



## RATING ACTION COMMENTARY

# Fitch Affirms Grupo ASSA at 'BBB-'; Outlook Stable

Tue 10 Oct, 2023 - 17:45 ET

Fitch Ratings - Monterrey - 10 Oct 2023: Fitch Ratings has affirmed Grupo ASSA, S.A.'s Long-Term (LT) Issuer Default Rating (IDR) at 'BBB-' and Short-Term (ST) IDR at 'F3'. The Rating Outlook on the LT IDR is Stable following Fitch's revision of Panama's sovereign Rating Outlook to Negative from Stable.

Fitch has also affirmed Banco La Hipotecaria, S.A.'s (BLH) LT and ST IDR at 'BBB-' and 'F3', respectively, and its Shareholder Support Rating (SSR) at 'bbb-'. The Rating Outlook for the long-term ratings is Stable.

BLH's Viability Rating (VR) and national ratings are unaffected by the recent sovereign rating action as Panama's operating environment for banks was affirmed at 'bb+' / Outlook Stable.

## KEY RATING DRIVERS

The Stable Rating Outlook reflects Grupo ASSA's IDRs potential to remain above Panama's IDR in the event of a sovereign downgrade, given its strong business and financial profile and its diversified investments with moderate exposure to Panama's sovereign bonds. However, in Fitch's opinion, the potential uplift above the sovereign would be limited to one notch, as per Fitch's criteria. Grupo ASSA's IDRs are based on its standalone credit profile (SCP).

**Stable Multijurisdictional Sector Risk Operating Environment:** Fitch's assessment of Grupo ASSA's sector risk operating environment (SROE) of 'bb+' with stable trend reflects the weighted average of the implied operating environments of the jurisdictions where it has operations. As per Fitch's criteria, the SROE assessment for investment companies is not capped by a Sector Risk Assessment (SRA). Grupo ASSA is an international group domiciled in Panama with direct financial operations in eight different countries in Central

America, the Caribbean, and Colombia; and several additional jurisdictions through other earning assets. As of June 2023, the largest operations and asset exposure came from Panama, with 55.6% of group's total earnings assets, followed by Nicaragua with 18%. Fitch also considers in its assessment that nearly 10% of Grupo ASSA's assets, related to investments and deposits, are in countries with stronger OE.

**Recognized Franchise and Stable Business Model:** Grupo ASSA's IDRs are influenced by the business profile which reflects its competitive position within the region and its business model specialized in the insurance sector, investment and retail lending. The insurance business is the most relevant in terms of revenue generation and has a leader position in Panama and recognized franchises in the rest of Central America. The business profile of Group ASSA is also benefited by the investment portfolio, mainly in shares of Banco General (BBB-/Stable) and its holding company, which represents the main source of dividend income. The lending operations of La Hipotecaria Holding and Grupo BDF provide a smaller but steady income generation for the group.

**Stable Assets Performance:** Asset performance is defined by the credit profile of the three main subsidiaries and Grupo ASSA's own investment portfolio. ASSA Tenedora is the largest subsidiary with 41.4% of consolidated assets before eliminations. In Fitch's opinion, the insurance arm has a strong credit profile despite the unrealized losses regarding the valuation of the investment portfolio, during 2022. Nonetheless, the credit profile of the subsidiary is underpinned by the strong business profile, ample capital levels and good financial performance comparing favorably to peers. La Hipotecaria holding, whose main subsidiary is Banco La Hipotecaria in Panama has a niche business model and modest franchise in the countries of operation. However, credit quality of the loan's portfolio has been reasonable in recent years.

**Recovered Profitability:** As of June 2023, Grupo ASSA's net income to average assets was 2.2%, close to the last four-year average of 2.3%, after the unrealized losses in the valuation of the investment portfolio of the insurance subsidiaries that affected its 2022 profitability; as a result of higher interest rates. As expected, this was a temporary effect that has been stabilized during 2023.

**Good Capital Buffer:** Grupo ASSA's capitalization is a rating strength as reflected in the metric of tangible equity to tangible assets of 31.1% as of June 2023, while the metric of consolidated gross debt to tangible equity remain modest at 1.2x, including customer deposits. At the holding level, the company has no leverage and the good consolidated capital metrics come mostly from the insurance arm, expected to continue in the long term.

## **RATING SENSITIVITIES**

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

--A weaker assessment of Grupo ASSA's multijurisdictional SROE, although this is not Fitch's baseline scenario;

--Significant and consistent weakening of its business profile;

--A deterioration of the credit profile of its main subsidiaries or core investments.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--Grupo ASSA's IDRs could be upgraded by the confluence of an improvement of the multijurisdictional SROE and the Panamanian sovereign rating, and the financial profile of the issuer; however, this is unlikely given the sovereign's Negative Outlook.

## **SUBSIDIARY AND AFFILIATE RATINGS: KEY RATING DRIVERS**

**Subsidiary's Support Driven Ratings:** BLH's IDRs and SSR are based on Fitch's assessment on the support the bank would receive from its ultimate shareholder, Grupo ASSA, if required. In Fitch's view, Grupo ASSA's strong ability and propensity to support BLH remains high, given its importance to the group and the strong integration. Furthermore, Fitch believes that the group's commitment to its subsidiary is sufficiently strong for BLH's ratings to remain equalized to those of its parent company even if the sovereign rating is downgraded.

## **SUBSIDIARY AND AFFILIATE RATINGS: RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--BLH's IDR and SSR would be downgraded if Grupo ASSA's IDRs are downgraded, or if Fitch perceives a decrease in its parent's ability and/or willingness to support its subsidiary, although this is not expected at present.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--BLH's IDRs and SSR could be upgraded if the parent's IDR is upgraded.

## **SUMMARY OF FINANCIAL ADJUSTMENTS**

BLH: Prepaid expenses were reclassified as intangibles and deducted from total equity to reflect their low absorption capacity.

## Sources of Information

The principal sources of information used in the analysis are described in the Applicable Criteria.

## 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.

## PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

BLH's ratings are based on the potential support they would receive from their parent, Grupo ASSA, S.A., if needed.

## ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
Grupo ASSA, S.A.	LT IDR	BBB- Rating Outlook Stable		BBB- Rating Outlook Stable
	Affirmed			
	ST IDR	F3	Affirmed	F3

Banco La Hipotecaria, S.A.	LT IDR	BBB- Rating Outlook Stable			BBB- Rating Outlook Stable
	Affirmed				
	ST IDR	F3	Affirmed		F3
	Shareholder Support		bbb-	Affirmed	bbb-

[VIEW ADDITIONAL RATING DETAILS](#)

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## **APPLICABLE CRITERIA**

[Metodología de Calificación de Bancos – Efectiva del 28 de marzo de 2022 al 27 de septiembre de 2023 \(pub. 28 Mar 2022\)](#)

[Future Flow Securitization Rating Criteria \(pub. 14 Apr 2023\) \(including rating assumption sensitivity\)](#)

[Non-Bank Financial Institutions Rating Criteria \(pub. 05 May 2023\) \(including rating assumption sensitivity\)](#)

[Bank Rating Criteria \(pub. 01 Sep 2023\) \(including rating assumption sensitivity\)](#)

## **ADDITIONAL DISCLOSURES**

[Dodd-Frank Rating Information Disclosure Form](#)

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Grupo ASSA, S.A.

EU Endorsed, UK Endorsed

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