on efficient growth and conservative underwriting will lead to a return on equity on 9.5% this year, compared to 10.7% in 2022, 11.8% in 2021, and negative 0.9% in 2020.

**Financial Risk Profile**

SFC has been improving its capitalization thanks to its sound earnings and low dividend payouts. We project that with the incorporation of Ivari, SFC's TAC will be above our 'AAA' benchmark in 2023-2024. We consider Ivari to be well-capitalized because it operates under Canada's conservative regulations, and its investment portfolio mainly consists of Canadian highly rated fixed-income securities.
We expect the group will continue deploying capital in new businesses during the next several years. We anticipate this will be through continued internal growth in the U.S., Jamaica, Trinidad and Tobago, and Barbados, and by continuing to search for new external growth opportunities, which could pressure its capitalization beyond our expectations.

The lengthy regulatory and legal approval process for SFC to acquire the insurance portfolios of Colonial Life Insurance Co. (Trinidad) Ltd. and British American Insurance Co. (Trinidad) may conclude by 2025. If the acquisitions close, they will pressure the group's capitalization while SFC incorporates the new assets and liabilities.

SFC benefits from good investment and insurance portfolio diversification because it holds mostly life, pension, and health businesses in the U.S., Canada, and many countries in the Caribbean. The group's investment portfolio mostly consists of securities issued by local governments, corporates, and financial institutions, while direct exposure to equities remains very limited. Moreover, we believe the insurer has adequate risk controls and proactively manages risk exposures.

We expect SFC's financial leverage ratio to remain manageable at about 30% in 2023-2024 (from 35.5% in 2022 and 33% in 2021) as the group's capital continues to grow following strong earnings. This will continue to allow the group to service its debt comfortably, with a fixed-charge coverage ratio above 7x in 2023-2025.
Other Credit Considerations

Governance
Sagicor and its operating subsidiaries have adequate governance standards, in our view. The group has a record of diligent strategic planning, resulting in satisfactory financial and operational results in recent years. Management and the board of directors focus on business sustainability by establishing relationships with distribution partners and clients.

The group has a well-defined enterprise risk management model that includes a clear risk appetite framework for each material risk exposure the companies face. We expect Sagicor's business strategy and risk appetite will remain stable, focusing on markets and products where the group has a track record.

Liquidity
SFC has consistently maintained excellent liquidity ratios in recent years because of the strength of its available liquidity sources and its asset portfolio of highly liquid and marketable securities. We expect SFC's liquidity to remain adequate and to be sufficient to cover its financial obligations.

In addition, we believe SFC benefits from more diverse sources of dividends from its various regulated operating subsidiaries. Moreover, SFC has a $125 million revolving credit facility that's currently undrawn, providing further flexibility. We don't think debt covenants represent a burden to the company's liquidity position.

Factors specific to the holding company
We rate SFC, the ultimate parent, two notches below Sagicor's group credit profile because of the holding company's structural subordination to the policyholder obligations of the group's operating companies. We expect the group will continue to benefit from dividends from its different regulated operating subsidiaries. The issue-level rating on SFC's $550 million senior unsecured notes due in 2028 is the same as the issuer credit rating on SFC because of the notes' seniority.

Environmental, social, and governance
Environmental, social, and governance factors have no material influence on our credit rating analysis of SFC.

Related Criteria
• General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
• General Criteria: Group Rating Methodology, July 1, 2019
• Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
• General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
• General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
• Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
### Business And Financial Risk Matrix

<table>
<thead>
<tr>
<th>Business risk profile</th>
<th>Excellent</th>
<th>Very Strong</th>
<th>Strong</th>
<th>Satisfactory</th>
<th>Fair</th>
<th>Marginal</th>
<th>Weak</th>
<th>Vulnerable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>aa+</td>
<td>aa</td>
<td>aa-</td>
<td>a+</td>
<td>a-</td>
<td>bbb</td>
<td>bb+</td>
<td>b+</td>
</tr>
<tr>
<td>Very Strong</td>
<td>aa</td>
<td>aa/aa-</td>
<td>aa-/a+</td>
<td>a+/a</td>
<td>a-/bbb+</td>
<td>bbb/bbb-</td>
<td>bb+/bb</td>
<td>b+</td>
</tr>
<tr>
<td>Strong</td>
<td>aa-/a+</td>
<td>a+/a</td>
<td>a/a-</td>
<td>a-/bbb+</td>
<td>bbb+/bbb</td>
<td>bbb-/bb+</td>
<td>bb-/bb-</td>
<td>b+/b</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>a</td>
<td>a/a-</td>
<td>a-/bbb+</td>
<td>bbb+/bbb</td>
<td>bbb/bbb-</td>
<td>bb+/bb</td>
<td>bb-/b+</td>
<td>b/b-</td>
</tr>
<tr>
<td>Fair</td>
<td>a-</td>
<td>a-/bbb+</td>
<td>bbb+/bbb</td>
<td>bbb/bbb-</td>
<td>bbb-/bb+</td>
<td>bb-/bb</td>
<td>bb/-b+</td>
<td>b/-</td>
</tr>
<tr>
<td>Weak</td>
<td>bbb+/bb+</td>
<td>bbb/bbb-</td>
<td>bbb-/bb+</td>
<td>bbb+/bb+</td>
<td>bb-/bb</td>
<td>b+/b</td>
<td>b/b-</td>
<td>b-</td>
</tr>
<tr>
<td>Vulnerable</td>
<td>bbb-/bb+</td>
<td>bbb+/bb+</td>
<td>bb+/bb</td>
<td>bb/bb-</td>
<td>b+/b</td>
<td>b/-</td>
<td>b-</td>
<td>b-</td>
</tr>
</tbody>
</table>

*Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.*

### Ratings Detail (As Of November 8, 2023)*

**Sagicor Financial Co. Ltd.**

- **Issuer Credit Rating**: BBB/Stable/--
- **Senior Unsecured**: BBB
- **Domicile**: Bermuda

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings’ credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.*