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Armour Secure Insurance S.A. de C.V.

Best's Credit Rating Effective Date

March 08, 2023

Best's Country Risk Reports Utilized

Mexico - CRT - 3

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Information

Best's Credit Rating Methodology
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Market Segment Outlooks

Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: .

AMB #: 091459 | **AIIN #:** AA-2730047

Ultimate Parent: AMB # 052975 - Trebuchet Group Holdings Limited

Best's Credit Ratings

Financial Strength Rating (FSR)

B
Fair
Outlook: Stable Action: Affirmed

Issuer Credit Rating (ICR)

bb
Fair
Outlook: Positive Action: Affirmed

Assessment Descriptors

Balance Sheet Strength	Strong
Operating Performance	Strong
Business Profile	Limited
Enterprise Risk Management	Marginal

Rating Rationale

Balance Sheet Strength: **Strong**

- Strongest level of risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), driven by positive bottom-line results.
- Capital volume of USD 3.5 million.
- Very conservative investment strategy, allocated in Mexican fixed-income instruments.

Operating Performance: **Strong**

- Increased premium growth in 2021 and 2022, showing recovery from the effects of the pandemic.
- Improved combined ratio as a result of efficiencies in expenses.
- Positive bottom-line results tied to strong underwriting practices.

Business Profile: **Limited**

- Provides title insurance services on real estate properties in Mexico.
- Only one competitor in the local market.
- Title insurance market in Mexico is very small.

Enterprise Risk Management: **Marginal**

- Solvency II implementation has strengthened the company's risk management practices.
- Sound reinsurance program placed with Lloyd's.
- Deficiencies in communication and governance at Armour's holding company level after significant changes in corporate structure.

Rating Lift/Drag

- Changes in organizational structure have decreased the relevance of financial leverage.
- Stabilization in capital and corporate structure is still an ongoing area of revision for AM Best.

Outlook

- The positive outlook on the Long-Term Issuer Credit Rating reflects the potential positive impact of the correct management of financial leverage and capital management at the holding company level, which was derived from changes in the organizational structure of the group. The outlook on the Financial Strength Rating is stable.

Rating Drivers

- Positive rating actions could take place if Armour's holding company maintains a prudent growth strategy and shows stabilization in its structure and capital management, in AM Best's view.
- Negative rating actions could take place if operating performance were to deteriorate to a point at which it is no longer supportive of its current assessment, affecting the risk-adjusted capitalization of the company.

Key Financial Indicators

AM Best may recategorize company-reported data to reflect broader international reporting standards and increase global comparability.

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	79.0	70.0	66.0	65.0

Source: Best's Capital Adequacy Ratio Model - Global

Key Financial Indicators	2021 MXN (000)	2020 MXN (000)	2019 MXN (000)	2018 MXN (000)	2017 MXN (000)
Net Premiums Written:					
Non-Life	60,786	49,143	90,394	58,207	52,943
Composite	60,786	49,143	90,394	58,207	52,943
Net Income	6,511	4,536	13,390	2,700	10,795
Total Assets	118,930	115,867	117,049	104,047	111,165
Total Capital and Surplus	74,673	68,162	63,626	58,236	67,536

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2021 MXN (000)	2020 MXN (000)	2019 MXN (000)	2018 MXN (000)	2017 MXN (000)	Weighted 5-Year Average
Profitability:						
Balance on Non-Life Technical Account	3,977	5,568	21,658	3,187	14,358	...
Net Income Return on Revenue (%)	10.8	8.7	20.2	4.5	20.5	13.0
Net Income Return on Capital and Surplus (%)	9.1	6.9	22.0	4.3	17.5	11.7
Non-Life Combined Ratio (%)	93.3	89.2	66.3	94.5	72.4	82.9
Net Investment Yield (%)	0.7	0.7	2.1	1.4	0.6	1.1
Leverage:						
Net Premiums Written to Capital and Surplus (%)	81.4	72.1	142.1	100.0	78.4	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

Balance sheet strength assessment of Armour Secure is strong. The company has widened its capital base through the reinvestment of earnings. Armour follows a very conservative investment strategy, and its reserves are constituted adequately to fulfill policyholder and company's obligations.

