Banco La Hipotecaria, S.A.

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BB+
Short-Term IDR	B
Viability Rating	bb–
Support Rating	3

Local Currency

Long-Term	AA–(pan)
Short-Term	F1+(pan)
Senior Secured Long-Term Debt	AA(pan)
Senior Unsecured Long-Term Debt	AA–(pan)
Senior Secured/ Unsecured Short-Term Debt	F1+(pan)

Outlooks

Foreign-Currency Long-Term IDR	Stable
Sovereign Foreign-Currency Long-Term IDR	Stable

Financial Data

Banco La Hipotecaria, S.A.

(USD Mil.)	12/31/18	12/31/17
Total Assets	814.3	699.8
Total Equity	71.1	70.6
Operating Profit	6.4	6.8
Net Income	4.6	5.4
Fitch Comprehensive Income	2.8	3.8
Operating ROAA (%)	0.85	1.04
Operating ROAE (%)	8.96	9.96
Fitch Core Capital/ Risk Weighted Assets (%)	14.80	16.21
Tangible Common Equity/Tangible Assets (%)	8.62	9.96

Related Research

Panama (March 2018)

Grupo ASSA, S.A. y Subsidiarias (May 2018)

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Key Rating Drivers

Grupo ASSA's Support Drives IDR: Banco La Hipotecaria, S.A.'s (Banco La Hipotecaria) IDR reflects the capacity and propensity for support from its parent, Grupo ASSA, S.A. (Grupo ASSA; Long-Term IDR of 'BBB–'/Stable), if required. The national ratings assigned to the bank's negotiable notes (which carry a mortgage loan portfolio guarantee) are higher than the bank's national ratings, given that they benefit from the explicit guarantee of Grupo ASSA.

Operation Deemed Strategically Important: Fitch Ratings believes the bank represents a strategically important operation for Grupo ASSA. Banco La Hipotecaria shares strong synergies with Grupo ASSA given the former's role in complementary market segments for many of Grupo ASSA's subsidiaries. This allows Grupo ASSA to exploit sales of additional products and services such as insurance policies on mortgage loans.

Consolidated Risk Management: Banco La Hipotecaria's mortgage operation focuses on Panama, El Salvador and Colombia. Credit risk management such as delinquency levels and other operating risks is done in Panama to optimize the bank's operating structure, achieve a collective banking supervision and generate economies of scale.

High Asset Quality: Banco La Hipotecaria's asset quality metrics compare favorably against its peers and the Panamanian banking system because of the high efficiency of the bank's main payment-collecting tool and its selective and robust credit approval criteria. The bank enjoys the distinction of low delinquency levels — as of December 2018 they accounted for only 1.26% of total gross loans compared to the system average of 1.93%.

Stable Funding Structure: The bank's funding structure is balanced between deposits, debt issuance and lines of credit. Funding has been ample enough to sustain the company's growth rate and expansions. The predictability of its debt obligations' deadlines allows the bank to mitigate any refinancing risk through a precise schedule of its payment obligations.

Modest but Stable Profitability: Banco La Hipotecaria's profitability metrics are modest, reflecting its conservative business model, as well as its relatively low risk exposure. The bank's profitability is limited by a narrow net interest margin (1.98%) and high non-interest expenses, which as of December 2018 were equal to 70.5% of gross revenues.

Rating Sensitivities

Changes in Support: Changes in Banco La Hipotecaria's IDRs would reflect modifications in its shareholder's risk profile or changes in the assessment of its ability, or willingness, to provide support to its subsidiary.

Changes in VR: Banco La Hipotecaria's VR could be upgraded given a significant improvement in its competitive position and expansion of its market share. Conversely, its VR could be negatively affected by a noticeable reduction of its profitability metrics as well as deterioration of its funding stability or capitalization metrics.

Operating Environment

On Feb. 16, 2018, Fitch affirmed Panama's Long-Term Foreign and Local-Currency IDRs at 'BBB'. The Rating Outlook remains Stable. Panama remains one of the most dynamic economies in Latin America despite weaker economic activity through 2018. Early estimates point to growth below 4% in the first half of the year, reflecting a slowdown of key sectors including construction, affected by a prolonged strike in April/May. We expect strong economic recovery in 2019, with a rate above 5%, given the temporary nature of the shock to the construction sector and robust exports from a new copper mine slated to start production later this year.

According to Fitch's criteria, the operating environment assessment is the result of the combination of two core metrics: GDP per capita and the World Bank's Ease of Doing Business ranking (EDB). Fitch believes these ratios have the greatest explanatory power in determining the ability of banks to generate business volumes with acceptable levels of risk. In 2018, the Panama's GDP per capita has been above of the median of the countries rated in the 'BBB' category, but not the same behavior exhibited EDB as of 2017.

