



## Fitch Rates Peña Verde's IDR 'BBB'; Stable Outlook

Fitch Ratings-Monterrey-25 June 2019: Fitch Ratings has assigned a Local Currency Long-Term Issuer Default Rating (IDR) of 'BBB' to Peña Verde, S.A.B.(PV). The Rating Outlook is Stable.

### KEY RATING DRIVERS

The rating reflects standard operating to holding company notching as well as regulatory environment, per Fitch's insurance criteria. For Mexican insurance organizations, Fitch establishes the IDR of a holding company two notches lower than that the Insurer Financial Strength (IFS) rating of the main operating company(ies), reflecting a "ring fenced" regulatory environment, as defined within Fitch criteria. In the case of PV, notching is applied relative to the IFS of Reaseguradora Patria, S.A. (rated A-). The 'BBB' IDR assigned to PV assumes that any future debt issuance would not cause PV's financial leverage ratio to exceed 30%.

The underlying credit fundamentals of PV reflect 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 on investment-related risks.

In Fitch's opinion, PV's business profile is favorable compared to other Mexican insurance organizations. Founded in 2012, PV is the direct holding company of five subsidiaries. At year-end 2018, of PV's total assets, Insurance operations explained 92%, 61% through Reaseguradora Patria, S.A. (Patria) and 31% through General De Seguros and subsidiary (General de Salud). With a global position and focus in Latin America, PV's net written premiums (NWP) totaled USD305 million and USD479 million equity. The holding owns a strong franchise in the region, which allows for a very highly diversified business. Of premiums, 52% was concentrated in Mexico, 20% in South America, 10% in Central America, 12% overseas and 6% in the Caribbean.

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 101%, positioning itself in the upper bound of the entity's Fitch rated. Return on equity ratio is influenced by the Mexican market financial system averaging 3%, in the same period.

PV's capitalization and leverage ratios are strong but pressured by investment and asset risk. At year-end 2018, entity's net and gross leverage ratio registered 1.4x and 1.8x, respectively. Of capital, 55% is concentrated in catastrophic reserves, 25% in permanent investments, 10% in legal reserves and, results and paid in capital both with 4% respectively, and 1% in surplus valuation. Fitch would review the rating assigned in the case of entity issuing debt, especially whenever the financial leverage ratio rises above 30%.

Entity's investment portfolio follows Mexican stringent regulation, and, although it is diversified compared to local peers, it maintains a high correlation to country's sovereign risk. At year-end 2018, holding's sovereign investment to capital resulted in 89%. Risky asset ratio was 48% and liquid assets to loss reserves posted 1.5x, consistent with superior rating categories; nonetheless, in Fitch's opinion, risk is concentrated in the Mexican financial market, especially for government bonds, whose risk is reflected in the Mexican sovereign 'BBB'/Outlook Stable rating.

PV's reinsurance utilization ratio is adequate as a result of its business model, which relies on retaining 82% of the business written to its ample base of reinsurance partners. Reinsurance recoverable to capital resulted in 25% (56% of regulatory capital).

#### RATING SENSITIVITIES

Given the company's current business profile, Fitch would not envision an upgrade for PV over the rating horizon.

A downgrade could be driven by a material deterioration in entity's financial performance. Material declines in capitalization or leverage ratios could also pressure the rating. The ratings would also be sensitive to a downgrade of Mexico's sovereign rating to below investment grade given the large investment concentrations and/or a decline in Mexico's country ceiling to less than 'A'.

#### FULL LIST OF RATING ACTIONS

Fitch has assigned the following rating:

PV

--Local Currency Long-Term IDR 'BBB'; Outlook Stable.

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Metodología(s) Aplicada(s)  
Insurance Rating Criteria (pub. 11 Jan 2019)

Divulgación Adicional  
Solicitation Status  
Política de Endoso Regulatorio

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