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CREDIT OPINION
18 October 2017

Update

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RATINGS

Plan Seguro, S.A. de C.V., Co. de Seguros

Domicile	Mexico
Long Term Rating	Baa3
Type	Insurance Financial Strength - Dom Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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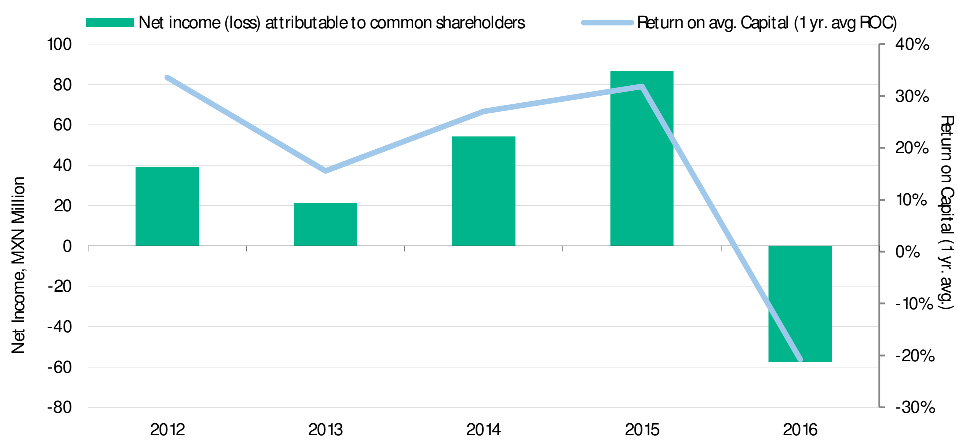
Plan Seguro, S.A. de C.V., Co. de Seguros

Update to credit analysis

Summary

Plan Seguro, S.A. de C.V., Compañía de Seguros (Plan Seguro)'s Baa3 and Aa3.mx National Scale insurance financial strength ratings are based primarily on the company's leading position in the Mexican specialized private health insurance industry, its solid asset quality, and its strong track record of growth and profitability. These positive considerations are partially offset by Plan Seguro's limited product diversification, given the mono-line nature of the company, by its high dependence on one distribution channel as well as by its modest business scale.

Exhibit 1
Net Income and Return on Capital (1 yr. avg.)



2016 figures consider new accounting practices for Mexican insurance companies, which in some cases are not comparable with previous years.
Source: Moody's Investors Service based on company's financial statements

Credit strengths

» Largest specialized private health insurer in Mexico

» Good asset quality

» A good track of growth and profitability

Credit challenges

» Modest scale compared to the Mexican insurance sector

» Limited product mix, given the mono-line nature of the specialized private health insurance sector in Mexico

» Limited geographic diversification

Outlook

The current outlook for Plan Seguro's ratings is negative, reflecting a deterioration of the insurer's capital position and its effect in the solvency coverage levels. Nonetheless, during the first half of 2017, the company´s profitability, capital and reserve adequacy metrics have notably improved.

Factors that could lead to an upgrade

Given that the company's rating outlook is negative, an upgrade is unlikely. However, the following factors will lead to a change of the outlook back to stable:

» An improvement in the company's capitalization (e.g. GUL below 5x on a consistent basis)

» An increase in the company's market presence

» Upgrade of the Mexican government bond ratings, coupled with an improvement in the country's operating environment

Factors that could lead to a downgrade

» A significant deterioration in the company's capitalization levels; (e.g. GUL above 6.5x on a consistent basis)

» Weakening of profitability metrics on a consistent basis (e.g. return on capital consistently below 15%)

» Lack of shareholders support in case of capital needs

» Downgrade on Mexico´s bond ratings, coupled with a deterioration in the country's operating environment