Fitch assigns a 'bbb–' score for the Panamanian bank's operating environment, taking into account the less developed financial market compared to countries with similar ratings, a banking regulatory framework improving but with lags behind the region's best regulated markets, as well as the economic performance, macro stability, among others.

Fitch expects the benign environment for the banking industry to continue. The economic environment will allow banks to maintain good asset quality, despite the upward trend in +90 days past due-loans. The impaired loans ratio for the sector will probably remain in the range of 1.6% to 2.2% of total loans. In 2018, Fitch expects that domestic loan growth will reach one digit, similar to that of 2017 (6.0%). In Fitch's opinion, the banking system is now better prepared to handle the deterioration of large loans, given the experience gained with high-profile cases.

Panama is strengthening and introducing regulatory changes that will bring the country closer to the Latin American best practices. On the other hand, a stricter regulatory framework that entails higher costs for banks, together with lower credit growth, could boost consolidation in the banking industry. In addition to the application of the International Financial Reporting Standard 9 (IFRS 9), other regulatory changes are being effective in 2018 or will be implemented in 2019, as the liquidity coverage ratio of Basel III, new capital requirements for trading securities as well as new requirements for operational risk.

Company Profile

Banco La Hipotecaria is a small-sized bank with a limited franchise that specializes in the underwriting, administration and securitization of mortgage loans. As of December 2018 its assets and deposits represented 0.78% and 0.33% of the entire system respectively. However, in spite of its small size, the bank is able to compete against significantly larger commercial banks thanks to the competitive advantage it enjoys due to its speed and efficiency in underwriting loans, which in turn is due to its strong focus and specialization in the mortgage sector.

The bank is ranked 13th in the Panamanian mortgage loan sector with 2.2% of market share among the general license banks. However, once you include the securitized mortgage loans that are no longer in their balance sheet but are still administrated by them, their market share increases to 3.3% and climbs to the 10th spot in the ranking.

The bank is owned by La Hipotecaria (Holding) Inc., which in turn is owned by Grupo ASSA. Grupo ASSA is a financial conglomerate that currently leads the insurance market in the

Related Criteria

Bank Rating Criteria (October 2018)

National Scale Ratings Criteria (July 2018)

Panamanian system. The group also holds a presence in El Salvador, Costa Rica, Nicaragua, Guatemala, Honduras and Colombia.

Banco La Hipotecaria consolidates the operations of La Hipotecaria Compañia de Financiamiento, S.A. (La Hipotecaria C.F.), a regulated entity in the Colombian financial system, and La Hipotecaria, S.A. de C.V. (La Hipotecaria), a non-regulated entity in El Salvador.

In spite of being a bank, La Hipotecaria's business model differs noticeably from that of a traditional bank. La Hipotecaria is dedicated exclusively to the origination and servicing of residential mortgages with a proven ability to securitize its mortgages. La Hipotecaria adheres to a moderate business strategy focused on the improvement of its operating efficiency. Although the bank's main source of income stems from its loan portfolio (its interest margin and fees and commissions from its underwriting process), La Hipotecaria also generates recurring administrative and insurance revenues derived from the securitization process.

Finally, using the mortgage loan as a client's "collateral", the institution provides other consumer products for its existing clients focused on the property's maintenance, improvement or insurance products.

The bank's earnings show low levels of volatility which is consistent with their risk-averse approach. The bank has managed to create economics of scale for all of its subsidiaries (the Salvadorian and Colombian operations) by centralizing all risk management and operational procedures in Panama. In addition, the group enjoys intra-group benefits by offering complementary products such as mortgage loans together with house insurance provided by ASSA Compañia de Seguros.

The bank's main focus group is middle- and lower-middle-earning individuals, primarily in the public sector guild (police officers, nurses, teachers, etc.). The average monthly income for its target client is $780 a month, and as of December 2018, its loan portfolio is composed mainly of mortgage loans for houses priced at less than $55,000; as of the same date, these loans represent over 75% of the bank's total loans.

Banco La Hipotecaria is a direct subsidiary of La Hipotecaria (Holding) Inc., which consolidates its operations in El Salvador (La Hipotecaria S.A. de C.V.) and in Colombia (La Hipotecaria Compañía de Financiamiento, S.A.). La Hipotecaria (Holding) in turn is a subsidiary of Grupo ASSA (69.01%), IFC (13.5%) and other minority shareholders (17.5%). The bank's organizational structure is simple and has no impact on its ratings. In Fitch's opinion, the bank's structure is like any financial institution's, with adequate visibility and transparency in each of its legal entities.

Management and Strategy

From Fitch's point of view, Banco La Hipotecaria's management team has a good degree of experience and depth, as well as benefits from the sharing of knowledge from its ultimate shareholder, Grupo ASSA. The bank's executive body is knowledgeable with regard to the real estate and mortgage markets, with significant expertise in the insurance and brokerage businesses as well. As of 2018, the bank has hired a very experienced and knowledgeable general manager for the Colombian operation and considers now every entity in the group to have an efficient and completely synchronized structure. The agency believes the institution has made successful efforts to decrease any key man risk.