Capitalization

Armour Secure adjusted capitalization remained at the strongest level in 2021. Supported by reinvestment of earnings, adjusted policyholder surplus has been continuously strengthened over the years. The company shows consistent capital and surplus growth during the past five years, mainly driven by consistent positive bottom line results.

Capital Generation Analysis	2021 MXN (000)	2020 MXN (000)	2019 MXN (000)	2018 MXN (000)	2017 MXN (000)
Beginning Capital and Surplus	68,162	63,626	58,236	67,536	56,124
Net Income	6,511	4,536	13,390	2,700	10,795
Change in Equalisation and Other Reserves	...	...	...	...	617
Stockholder Dividends	...	...	-8,000	-12,000	...
Net Change in Capital and Surplus	6,511	4,536	5,390	-9,300	11,412
Ending Capital and Surplus	74,673	68,162	63,626	58,236	67,536
Net Change in Capital and Surplus (%)	9.6	7.1	9.3	-13.8	20.3

Source: BestLink® - Best's Financial Suite

Liquidity Analysis (%)	2021	2020	2019	2018	2017
Liquid Assets to Total Liabilities	237.5	219.6	169.2	208.6	241.4
Total Investments to Total Liabilities	237.5	219.6	169.2	208.6	241.4

Source: BestLink® - Best's Financial Suite

Balance Sheet Strength (Continued...)

Asset Liability Management - Investments

Armour follows a very conservative investment strategy in which all securities' investments are allocated to fixed income government and government backed obligations.

Composition of Cash and Invested Assets	2021 MXN (000)	2020 MXN (000)	2019 MXN (000)	2018 MXN (000)	2017 MXN (000)
Total Cash and Invested Assets	105,115	104,751	90,373	95,544	105,317
Cash (%)	21.7	23.9	16.7	21.4	30.8
Bonds (%)	78.3	76.1	83.3	78.6	69.2
Total Cash and Unaffiliated Invested Assets (%)	100.0	100.0	100.0	100.0	100.0
Total Cash and Invested Assets (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

Reserve Adequacy

Balance sheet strength is susceptible to underwriting and reserve risk. Reserves are constituted adequately to fulfill policyholder and company's obligations as required by CNSF guidelines and certified by the actuarial reports.

Operating Performance

Armour's operating performance is strong, due to its consistent profitable business over the past five years; positive bottom line results have been achieved through technical results and further strengthened by investment income. The company posted a MXN6.5 million profit in 2021, and was able to achieve over 24% premium growth. Armour has historically maintained good levels of premium sufficiency, well under the 100% threshold. Return on premium remained at high levels, reflecting the company's consistent positive bottom line results.

Financial Performance Summary	2021 MXN (000)	2020 MXN (000)	2019 MXN (000)	2018 MXN (000)	2017 MXN (000)
Pre-Tax Income	5,188	5,502	19,754	3,952	13,610
Net Income after Non-Controlling Interests	6,511	4,536	13,390	2,700	10,795

Source: BestLink® - Best's Financial Suite

Operating and Performance Ratios (%)	2021	2020	2019	2018	2017
Overall Performance:					
Return on Assets	5.5	3.9	12.1	2.5	9.7
Return on Capital and Surplus	9.1	6.9	22.0	4.3	17.5
Non-Life Performance:					
Loss and LAE Ratio	2.4	-15.2	-40.8	3.1	-19.4
Expense Ratio	90.9	104.4	107.1	91.4	91.9
Non-Life Combined Ratio	93.3	89.2	66.3	94.5	72.4

Source: BestLink® - Best's Financial Suite

Business Profile

Armour Secure Insurance, S.A. de C.V. (Armour) is a Mexican company providing title insurance on real estate properties in Mexico, backed up by Lloyd's of London reinsurance syndicates.

The company initiated operations as Fidelity National Title de Mexico, S.A. de C.V. in 2007 and has introduced an essential part of a Real Estate transaction known as the escrow. Fidelity operates separately from Armour.

