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A.M. Best Affirms Credit Ratings of El Águila, Compañía de Seguros, S.A. de C.V.

MEXICO CITY, December 14, 2017—A.M. Best has affirmed the Financial Strength Rating (FSR) of A- (Excellent), the Long-Term Issuer Credit Rating (Long-Term ICR) of “a-”, and the Mexico National Scale Rating of “aaa.MX” of **El Águila, Compañía de Seguros, S.A. de C.V.** (El Aguila) (Mexico City, Mexico). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect El Aguila’s balance sheet strength, which A.M. Best categorizes as strong, as well as its marginal operating performance, neutral business profile and adequate enterprise risk management.

The ratings also reflect El Aguila’s support from its parent company, **Great American Insurance Company**, which currently has an FSR of A+ (Superior) and a Long-Term ICR of “aa-”, each with a stable outlook, and improvements in El Aguila’s underwriting quality. Offsetting these positive rating factors are the company’s low levels of profitability and investment yield when compared with the average performance indicators in Mexico’s insurance segment, and the company’s relatively small size.

El Aguila was established in Mexico in 1994 and is a wholly owned subsidiary of Great American Insurance Company. Since 2015, El Aguila has underwritten auto insurance exclusively, but introduced new property/casualty (P/C) lines in October 2016. The new P/C division targets small and medium size enterprises in the commercial segment through an independent network of local distribution partners. The product offering

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includes a combination of packaged and mono-line insurance coverages. The company has benefited historically from capital contributions from its parent company in support of its growth and strategy. The most recent contribution was received in November 2017 and totaled MXN 57.6 million, which represented 35% of reported 2016 year-end capital and helped strengthen the company's risk-adjusted capitalization.

Historically, El Aguila has struggled to report premium sufficiency given its high expense ratio, which is a consequence of maintaining a direct sales distribution and infrastructure in tandem with large marketing efforts. Mexico's auto insurance segment is typically distributed through agents, car agencies and more recently through bancassurance alliances. The company's combined ratio remained above the 100% threshold in 2016, mainly due to the costs involving the implementation of the new P/C business model.

El Aguila's capitalization is strong, as measured by Best's Capital Adequacy Ratio (BCAR), with underwriting risk standing as the main component for required capital. Support from El Aguila's parent company has been reflected in capital injections, whenever required to back-up its growth and improve its operations.

The company's profitability indicators historically have remained below the auto segment's average, mainly as a result of higher acquisition expenses derived from its focus on developing its direct sales force. Conversely, this strategy has resulted in higher renewal rates than those registered by its main peers, and has partially mitigated pressure on underwriting in Mexico's highly competitive auto insurance segment. Given its small size, the company shows a greater geographic concentration than that of its peers, making it more vulnerable to soft market conditions in its main regional markets within Mexico. Fixed-rate bonds comprise an important part of the company's investment portfolio, which provide a financial yield below that of Mexico's P/C market because of valuation loss. This further limits El Aguila's profitability as it provides little buffer for deviations in technical results.

Positive rating actions could occur if El Aguila materially improves its underwriting results and the performance of its investment portfolio, while maintaining risk-adjusted capital at a level that supports the current ratings. Negative rating actions could occur if extreme premium growth or deteriorating underwriting results erode the company's capital base and reduce risk-adjusted capitalization to a level that no longer supports the ratings.

The methodology used in determining these ratings is Best's Credit Rating Methodology, which provides a comprehensive explanation of A.M. Best's rating process and contains the different rating criteria employed in the rating process. Best's Credit Rating Methodology can be found at www.ambest.com/ratings/methodology.

Key insurance criteria reports utilized:

- Evaluating Country Risk (Version Oct. 13, 2017)
- Understanding Universal BCAR (Version Oct. 13, 2017)
- Catastrophe Analysis in A.M. Best Ratings (Version Oct. 13, 2017)
- A.M. Best's Ratings On a National Scale (Version Oct. 13, 2017)

View a general description of the policies and procedures used to determine credit ratings. For information on the meaning of ratings, structure, voting and the committee process for determining the ratings and monitoring activities, please refer to Understanding Best's Credit Ratings.

- Previous Rating Date: Oct. 13, 2017
- Date of Financial Data Used: Sept. 30, 2017

This press release relates to rating(s) that have been published on A.M. Best's website. For additional rating information relating to the release and pertinent disclosures, including details of the office

responsible for issuing each of the individual ratings referenced in this release, please see A.M. Best's Recent Rating Activity web page.

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