The board of directors represents the ultimate authority within the bank. The board has eight directors and representatives from Grupo ASSA, IFC and two independent directors. The board also frequently welcomes high-ranking executive guests from Grupo ASSA. The board features a diversity of experts from different fields and is stable, with board members rarely leaving or being replaced.

La Hipotecaria's strategic objectives are established by the board of directors, who clearly define goals concerning financial and commercial performance and operating efficiency. With nearly every operational procedures (with the exception of sales and collection)from all three entities being officially centralized in Panama and having generated economies of scale, La Hipotecaria now aims to expand its Colombian operations and continue to focus on its financial stability and operating efficiency.

The bank's execution on the completion of its traced strategic objectives has been historically satisfactory. Fitch expects that now that economies of scale have been achieved among all different operations, the bank will be able to focus on the digitalization of its operations. Moreover, the economic recovery expected in Panama for 2019 can present La Hipotecaria with a good opportunity to ease pressure off its delinquency and profitability levels caused by the slowdown experienced in 2018. The bank projects to close 2019 with USD7.3 million of net profit and a credit growth similar to 2018's.

Risk Appetite

Fitch believes the bank's underwriting standards adequately reflect market conditions and have maintained a solid degree of stability throughout different economic cycles. The efficiency of its policies is reflected in its high asset quality, which historically has exhibited low and consistent delinquency levels with little to no charge-offs.

La Hipotecaria's underwriting standards are based on five fundamental pillars: (i) the borrower must have a steady flow of income; (ii) the borrower must reside in the house for which the loan is made; (ii) the property must be a primary residence; (iv) the borrower must be in the middle-to-lower- middle-class; and (v) loan payments cannot exceed 35% of the borrower's monthly income. The bank finances up to 98% of the mortgage, with a ceiling of USD150,000 and a 30-year term.

The investment portfolio focuses on investment-grade securities for liquidity purposes. The bank continues to focus its investment portfolio on assets with higher liquidity such as US Treasury Notes instead of local sovereign debt instruments.

La Hipotecaria's risk controls are good and conservative. The bank's main collection tool is direct payroll deduction. This mechanism corresponds to 83.34% of the bank's collections for its entire loan portfolio in Panama. The bank does not originate a loan to a new client without this mechanism in place. However, some clients belong to the voluntary payment category: these are individuals who have become self-employed, and therefore do not currently receive a steady income as a salary. They pay their quotas to the bank voluntarily.

La Hipotecaria's asset growth rate is volatile due to its business model, which revolves around mortgage loan securitizations. Historically, the bank's growth rate has outperformed the Panamanian bank system average. For December 2018, the bank registered a loan growth rate of 15.69% and a total asset growth rate of 16.36%. In 2017 the bank's loan growth rate was historically higher partially due to a credit portfolio purchase of USD20 million. The acquired loan book complies with the bank's underwriting standards; the purchased loans were free of NPLs, had direct payroll deduction and were made to borrowers in the bank's target market. The bank's capital levels are still ample, making its growth objectives realistic and sustainable.

Fitch expects the bank's asset growth rate to maintain a certain degree of volatility due to the securitization of its loan portfolio. La Hipotecaria's periodic transfer of a portion of its loan portfolio at book value into mortgage- backed securities serves as a mechanism the institution employs in order to obtain higher liquidity and rotate warehousing credit facilities. In spite of the volatility in the bank's growth rates in certain years, the agency thinks they are within the bank's operational capacities and its financing resources available.

La Hipotecaria's market risk exposure is relatively high, primarily due to the interest rate variation sensitivities stemming from the structural mismatch between the long-term mortgage loan portfolio and shorter term liabilities. Moreover, despite having the option to adjust its loans' interest rates, under certain circumstances this would hinder its ability to compete against banks of larger size and wider market share. To manage its risk exposure regarding the investment portfolio, the bank uses a value at risk approach for its investments. The agency does not consider this to be material.

The bank's exchange rate risk exposure is also relatively high and relevant, particularly because of the Colombian operation as it operates in Colombian pesos. This causes an open long position in pesos, which was equivalent to 31.0% of the bank's total equity as of December 2018. The peso's depreciation resulted in an exchange rate loss equivalent to 2.68% of the bank's equity. However, the institution carries out periodic stress tests to measure the sensitivity of both the interest and exchange rate risks to the firm. Nevertheless, La Hipotecaria does not use any other financial instrument to hedge the impact of these sensitivities on its balance sheet.

