



RATING ACTION COMMENTARY

Fitch Affirms PV at 'BBB-'; Outlook Stable

Fri 12 Jun, 2020 - 5:40 PM ET

Fitch Ratings - Mexico City - 12 Jun 2020: Fitch Ratings has affirmed Peña Verde, S.A.B.'s (PV) Long-Term Local Currency Issuer Default Rating (IDR) at 'BBB-'. The Rating Outlook is Stable.

KEY RATING DRIVERS

The rating reflects strong capitalization and favorable business profile, which is offset by Fitch's view of the entity's exposure to the Mexican industry profile and operating environment, specifically investment-related risks. As a holding company, PV's rating reflects standard notching from operating company ratings. The Insurer Financial Strength (IFS) rating for PV's lead operating company, Reaseguradora Patria, S.A. (Patria), is 'BBB+'.

Fitch views PV's business profile as favorable compared to the Latin-American insurance market. Founded in 2012, PV is the direct holding company of five subsidiaries. At YE 2019, PV's total assets from its main insurance operating entities made up 91%; 60% distributed through Patria and 31% through General De Seguros and subsidiary. With a global position and focus in Latin America, PV's net written premiums (NWP) and equity totaled USD352 million and USD556 million, respectively. The holding owns a strong franchise in the region, which allows for a

very highly diversified business, with 54% of premiums in Mexico and the Caribbean, 30% in Central and South America, and 16% overseas.

PV's capital quality is adequate for the rating category. Entity's gross and net leverage ratios (1.9x and 1.4x at YE 2019, respectively) remain favorable. Fitch's primary near-term concerns include pressure on investments given the Mexican sovereign's related investments. Further, the recent downgrade of the Mexican sovereign rating increased the company's risky assets ratio to 85%, based on application of Fitch's Insurance Rating Criteria. Fitch notes that premium growth driven by currency exchange fluctuations may affect net and gross leverage ratios relative to regulatory capital in the future. While the company currently has no debt outstanding, the current rating assumes debt capacity of up to 30% of total adjusted capital.

Fitch views PV's underwriting and overall profitability as adequate but pressured by financial results and operating expenses. Historically, PV's technical result has been positive, although consolidated combined ratio five-year average reached 107%, which is in the upper bound of the entity's peers. Return on equity ratio is influenced by the Mexican market financial system averaging 3% during the same period.

PV's pro-forma results under Fitch's coronavirus stress scenarios reflect the risk of potential asset losses driven by concentration in Mexican government bonds, as well as equity investment exposure at 41% of capital. Fitch also recognizes the decline in interest rates could have a meaningful impact on Patria's investment earnings. Positively, under Fitch's claims assumptions, PV's loss ratio growth remains below 5% due to low exposure in life and health products, balanced with the expectation of a more favorable auto experience.

PV's reinsurance utilization ratio is adequate as a result of its business model, which relies on retaining 81% of the business written to its ample base of reinsurance partners. Reinsurance recoverable to capital was 34% at YE 2019.

RATING SENSITIVITIES

The ratings remain sensitive to any material change in Fitch's Rating Case assumptions with respect to the coronavirus pandemic. Periodic updates to Fitch's assumptions are possible given the rapid pace of changes in government actions in response to the pandemic, and the pace at which new information is available on the

medical aspects of the outbreak. An indication of how ratings would be expected to be affected under a set of Stress Case assumptions is included at the end of this section to help frame sensitivities to a severe downside scenario.

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

--A material adverse change in Fitch's Ratings Assumptions with respect to the coronavirus impact;

--A downgrade could be driven by a downgrade of Patria's rating or by a deterioration of PV's intrinsic financial performance, or by debt issuance that results in financial leverage ratio higher than 30%.

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

--A positive rating action is prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profile of both the LATAM reinsurance sector and PV;

--Given the company's current business profile, the rating would also be sensitive to an upgrade of Mexico's sovereign rating and country ceiling.

Stress Case Sensitivity Analysis

--The implied rating impact under the Stress Case would be a downgrade of up to one notch.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions 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>.

SOURCES OF INFORMATION

ESG Considerations

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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.

RATING ACTIONS

ENTITY/DEBT	RATING			PI
Pena Verde	LC	BBB- Rating Outlook Stable	Affirmed	B
S.A.B.	LT			O
	IDR			St

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Victor Perez

Senior Analyst

Primary Rating Analyst

+52 55 5955 1620

Fitch Mexico S.A. de C.V. Blvd. Manuel Avila Camacho No. 88, Edificio Picasso, Piso 10, Col. Lomas de Chapultepec, Mexico City 11950

Eugenia Martinez

Associate Director

Secondary Rating Analyst

+52 81 4161 7055

Julie Burke, CFA, CPA

Managing Director

Committee Chairperson

+1 312 368 3158

MEDIA CONTACTS**Elizabeth Fogerty**

New York

+1 212 908 0526

elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com**APPLICABLE CRITERIA**[Metodología de Calificaciones en Escala Nacional \(pub. 01 Aug 2018\)](#)[Metodología de Calificación de Seguros \(pub. 09 Jan 2020\)](#)[Insurance Rating Criteria \(pub. 02 Mar 2020\) \(including rating assumption sensitivity\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Pena Verde S.A.B.

EU Endorsed

DISCLAIMER

ALL 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](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. 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](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

[READ LESS](#)

COPYRIGHT

Copyright © 2020 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. 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 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.

[READ LESS](#)

SOLICITATION STATUS

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

ENDORSEMENT POLICY

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the [EU Regulatory Disclosures](#) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Non-Bank Financial Institutions Latin America Mexico