Key indicators

Exhibit 2

Plan Seguro, S.A. de C.V., Co. de Seguros[1][2]	2016	2015	2014	2013	2012
As Reported (Mexican Peso Millions)					
Total Assets	1,539	1,189	1,156	969	765
Total Shareholders' Equity	253	300	244	158	115
Net income (loss) attributable to common shareholders'	(57)	87	54	21	39
Gross Premiums Written	1,405	1,180	1,116	1,041	826
Net Premiums Written	1,122	1,179	1,116	1,041	826
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	101.2%	70.4%	68.9%	96.2%	107.9%
Reinsurance Recoverable % Shareholders' Equity	79.3%	0.1%	1.3%	4.3%	3.3%
Goodwill & Intangibles % Shareholders' Equity	-	-	-	-	-
Gross Underwriting Leverage	7.2x	4.6x	5.3x	7.9x	8.9x
Return on avg. Capital (1 yr. avg ROC)	-20.7%	31.8%	27.0%	15.6%	33.6%
Sharpe Ratio of ROC (5 yr. avg)	77.6%	254.2%	225.0%	NA	NA
Adv./(Fav.) Loss Dev. % Beg. Reserves (1 yr. avg)	300.0%	70.9%	93.6%	60.6%	14.1%
Financial Leverage	0.0%	0.0%	0.0%	0.0%	0.0%
Total Leverage	0.0%	0.0%	0.0%	0.0%	0.0%
Earnings Coverage (1 yr.)	NM	NM	NM	NM	NM
Cash Flow Coverage (1 yr.)	NA	NA	NA	NA	NA

[1] Information based on Local GAAP financial statements as of Fiscal YE December 31
[2] Certain items may have been relabeled and/or reclassified for global consistency

2016 figures consider new accounting practices for Mexican insurance companies, which in some cases are not comparable with previous years.
Source: Moody's Investors Service based on company's financial statements.

Profile

Based in Mexico City, Plan Seguro is the leading health insurer in Mexico with more than 40% market share in the health insurance market. The company provides private health insurance protection which serves as an alternative of the social security system or other government related health insurance programs. Plan Seguro offers health and medical expenses insurance and it is privately owned by a group of international and local businessmen.

Detailed credit considerations

Moody's rates Plan Seguro´s IFS at Baa3 on a global basis, which is in line with the adjusted rating indicated by the Moody's global insurance financial strength rating scorecard.

Insurance financial strength rating

The key factors currently influencing the rating and outlook are:

Business profile

Market position, brand and distribution: Baa - A niche market leader

Plan Seguro's is a leader in the specialized private health insurance sector in Mexico, with a 44% share of this specialized sector's premiums written in 2016; during 1H2017, its market share slighty improved to 49%. However, the company represented only 0.33% of Mexican general insurance market in 2016, reflecting the small scale of the mono-line specialized private health insurance sector, which also remains very small in comparison with the country's public health sector. The insurer's strong brand recognition in this segments is partly tempered by its high dependence on third party distribution channels. We consider Plan Seguro's leadership in its specialized sector and brand recognition are in line with expectations at the Baa level instead the B indicated by the unadjusted metric.

Product focus and diversification: Ba - Limited business diversification, given the mono-line nature of the specialized private health insurance sector

Consistent with regulatory guidelines requiring Mexican specialized private health insurers to operate exclusively in that line of business, Plan Seguro´s revenue structure is highly concentrated, with private health insurance accounting for approximately 61% of its total premiums written, and with major medical expenses representing the remainder 39%. Consequently, product and business diversification are very modest. That said, a fairly large percentage of the membership (54%) is concentrated in individual policies, which in turn are 30% reinsured with a quota share reinsurance contract, which we view favorably as it mitigates the company's risk exposure.

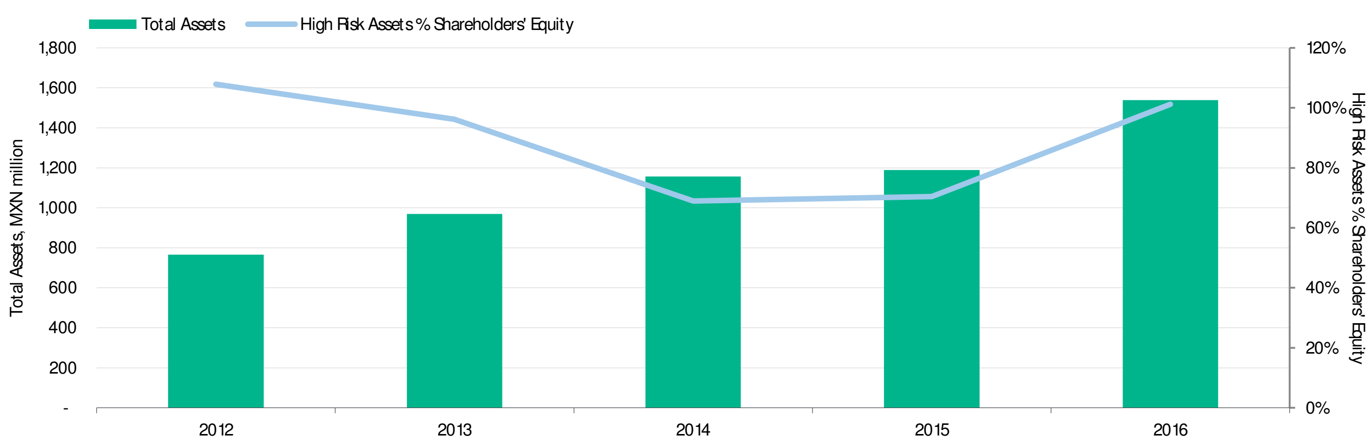
In addition, Plan Seguro operates exclusively in Mexico, with the metropolitan area of Mexico City representing more than half of premiums written. In recent years, Plan Seguro has expanded its operations to the states of Jalisco and Nuevo León, which accounted for approximately one-fourth of its premiums written in 2016. Consequently, given the regulatory limitations which stipulates that health insurers can only offer health coverage products. Plan Seguro's product risk portfolio diversification is limited, therefore we view the company consistent with expectations at the Ba level, rather than the Baa indication provided by the unadjusted scorecard.