Financial Profile

Asset Quality

High Asset Quality

La Hipotecaria's asset quality has deteriorated along with the rest of the Panamanian system in general as consequence from the economic slowdown of 2018. As of December 2018, the bank's impaired loans presented 1.26% of its gross loans compared to 0.95% of 2017 and 0.83% of 2016. In spite of this increase in its non-performing loans, the bank still compares favorably against the system's average of 1.93% and against the majority of its peers.

92% of the bank's credit portfolios are mortgage loans, with the rest being consumer loans to existing clients. Of the mortgage loans 55.42% were credits to purchase brand new houses, 40.62% were mortgage refinances and only 3.96% were credits for used home purchases.

La Hipotecaria's credit portfolio has a high degree of granularity in terms of debtor. As of December 2018, the 20 largest debtors represented just 0.6% of the bank's total portfolio. On the other hand, its granularity in terms of employer is relatively higher. As of the same date its 20 largest places of employment which employs most of its debtors represented 31.6% of its total credit portfolio with the highest employer, the ministry of education, representing over 11%. Nevertheless, Fitch does not consider these levels to be outside of the tolerance limits La Hipotecaria can handle.

The bank's net charge-offs have been historically low. As of December 2018, the bank's net charge-offs represented just 0.1% of average gross loans. Fitch expects these levels to remain the same on the short to medium term as the bank's approach and model should remain consistent. La Hipotecaria's loan loss allowances cover only 6.96% of its impaired loans, however, it is important to note that all the bank's loans have a mortgage collateral.

Fitch estimates that the credit demand will increase in 2019, which would provide La Hipotecaria a good opportunity to improve its asset quality levels. Nevertheless, Fitch expects La Hipotecaria's delinquency levels to continue below the system's average and compare favorably with most of its immediate peers thanks to its sound underwriting standards, good risk controls and risk-averse approach, as well as its efficient payment collection system

Earnings and Profitability

La Hipotecaria's profitability ratios have been negatively affected by rising interest rates that have increased its funding costs and by additional charges relating to higher loans impairment charges due to its asset quality deterioration and the adoption IFRS accounting standards. As of December 2018, the bank's Fitch profitability metric of operating profit over risk weighted assets decreased to 1.34% from 1.59% in 2017. This figure is also below the system's average of 1.37%.

The bank's main source of income stems from its credit portfolio which means a decrease in its net interest margin would affect the institution's overall profitably. La Hipotecaria has not transferred the rise in its funding costs to its clients because local interest rates, such as the preferential interest rate, has not been increasing on par to international interest rates that affect the bank's liability side of its balance sheet. Its net interest margin has been on a downtrend since 2014 (2.71%) and it registered 1.98% for 2018's end fiscal year.

La Hipotecaria's revenue diversification is higher than all of its immediate peers and the system's average. As of December 2018, non-interest income, primarily net fees and commissions, represented 42.3% of the gross revenues, compared to the system's average of 18.2%.

The bank was also affected by higher loans impairment charges, which increased from 6.99% of pre impairment operating profit in 2017 to 13.99% in 2018. The increase was caused primarily by the adoption of IFRS accounting standards and to a lesser extent by the increase in delinquency levels.

Fitch sees potential on La Hipotecaria's profitability levels for 2019. The economic recovery should help the bank to reduce its delinquency levels which would ease pressure off its profitability metrics, moreover, the centralization of its subsidiaries in Panama should gradually help decrease its operating costs and improve its operating efficiency.

Capitalization and Leverage

Fitch considers the bank's capitalization levels to be high compared to its peers and the Panamanian system average. La Hipotecaria's Fitch core capital reached 14.8% as of December 2018, which the agency considers sufficient to support projected growth while providing an adequate loss-absorption buffer for unreserved losses. The bank's business model is based on the securitization of its credit portfolio for funding and liquidity purposes, which causes its total assets to shrink while its capital levels rise. Additionally, it is worth noting that the bank's capitalization levels are also exposed to variations with the Colombian pesos, a noticeable depreciation of the currency could have an impact on its indicators. The bank's capitalization levels compare well with its peers and the system average, and the agency projects this trend to continue for the short to medium term. Capital levels have also benefitted from the absence of dividend payouts, which is not expected to change in the short to medium term.

Funding and Liquidity

La Hipotecaria's funding comes from three main sources: deposits from clients, warehousing credit lines and debt issuance. As of December 2018 these represent 32.6%, 27.6% and 39.7% respectively. Deposits have not experienced the same growth rate as the credit portfolio, but the bank makes up for it with its others funding lines. Additionally, La Hipotecaria's deposit renovation rate is above 80% and its commercial paper repurchase rate is over 90%.

The 20 largest depositors used to be fairly concentrated but they are displaying a downtrend in recent years resulting in a noticeable improvement. As of December 2018 the 20 largest depositors accounted for 23.6% of total deposits compared to year-end 2016 (27%) which Fitch considers an adequate level. This has been possible due to efforts to diversify its institutional clients. In terms of liquidity, the bank's liquid assets represent 13.1% and 44.6% of its total assets and total deposits, respectively, levels which the agency considers appropriate.

