FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Peña Verde, S.A.B.'s L-T Local Currency IDR at 'BBB+'; Outlook Stable

Tue 21 May, 2024 - 5:26 p.m. ET

Fitch Ratings - Monterrey - 21 May 2024: 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

Rating Derived from Patria: PV's 'BBB+' Local Currency IDR is derived by notching from the Insurer Financial Strength (IFS) rating of its main subsidiary, Reaseguradora Patria, S.A. (Patria), per Fitch criteria. PV's Local Currency IDR is based on Fitch's view of Patria's IFS rating when considering only local currency risks. As a result, Fitch currently views Patria's international implied Local Currency IFS rating as equivalent to the 'A-' level, and its implied Local Currency IDR at 'BBB+'. Under Fitch criteria, in group solvency regulatory environments, as designated by Fitch in Mexico, the IDR of a holding company is set at the same level as that of the operating company.

Patria's published international IFS rating is 'BBB+', which Fitch treats as a Foreign Currency rating, given its policy obligations volume in foreign currency. Patria's implied Local Currency ratings are applicable only in the PV notching exercise.

Company Profile Favorable Compared with LATAM Peers: PV's company profile is favorable compared with the Latin American insurance market. Founded in 2012, PV is the holding company of six subsidiaries. At YE 2023, PV's total assets from its main strong franchise in the region, which allows for a very highly diversified business, with 73% of NWP in Latin America, the Caribbean and 27% overseas.

Adequate Capitalization and Leverage: PV's capital quality is adequate for the rating category. The entity's gross and net leverage ratios (2.3x and 1.8x at YE 2023, respectively) remain adequate. The group practices strong capital allocation policies, which include a solvency capital requirement ratio for PV.

Fitch's primary rating constraints include pressure on investments, given the Mexican sovereign's related investments, which represents 119% of PV's equity at YE 2023. Given PV's strategic plan, premium growth may affect net and gross leverage ratios relative to regulatory capital in the future. However, Fitch expects ratings subfactors to remain at the current rating category. While the company currently has no debt outstanding, the current rating assumes debt capacity of up to 30% of total adjusted capital.

Performance Pressed by Insurance Subsidiary: Fitch views PV's underwriting and overall profitability as adequate but pressured by General de Seguros' weaker financial performance, along with volatility in financial results and operating expenses. Historically, PV's technical result have been positive. The combined ratio has consistently fallen below 100% (YE23 99.0%; three-year average 97.4%), but is pressured by General de Seguros' losses. Fitch expects PV's financial performance assessment to remain at the current assigned rating in the absence of losses greater than expected in the entity's basis scenario.

Financial Profile Likely to Improve: Fitch believes PV's financial profile could improve due to anticipated growth in premium revenues in countries with investment-grade ratings. This growth is likely to enhance the company's underwriting and investment diversification while simultaneously reducing exposure to assets rated below investment grade. However, expansion like this entails some execution risks.

Adequate Reinsurance Program: PV's reinsurance utilization ratio is adequate because of its business model, which relies on retaining 81% of the business written to its ample base of clients. Reinsurance recoverable to capital was 43.8% at YE 2023.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--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%;

--Negative rating action could be triggered by persistent losses in the insurance business line that lead to a change in Fitch's view of the subsidiaries' strategic importance.

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		PRIOR
Pena Verde S.A.B.	LC LT IDR Affirmed	BBB+ Rating Outlook Stable	BBB+ Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Eugenia Martinez
Director
Primary Rating Analyst
+52 81 4161 7055
eugenia.martinez@fitchratings.com
Fitch Mexico S.A. de C.V.

Secondary Rating Analyst
+52 55 5955 1620
victor.perez@fitchratings.com

Brian Schneider, CPA, CPCU, ARe
Senior Director
Committee Chairperson
+1 312 606 2321
brian.schneider@fitchratings.com

MEDIA CONTACTS

Elizabeth Fogerty
New York
+1 212 908 0526
elizabeth.fogerty@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

Metodología de Calificaciones en Escala Nacional (pub. 22 Dec 2020)

Metodología de Calificación de Seguros – Efectiva del 28 de agosto de 2023 al 2 de abril de 2024 (pub. 28 Aug 2023)

Insurance Rating Criteria (pub. 04 Mar 2024) (including rating assumption sensitivity)

APPLICABLE MODELS

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Pena Verde S.A.B.	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 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. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

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. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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

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.

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.