Asset quality: A - Portfolio with investments concentrated in government bonds and mutual funds

Plan Seguro's investment portfolio is highly concentrated in unrated bond mutual funds, which are mandated to invest in Mexican government securities. Although those securities are considered to be of good quality (A3 negative), we consider these mutual funds to be riskier because its investment guidelines are more openly defined. Consequently, high risk assets to shareholders equity was 101% as of June 2017, similar to the level registered as of December 2016. The company also makes sure to maintain a good asset and liabilities matching in order to support liquidity needs.

The company does not hold significant intangible assets on its balance sheet. In 2016 resulting from new reinsurance practices, exposure to reinsurance recoverables increased to 79% of shareholders equity. As at June 2017, this metric was 71%, we expect this amount will remain in similar levels going forward, as results of its new risk transfer strategy aiming to reduce the amount of regulatory required capital, under Solvency II standards in force since 2016. Given the concentration in Bond Funds and characteristics of the company's investment portfolio and exposure to reinsurance receivables, we consider Plan Seguro's asset quality to be in line with expectations at the A level, in line with the A provided by the unadjusted scorecard metric.

Exhibit 3
Total assets & high-risk assets % shareholders' equity



2016 figures consider new accounting practices for Mexican insurance companies, which in some cases are not comparable with previous years.
Source: Moody's Investors Service based on company's financial statements.

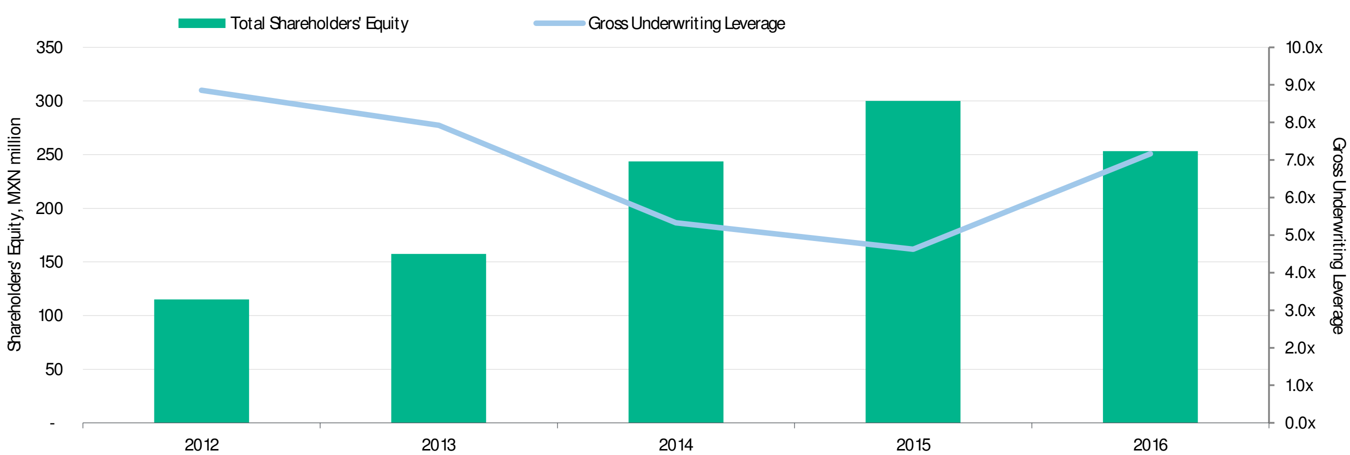
Capital adequacy: Ba - Capitalization level is under pressure, but recovering

Plan Seguro's adjusted gross underwriting leverage (GUL) has averaged 6.8x in the last five years, which has been high if compared to Mexican peers, with a clear deteriorating trend in past years. However, as of December 2016 this metric deteriorated to 7.2x, reflecting the decrease in shareholders equity caused by additional unearned premiums reserve required by the new regulation. Compared to December 2016 levels, shareholders equity increased 30% as at June 2017, which is an improvement of the above-mentioned worsening trend. In 2014 and 2015, the company´s GUL improved to 5.3x and 4.6x, respectively, in part reflecting non-recurring income related to reserve releases that increased shareholders' equity by 54% in 2014 and 23% in 2015.