La Hipotecaria operates with structural mismatches due to the fact it finances its mortgage loan portfolio (which is mostly long-term loans), with short- and medium-term liabilities. However, the firm's debt obligations have predictable deadlines that make it easy for management to schedule precisely its payment dates. Furthermore, the periodic securitization of its loan portfolio reduces the term of the mortgages on its books, while at the same time providing liquidity to the bank. In the first quarter of 2019, the bank issued its first securitization of a "mix" credit portfolio comprising from its operations in Panama and El Salvador, USD60 million and USD40 million from each country respectively. The bank accessed the international capital markets with debt issuance for the first time in 2018 by issuing a covered bond program of USD200 million with the first series for USD11 million and five-year tenor in the U.S.

Support

Ratings Based on Institutional Support from Grupo ASSA

The principal source for the bank's institutional support, if required, would come from its main shareholder, Grupo ASSA. Although we do not anticipate this scenario, Fitch believes the group's support would provide financial aid through the acquisition or expansion of financing lines. Grupo ASSA is a financial conglomerate currently owning USD3.26 billion in assets and USD1.05 billion in equity as of December 2018.

In Fitch's opinion, Grupo Assa's propensity to support Banco La Hipotecaria if needed reflects the bank's significant strategic importance to the group's operations. Banco La Hipotecaria shares strong synergies with its main shareholder given its role in complementary market segments for many of its subsidiaries. This allows cross sales among products and services such as the signing of insurance policies that accompany the mortgage credit.

Fitch believes there is material reputational risk for Grupo ASSA in the event of a default by one of its subsidiaries, since this could have a significant impact on its business and financial profile. In addition, Banco La Hipotecaria counts on guarantees of its funding instruments from Grupo ASSA, which further demonstrates the group's commitment to its subsidiaries' performance. However, Banco La Hipotecaria has significant independence from its ultimate shareholder, and there is a relatively low level of integration in terms of management and the bank's strategic decisions. Nonetheless, Grupo ASSA does have a presence at the bank and actively participates in its committees and Board of Directors.

Debt Ratings

The national ratings for the marketable securities are aligned with the issuer's short-term national ratings. The tranches for the unsecured negotiable notes have the same national long-term rating as the issuer. This is due to the absence of any subordination of these securities and specific guarantees. The national ratings for both the tranches with guarantees from Grupo ASSA as well as the negotiable notes guaranteed with mortgage loans will be a notch above the bank's national long- term rating. Particularly, the negotiable notes with the mortgage loan guarantees benefit from an extended warranty.

