

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

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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.

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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 BBB+ Rating Outlook Stable Affirmed	BBB+ Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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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 \(pub. 04 Mar 2024\) \(including rating assumption sensitivity\)](#)

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Pena Verde S.A.B.

EU Endorsed, UK Endorsed

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