Business Profile (Continued...)

Armour's senior team has a solid background in management of insurance companies as well as structured and reinsurance deals. Armour has an excellent reputation, both through the transactional process, and in the ongoing management of assumed portfolios and managing insurance operations. Armour is still market the leader of the Title Insurance sector, with over 60% market share as of September 2022.

The very small size of the Tile Insurance market in Mexico (niche market), coupled with the hardened conditions of the real estate market due to the general slowdown of the economy are limiting Armour's business profile.

Enterprise Risk Management

Armour has followed the regulator's guidelines for the adequate management of financial risks.

Armour's risk committee meets on a monthly basis in order to assess risk exposure, report risk metrics every three months to the executive board, and inform all business units regarding risk management status. Most business areas within the company are responsible for identifying potential risks that might affect the current financial situation of the company.

Solvency II two implementation has strengthened the company's risk management practices.

Reinsurance Summary

The company holds a facultative reinsurance program with highly rated Lloyd's of London.

Armour and Lloyd's business relationship is unique in the Mexican title insurance market, thus leveraging the company's position among its main competitors.

Environmental, Social & Governance

The company does not take them into account for its operation.

Rating Lift/Drag

The organizational drag on the ratings was due to the high financial leverage at the holding company. The proper managemnet of the financial leverage at the holding company level, which was a consequence of the changes in the organizational structure of the group, as well as a visible stabilization in its structure and capital management could relieve the drag.

Financial Statements

	12/31/2021		12/31/2021
	MXN (000)	%	USD (000)
Balance Sheet			
Cash and Short Term Investments	22,802	19.2	1,110
Bonds	82,313	69.2	4,007
Total Cash and Invested Assets	105,115	88.4	5,117
Debtors / Amounts Receivable	8,185	6.9	398
Other Assets	5,630	4.7	274
Total Assets	118,930	100.0	5,790
Unearned Premiums	36,380	30.6	1,771
Total Gross Technical Reserves	36,380	30.6	1,771
Other Liabilities	7,877	6.6	383
Total Liabilities	44,257	37.2	2,154
Capital Stock	38,245	32.2	1,862
Retained Earnings	36,428	30.6	1,773
Total Capital and Surplus	74,673	62.8	3,635
Total Liabilities and Surplus	118,930	100.0	5,790

Source: BestLink® - Best's Financial Suite
US \$ per Local Currency Unit .04868 = 1 Mexican Peso (MXN)

	Non-Life MXN (000)	Life MXN (000)	Other MXN (000)	12/31/2021	12/31/2021
				Total MXN (000)	Total USD (000)
Income Statement					
Gross Premiums Written	74,006	...	...	74,006	3,603
Net Premiums Earned	59,617	...	...	59,617	2,902
Net Investment Income	...	...	755	755	37
Total Revenue	59,617	...	755	60,372	2,939
Benefits and Claims	1,451	...	...	1,451	71
Net Operating and Other Expense	54,189	...	-456	53,733	2,616
Total Benefits, Claims and Expenses	55,640	...	-456	55,184	2,686
Pre-Tax Income	3,977	...	1,211	5,188	253
Income Taxes Incurred	...	...	...	-1,323	-64
Net Income before Non-Controlling Interests	...	...	...	6,511	317
Net Income/(loss)	...	...	...	6,511	317

Source: BestLink® - Best's Financial Suite
US \$ per Local Currency Unit .04868 = 1 Mexican Peso (MXN)

Related Methodology and Criteria

- A.M. Best's Ratings On a National Scale, 10/13/2017
- Best's Credit Rating Methodology, 11/13/2020
- Available Capital & Holding Company Analysis, 10/13/2017
- Evaluating Country Risk, 10/13/2017
- Rating Title Insurance Companies, 09/01/2022
- Scoring and Assessing Innovation, 02/27/2023
- Understanding Global BCAR, 06/30/2022

Additional Rating Types

National Scale Rating for Armour Secure Ins S.A. de C.V. (AMB#091459) is a.MX

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

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