Banco La Hipotecaria, S.A. — Income Statement

(Years Ended Dec. 31)	2018 USD Mil. Audited — Report Not Seen	2018 PAB 000 Audited — Report Not Seen	2017 PAB 000 Audited — Report Not Seen	2016 PAB 000 Audited — Unqualified	2015 PAB 000 Audited — Report Not Seen	2014 PAB 000 Audited — Unqualified
Interest Income on Loans	43.5	43,462.6	36,962.6	33,587.2	28,177.3	22,511.9
Other Interest Income	2.4	2,438.4	3,235.8	2,492.0	2,260.2	2,093.2
Dividend Income	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Gross Interest and Dividend Income	**45.9**	**45,901.0**	**40,198.5**	**36,079.2**	**30,437.5**	**24,605.1**
Interest Expense on Customer Deposits	10.6	10,551.8	9,272.2	8,540.1	7,598.9	6,120.1
Other Interest Expense	20.9	20,900.6	17,960.5	15,426.5	10,776.5	8,245.0
Total Interest Expense	**31.5**	**31,452.4**	**27,232.7**	**23,966.6**	**18,375.3**	**14,365.1**
Net Interest Income	**14.4**	**14,448.6**	**12,965.7**	**12,112.5**	**12,062.2**	**10,240.0**
Net Fees and Commissions	6.9	6,926.8	6,152.0	5,797.1	5,755.4	5,054.5
Net Gains (Losses) on Trading and Derivatives	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Net Gains (Losses) on Assets and Liabilities at FV	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Net Gains (Losses) on Other Securities	1.5	1,505.0	2,960.3	(12.2)	1,016.3	410.3
Net Insurance Income	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Other Operating Income	2.2	2,156.5	1,339.4	2,716.4	1,590.5	1,767.4
Total Non-Interest Operating Income	**10.6**	**10,588.2**	**10,451.7**	**8,501.3**	**8,362.2**	**7,232.2**
Total Operating Income	**25.0**	**25,036.9**	**23,417.4**	**20,613.9**	**20,424.4**	**17,472.1**
Personnel Expenses	9.3	9,295.6	8,362.4	7,839.2	7,400.1	6,821.6
Other Operating Expenses	8.4	8,355.9	7,725.1	7,458.3	6,640.3	5,743.0
Total Non-Interest Expenses	**17.7**	**17,651.5**	**16,087.6**	**15,297.6**	**14,040.4**	**12,564.6**
Equity-accounted Profit/(Loss) — Operating	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Pre-Impairment Operating Profit	**7.4**	**7,385.3**	**7,329.9**	**5,316.3**	**6,384.0**	**4,907.5**
Loan Impairment Charge	0.9	888.3	512.6	345.4	345.0	273.7
Securities and Other Credit Impairment Charges	0.1	144.5	0.0	N.A.	N.A.	N.A.
Operating Profit	**6.4**	**6,352.5**	**6,817.2**	**4,970.9**	**6,039.0**	**4,633.8**
Equity-accounted Profit/(Loss) — Non-operating	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Goodwill Impairment	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Non-recurring Income	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Non-recurring Expense	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Change in Fair Value of Own Debt	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Other Non-operating Income and Expenses	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Pre-tax Profit	**6.4**	**6,352.5**	**6,817.2**	**4,970.9**	**6,039.0**	**4,633.8**
Tax Expense	1.8	1,760.2	1,423.1	1,033.3	2,068.3	1,772.1
Profit/(Loss) from Discontinued Operations	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Net Income	**4.6**	**4,592.3**	**5,394.1**	**3,937.6**	**3,970.7**	**2,861.7**
Change in Value of AFS Investments	0.1	123.6	(1,592.3)	(0.1)	1,673.7	843.6
Revaluation of Fixed Assets	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Currency Translation Differences	(1.9)	(1,886.3)	49.0	597.0	(2,795.8)	(2,586.4)
Remaining OCI Gains/(Losses)	(0.1)	(79.3)	(79.6)	(78.4)	N.A.	N.A.
Fitch Comprehensive Income	**2.8**	**2,750.2**	**3,771.2**	**4,456.1**	**2,848.5**	**1,118.9**
Memo: Profit Allocation to Non-controlling Interests	0.0	25.7	31.7	0.2	(44.8)	(121.7)
Memo: Net Income after Allocation to Non-controlling Interests	4.6	4,566.5	5,362.5	3,937.4	4,015.5	2,983.4
Memo: Common Dividends Relating to the Period	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Memo: Preferred Dividends and Interest on Hybrid Capital Accounted for as Equity Related to the Period	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

N.A. – Not applicable. Note: USD1=PAB1.
Source: Banco La Hipotecaria, S.A.

Banco La Hipotecaria, S.A. — Balance Sheet

(Years Ended Dec. 31)	2018 USD Mil.	2018 PAB 000	2017 PAB 000	2016 PAB 000	2015 PAB 000	2014 PAB 000
Assets						
Loans						
Residential Mortgage Loans	628.5	628,536.2	547,171.6	465,053.0	429,665.2	327,398.6
Other Mortgage Loans	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Other Consumer/Retail Loans	61.6	61,635.4	49,404.5	40,765.3	38,437.9	33,906.6
Corporate and Commercial Loans	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Other Loans	0.0	0.0	0.0	0.0	0.0	N.A.
Less: Loan Loss Allowances	0.6	603.0	313.6	300.7	261.3	255.3
Net Loans	**689.6**	**689,568.6**	**596,262.5**	**505,517.6**	**467,841.8**	**361,049.9**
Gross Loans	**690.2**	**690,171.6**	**596,576.1**	**505,818.3**	**468,103.1**	**361,305.2**
Memo: Impaired Loans included above	8.7	8,667.8	5,673.5	4,195.0	3,848.2	5,357.8
Memo: Specific Loan Loss Allowances	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Other Earning Assets						
Loans and Advances to Banks	38.8	38,770.0	27,196.4	31,025.2	25,410.5	22,041.8
Reverse Repos and Securities Borrowing	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Derivatives	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Trading Securities and at FV through Income	19.3	19,318.9	15,136.8	12,804.0	7,498.7	10,431.2
Securities at FV through OCI/Available for Sale	48.5	48,530.6	43,933.6	44,797.6	34,669.4	35,773.7
Securities at Amortised Cost/Held to Maturity	0.2	219.3	442.1	1,537.5	726.1	270.4
Other Securities	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total Securities	**68.1**	**68,068.8**	**59,512.6**	**59,139.1**	**42,894.3**	**46,475.3**
Memo: Government Securities included Above	23.4	23,381.5	14,073.8	12,501.9	5,069.3	1,862.5
Memo: Total Securities Pledged	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Equity Investments in Associates	N.A.	N.A.	N.A.	N.A.	N.A.	47.5
Investments in Property	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Insurance Assets	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Other Earning Assets	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total Earning Assets	**796.4**	**796,407.3**	**682,971.4**	**595,682.0**	**536,146.5**	**429,614.6**
Non-Earning Assets						
Cash and Due From Banks	0.4	350.7	337.8	281.4	325.4	167.4
Memo: Mandatory Reserves included Above	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Foreclosed Assets	0.3	271.1	234.2	291.9	254.3	532.4
Fixed Assets	2.9	2,933.3	2,230.7	1,466.8	904.3	1,011.0
Goodwill	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Other Intangibles	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Current Tax Assets	8.1	8,097.7	8,479.1	7,247.0	6,800.2	2,405.1
Deferred Tax Assets	1.0	1,032.6	987.9	554.8	59.7	66.6
Discontinued Operations	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Other Assets	5.2	5,192.1	4,582.3	5,175.5	4,783.6	5,062.9
Total Assets	**814.3**	**814,284.8**	**699,823.4**	**610,699.5**	**549,274.0**	**438,859.9**