Plan Seguro is not exposed to catastrophe events, which is a positive credit consideration, although health insurance risk can generate significant volatility in underwriting results, affecting earnings and capital. The implementation of Solvency II also derived in additional requirements of capital for the company; the Solvency II capital ratio as of June 2017 was 1.38x, up from the 1.19x as of December 2016. Although the current solvency coverage ratio is appropriate, we will closely monitor its evolution given its exposure to potential fluctuations. We view Plan Seguro's intrinsic limitations to absorb loss deviations are consistent with expectations at the Ba level in line with the proposed by the unadjusted scorecard.

Exhibit 4

Shareholders' equity and gross underwriting leverage



2016 figures consider new accounting practices for Mexican insurance companies, which in some cases are not comparable with previous years.
Source: Moody's Investors Service based on company's financial statements.

Profitability: Baa - Positive trend may be challenged by higher reinsurance cessions

The company's return-on-capital (ROC) in 2016 was a loss of -20.7%, the first in its track record. However, the company's 5-year ROC is 17.4%, reflecting a combination of good risk selection, underwriting income growth and good investment performance. While 2014 and 2015 were benefited from a one time event related to reserves' release, the company's combined ratio fluctuated between 95% and 98% during 2013-15. In 2016, the combined ratio increased to 113.5%, the deterioration in the combined ratio underpinned in the additional reserves which reduced the earned premiums making greater the claims weight in the loss ratio (claims/net premiums earned) which increased to 77.4% in 2016 from 58.1% in 2015, going forward we expect this ratio to converge at historical levels of 60%. In addition, despite the recent very low interest rate environment in Mexico, investment returns have contributed to net income. Considering the first six months of 2017 the combined ratio was 94%, although subject to certain seasonality for the second half of the year, we anticipate a return on capital higher than 2016, in line with its historic average of 24.1%. Plan Seguro is now ceding 30% of its business in individual policies, cessions reduce the amount of potential earnings as shareholders portion, the ability to recover past profitability metrics will be a challenge that could impact our current outlook assessment.

Despite Plan Seguro's past favorable profitability track record, the company has been affected by its current reinsurance cessions in order to meet the new solvency regime more comfortably, resulting in a lower profitability for the company. However there are some compensating factors such as reinsurance profit sharing and fees related to policies underwriting. The company's profitability profile is at the Baa level, below the A generated by the unadjusted scorecard, although it may be moved down in case of a sustained deterioration of Plan Seguro's earnings.

Reserve Adequacy: Baa - Very volatile reserve risk profile
Moody's considers Plan Seguro as having moderate reserve risk, given both its focus on potentially volatile health insurance exposures, which we view as partly tempered by the granularity of the company's individual insurance risks. The company's reserves have been in constant monitoring by regulators and third-party auditors. Since January 1, 2016, the company significantly increased its unearned premiums reserve, due to new accounting and solvency rules. Loss reserves have been very volatile, boosted by additional adjustments on Incurred But Not Reported (IBNR) reserves, led by new statutory reserving standards. Our adverse loss deviation metric for the last five years was 146.6% on average, which is extremely high. However, we note that this loss deviation metric -mainly intended for property and casualty insurers- can be misleading, because the treatment of reserves in the health insurance business is much different from that of the property and casualty business.

Therefore, we view the company's reserve adequacy as being consistent with expectations at the Baa level on a global basis several notches above the Caa metric generated by the unadjusted scorecard, we note this metric could be moved down reflecting the track in reserving practices.

Financial flexibility: Baa - Limited financial flexibility
Plan Seguro has no debt. However, we have adjusted this factor score down from the unadjusted score indication of A, to reflect the company's lack of direct access to the capital markets, in the event it required external funds, which would be somewhat limited by Plan Seguro's modest scale in addition we consider the low degree of development of the capital markets of the country is a limiting factor. As a consequence Plan Seguro's financial flexibility is constrained by company's ability to raise debt and equity on its own, which is more in line with expectations at the Baa level instead of the A provided by the unadjusted scorecard.