N.A. – Not applicable. Note: USD1=PAB1. *Continued on next page.*
Source: Banco La Hipotecaria, S.A.

Banco La Hipotecaria, S.A. — Balance Sheet (Continued)

	2018		2017	2016	2015	2014
(Years Ended Dec. 31)	USD Mil.	PAB $000	PAB 000	PAB 000	PAB 000	PAB 000
Liabilities and Equity						
Interest-Bearing Liabilities						
Total Customer Deposits	239.7	239,743.7	208,546.0	179,850.5	171,341.3	145,919.0
Deposits from Banks	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Repos and Securities Lending	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Commercial Paper and Short-term Borrowings	203.1	203,102.7	135,917.9	137,695.5	96,696.9	83,602.0
Customer Deposits and Short-term Funding	**442.8**	**442,846.4**	**344,463.9**	**317,545.9**	**268,038.2**	**229,521.0**
Senior Unsecured Debt	291.9	291,881.9	274,541.8	216,123.3	215,320.7	149,268.9
Subordinated Borrowing	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Covered Bonds	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Other Long-term Funding	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total Long-Term Funding	291.9	291,881.9	274,541.8	216,123.3	215,320.7	149,268.9
Memo: o/w Matures in Less than One Year	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Trading Liabilities	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total Funding	**734.7**	**734,728.2**	**619,005.7**	**533,669.3**	**483,358.9**	**378,789.9**
Derivatives	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total Funding and Derivatives	**734.7**	**734,728.2**	**619,005.7**	**533,669.3**	**483,358.9**	**378,789.9**
Non-Interest Bearing Liabilities						
Fair Value Portion of Debt	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Credit Impairment Reserves	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Reserves for Pensions and Other	0.9	936.8	831.3	919.5	785.2	1,151.0
Current Tax Liabilities	1.0	982.7	1,143.5	791.3	1,249.0	1,697.0
Deferred Tax Liabilities	0.0	0.0	0.0	0.0	106.9	N.A.
Other Deferred Liabilities	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Discontinued Operations	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Insurance Liabilities	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Other Liabilities	6.5	6,497.9	8,255.0	8,598.3	6,571.3	5,817.4
Total Liabilities	**743.1**	**743,145.7**	**629,235.5**	**543,978.5**	**492,071.3**	**387,455.3**
Hybrid Capital						
Preferred Shares and Hybrid Capital Accounted for as Debt	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Preferred Shares and Hybrid Capital Accounted for as Equity	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Equity						
Common Equity	75.2	75,222.7	72,597.2	67,298.8	59,782.4	51,732.3
Non-controlling Interest	0.8	846.8	891.9	702.0	517.9	412.7
Securities Revaluation Reserves	1.5	1,525.1	1,738.8	3,410.8	2,164.2	1,815.5
Foreign Exchange Revaluation Reserves	(6.5)	(6,455.5)	(4,640.0)	(4,690.5)	(5,261.8)	(2,555.9)
Fixed Asset Revaluations and Other Accumulated OCI	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total Equity	**71.1**	**71,139.1**	**70,587.9**	**66,721.0**	**57,202.7**	**51,404.6**
Memo: Equity plus Preferred Shares and Hybrid Capital Accounted for as Equity	71.1	71,139.1	70,587.9	66,721.0	57,202.7	51,404.6
Total Liabilities and Equity	**814.3**	**814,284.8**	**699,823.4**	**610,699.5**	**549,274.0**	**438,859.9**
Memo: Fitch Core Capital	70.1	70,106.5	69,600.0	66,166.2	57,202.7	51,338.1

N.A. – Not applicable. Note: USD1=PAB1.
Source: Banco La Hipotecaria, S.A.

Banco La Hipotecaria, S.A. — Summary Analytics

(%, Years Ended Dec. 31)	2018	2017	2016	2015	2014
Interest Ratios					
Interest Income/Average Earning Assets	6.28	6.28	6.29	6.29	6.51
Interest Income on Loans/Average Gross Loans	6.79	6.75	6.81	6.81	7.04
Interest Expense on Customer Deposits/Average Customer Deposits	4.77	4.86	4.79	4.69	4.52
Interest Expense/Average Interest-bearing Liabilities	4.73	4.72	4.63	4.26	4.33
Net Interest Income/Average Earning Assets	1.98	2.03	2.11	2.49	2.71
Net Interest Income Less Loan Impairment Charges/Average Earning Assets	1.86	1.95	2.05	2.42	2.64
Net Interest Income Less Preferred Stock Dividend/Average Earning Assets	1.98	2.03	2.11	2.49	2.71
Other Operating Profitability Ratios					
Operating Profit/Risk Weighted Assets	1.34	1.59	1.27	1.69	1.66
Non-Interest Expense/Gross Revenues	70.50	68.70	74.21	68.74	71.91
Loans and securities impairment charges/Pre-impairment Operating Profit	13.99	6.99	6.50	5.40	5.58
Operating Profit/Average Total Assets	0.85	1.04	0.85	1.22	1.20
Non-Interest Income/Gross Revenues	42.29	44.63	41.24	40.94	41.39
Non-Interest Expense/Average Total Assets	2.36	2.45	2.60	2.84	3.25
Pre-impairment Operating Profit/Average Equity	10.42	10.71	8.79	11.71	10.34
Pre-impairment Operating Profit/Average Total Assets	0.99	1.12	0.90	1.29	1.27
Operating Profit/Average Equity	8.96	9.96	8.22	11.07	9.77
Other Profitability Ratios					
Net Income/Average Total Equity	6.48	7.88	6.51	7.28	6.03
Net Income/Average Total Assets	0.61	0.82	0.67	0.80	0.74
Fitch Comprehensive Income/Average Total Equity	3.88	5.51	7.36	5.22	2.36
Fitch Comprehensive Income/Average Total Assets	0.37	0.57	0.76	0.58	0.29
Taxes/Pre-tax Profit	27.71	20.87	20.79	34.25	38.24
Net Income/Risk Weighted Assets	0.97	1.26	1.00	1.11	1.03
Capitalization					
FCC/FCC-Adjusted Risk Weighted Assets	14.80	16.21	16.85	15.99	18.45
Tangible Common Equity/Tangible Assets	8.62	9.96	10.84	10.41	11.70
Equity/Total Assets	8.74	10.09	10.93	10.41	11.71
Basel Leverage Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Common Equity Tier 1 Capital Ratio	12.91	14.18	14.85	N.A.	N.A.
Fully Loaded Common Equity Tier 1 Capital Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Tier 1 Capital Ratio	12.91	14.18	14.85	16.49	N.A.
Total Capital Ratio	14.37	15.78	16.40	16.49	17.49
Impaired Loans less Loan Loss Allowances/Fitch Core Capital	11.50	7.70	5.89	6.27	9.94
Impaired Loans less Loan Loss Allowances/Equity	11.34	7.59	5.84	6.27	9.93
Cash Dividends Paid and Declared/Net Income	N.A.	N.A.	N.A.	N.A.	N.A.
Risk Weighted Assets/Total Assets	58.17	61.34	64.30	65.11	63.42
Risk Weighted Assets — Standardized/Risk Weighted Assets	N.A.	N.A.	N.A.	N.A.	N.A.
Risk Weighted Assets — Advanced Method/Risk Weighted Assets	N.A.	N.A.	N.A.	N.A.	N.A.
Loan Quality					
Impaired Loans/Gross Loans	1.26	0.95	0.83	0.82	1.48
Growth of Gross Loans	15.69	17.94	8.06	29.56	48.73
Loan Loss Allowances/Impaired Loans	6.96	5.53	7.17	6.79	4.76
Loan Impairment Charges/Average Gross Loans	0.14	0.09	0.07	0.08	0.09
Growth of Total Assets	16.36	14.59	11.18	25.16	47.18
Loan Loss Allowances/Gross Loans	0.09	0.05	0.06	0.06	0.07
Net Charge-offs/Average Gross Loans	0.01	0.09	0.06	0.08	0.09
Impaired Loans + Foreclosed Assets/Gross Loans + Foreclosed Assets	1.29	0.99	0.89	0.88	1.63
Funding and Liquidity					
Loans/Customer Deposits	287.88	286.06	281.24	273.20	247.61
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Total Funding (including Pref. Shares and Hybrids)	32.63	33.69	33.70	35.45	38.52
Interbank Assets/Interbank Liabilities	N.A.	N.A.	N.A.	N.A.	N.A.
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Growth of Total Customer Deposits	14.96	15.96	4.97	17.42	20.84

N.A. – Not applicable.
Source: Banco La Hipotecaria, S.A.

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.