Operating environment: Baa - Modest penetration of insurance in Mexico's economy, but supported by high economic strength
In addition to the company's business and financial fundamentals, Moody's considers Mexico's operating environment in arriving at our final rating indication for the company. Our overall Baa-level insurance operating environment score, which carries a 20% weight in the scorecard, is based on a Baa-range score for systemic risk (reflecting consideration of Moody's Sovereign Risk group's assessment of the country's economic strength (high), institutional strength (moderate) and susceptibility to event risk (low)) and a B-range score for insurance market development (reflecting consideration of the very low degree of penetration of insurance in the Mexican economy and low per capita insurance utilization in comparison with other countries worldwide). In our view, the country's operating environment exerts a minor influence on Plan Seguro's overall credit profile.

Structural considerations

Global local currency and national scale insurance financial strength ratings
Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_189530.

Plan Seguro's Aa3.mx national scale insurance financial strength (IFS) rating is based on the application on Moody's mapping criteria for its global local currency IFS rating to the Mexican national scale. At the Baa3 global local currency rating level, the corresponding rating in Mexican national scale is Aa3.mx.

Rating methodology and scorecard factors

Exhibit 5
Plan Seguro, S.A. de C.V., Compañía de Seguros, scorecard (fiscal year-end 2016) 5

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adjusted Score
Business Profile								Ba	Baa
Market Position and Brand (25%)								B	Baa
- Relative Market Share Ratio						X			
- Underwriting Expense Ratio % Net Premiums Written					35.3%				
Product Focus and Diversification (10%)								Baa	Ba
- Product Risk			X						
- P&C Insurance Product Diversification					X				
- Geographic Diversification						X			
Financial Profile								Baa	Baa
Asset Quality (10%)								A	A
- High Risk Assets % Shareholders' Equity				101.2%					
- Reinsurance Recoverable % Shareholders' Equity			79.3%						
- Goodwill & Intangibles % Shareholders' Equity	0.0%								
Capital Adequacy (15%)								Ba	Ba
- Gross Underwriting Leverage					7.2x				
Profitability (15%)								A	Baa
- Return on Capital (5 yr. avg)	17.4%								
- Sharpe Ratio of ROC (5 yr. avg)					77.6%				
Reserve Adequacy (10%)								Caa	Baa
- Adv./(Fav.) Loss Dev. % Beg. Reserves (5 yr. wtd avg)							146.6%		
Financial Flexibility (15%)								A	Baa
- Financial Leverage	0.0%								
- Total Leverage	0.0%								
- Earnings Coverage (5 yr. avg)									
- Cash Flow Coverage (5 yr. avg)									
Operating Environment								Baa	Baa
Aggregate Profile								Baa3	Baa3

[1] Information based on Local GAAP financial statements as of Fiscal YE December 31
[2] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis

2016 figures consider new accounting practices for Mexican insurance companies, which in some cases are not comparable with previous years.
Source: Moody's Investors Service based on company's financial statements.

Moody's related publications

Sector Comment

- Mexican Insurers and Banks Have Mitigants to Handle Earthquake Losses, September 2017
- Insurance - Mexico: 2016 Financial Performance and Statistical Supplement, August 2017
- Mexico Oil and Gas Auctions Are Credit Positive for Local Surety Companies, July 2017
- Accelerating Car Thefts in Mexico Threaten Auto Insurers' Profitability, May 2017
- Mexican Regulator Confirms that Virtually All Insurers Comply with Solvency II Standards, a Credit Positive, April 2017
- Insurance - Mexico: 2016 Profits Benefit from One-Time Gains Stemming from Regulatory Changes, April 2017
- Cross Sector - Mexico: Mexican Gas Price Hike is Negative for Consumer Companies and Positive for Sub-Sovereigns and Other Companies, February 2017
- Mexico's Construction Contraction is Credit Negative for Surety Insurers, November 2016
- Mexico's Surprise Rate Hike Will Benefit Insurers and Pension Funds, Feb 2016

Outlook

- Insurance - Mexico: Solid profits, strong liquidity and capital support stable outlook, August 2017

Rating Methodology

- Global Property and Casualty Insurers, May 2017

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Ratings

Exhibit 6

Category	Moody's Rating
PLAN SEGURO, S.A. DE C.V., CO. DE SEGUROS	
Rating Outlook	NEG
Insurance Financial Strength	Baa3
Insurance Financial Strength--National Scale	Aa3.mx

Source: Moody's Investors Service

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Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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