



RATING ACTION COMMENTARY

Fitch Affirms Banco La Hipotecaria's IDR at 'BB+'; Outlook Negative

Wed 13 Oct, 2021 - 17:39 ET

Fitch Ratings - Monterrey - 13 Oct 2021: Fitch Ratings has affirmed Banco La Hipotecaria, S.A.'s (BLH) Long- and Short-Term Issuer Default Rating (IDR) at 'BB+/'B'. Fitch has also affirmed the bank's National Long- and Short-Term Rating at 'AA(pan)'/F1+(pan)'. The Rating Outlook for the Long-Term Ratings is Negative. A full list of rating actions follows at the end of this release.

The affirmation of BLH's IDR reflects Fitch's unchanged view of potential support, if it were needed, from its ultimate parent, Grupo ASSA. The Negative Outlooks on BLH's IDRs mirror the Negative Outlook on its parent's IDR.

KEY RATING DRIVERS

IDRs, NATIONAL RATINGS, SUPPORT RATING AND SENIOR DEBT

BLH's IDRs, Support Ratings (SR), national and senior (secured and unsecured) debt ratings are underpinned by the ability and propensity of institutional support the ultimate parent, Grupo ASSA (BBB-/Negative) would provide, if necessary. The Negative Outlook on BLH mirrors that on Grupo ASSA which, in turn, is driven by Fitch's view that pressured post-pandemic economic recovery represents a risk to the operating environments in which the group operates (<https://www.fitchratings.com>, published on March 8, 2021).

BLH's Long-Term IDR is notched down once from Grupo ASSA's Long-Term IDR as Fitch believes the parent's propensity to support the bank is reflected in the relevant role of BLH as it strengthens the group's position in a strategically relevant jurisdiction and in complementary market segments for many of its subsidiaries. Fitch's propensity-to-support opinion also considers the high reputational risk for Grupo ASSA and the significant impact that the default of its subsidiary could have on its business given the importance of its operations in Panama. Also, any required support would be significant relative to Grupo ASSA's ability to provide it, given the size of BLH, which represents about 30% of its parent's total consolidated assets.

Fitch affirmed BLH's SR at '3', reflecting the opinion that there is moderate probability of support from Grupo ASSA, if required, given the strategic role of the bank in the group.

Fitch affirmed National ratings on BLH's senior unsecured issuances at the same level as BLH's short-term and Long-Term national ratings as the notes' likelihood of default is the same as BLH's, due to the absence of any subordination or specific guarantees.

National ratings for secured tranches and on secured negotiable notes were affirmed one notch above the bank's long-term national ratings, reflecting benefits of such guarantees. BLH's Panamanian National Scale Ratings reflect Grupo ASSA's creditworthiness and financial strength relative to the Panamanian operating environment and in respect to other rated issuers within the local jurisdiction. It also considers that the supporting party is a non-banking financial group exclusively.

VR

BLH's Viability Rating (VR) reflects its relatively narrow business model with a niche approach on housing financing. The bank plays a relatively small role in this segment with a 2.3% market share as of June 2021; however, this approach allowed the bank to maintain reasonably stable delinquency ratios during the recent health crisis, albeit with more limited results than more diversified peers. Fitch believes BLH has some competitive advantages in its key segment given the benefits from its relationship with Grupo ASSA and as being one of major players in securitization of mortgage loans in the region.

The bank's profitability remained limited, although at 1H21 its operating profit/risk-weighted assets ratio increased to 1.2% (0.6% in 2020) due to a significant improvement in efficiency along with a lower loan-loss provision expense. Its narrow net interest margin, consistent with its business model, showed a slight improvement compared to 2020 due to better cost of funds, although it has not yet recovered to pre-pandemic levels. In Fitch's

view, BLH's financial performance could still experience some pressures, given the negative economic outlook in Panama, that could still weigh on the generation and stabilization of employment and weight over its asset quality metrics.

BLH's ratings also benefit from a diversified funding structure and good liquidity position. Deposits continued to grow but at a slower pace leading to a loan-to-deposit ratio that remains above 200%. Customer deposits represent less than 50% of total funding, since BLH relies on credit lines with multilateral agencies to finance housing on favorable terms and also on local issuances to diversify and better match its assets and liabilities terms.

BLH's VR is moderately influenced by the blended assessment of the pressured operating environments of the countries in which the bank and its subsidiaries operate, and the stress it exerts on the entity's financial profile.

BLH's impaired loan ratio rose to 2.3% at 1H21 from 1.5% at YE 2020, above the local banking system's average (2.0%) but still compares favorably to its closest peers. Relief measures have expired and Fitch expects NPLs increase in the coming months, mainly in segments that are particularly vulnerable to economic stress. Favorably, in 2020 the bank set up additional provisions providing close to 30% loan loss coverage on top of the warranty.

BLH's conservative capital position provides reasonable buffers above regulatory requirements. As of June 2021, the bank's common equity Tier 1 ratio was 11.9% (2020: 11.7%), as a result of its loan portfolio growing at a slower pace and its internal capital generation. Capital levels have benefitted from the absence of dividend payouts, which is not expected to change in the short to medium term.

RATING SENSITIVITIES

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

--Changes in Banco La Hipotecaria's IDR, National Ratings, and senior (secured and unsecured) issuances would reflect any changes in its shareholder's credit risk profile or changes on Fitch's assessment of its ability, or willingness, to provide support to its subsidiary, which the agency does not expect in the foreseeable future;

--Negative pressure could be placed on BLH's VR if there were evidence of outsized deterioration in the bank's financial profile reflected in a material deterioration of its asset quality and a significant reduction of its profitability metrics relative to peers.

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

--An upward potential in Banco La Hipotecaria's IDR, National Ratings, SR and senior (secured and unsecured) issuances is limited in the short term given the Negative Outlook on its shareholder's ratings;

--The VR could only be upgraded over the medium term as a result of improvement within the OE accompanied by improvement in BLH's profitability metrics, while maintaining its good company profile;

--The senior (secured & unsecured) issuances' ratings and the issuer's IDR and National Ratings could be affirmed (and the Negative Outlook revised to Stable) to reflect a change in its shareholder's IDR Outlook or changes to Fitch's assessment of the parent's ability or willingness to provide support.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

SUMMARY OF FINANCIAL ADJUSTMENTS

Prepaid expenses and other deferred assets were reclassified as intangible assets and were deducted from Fitch Core Capital due to their low loss absorption capacity.

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

Linked to its parent company Grupo ASSA

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR	
Banco La Hipotecaria, S.A.	LT IDR	BB+ Rating Outlook Negative	Affirmed	BB+ Rating Outlook Negative
	ST IDR	B	Affirmed	B
	Natl LT	AA(pan) Rating Outlook Negative	Affirmed	AA(pan) Rating Outlook Negative
	Natl ST	F1+(pan)	Affirmed	F1+(pan)
	Viability	bb-	Affirmed	bb-

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Metodología de Calificación de Bancos \(pub. 18 Sep 2019\)](#)

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)

[Future Flow Securitization Rating Criteria \(pub. 04 May 2021\) \(including rating assumption sensitivity\)](#)

[Exposure Draft: Bank Rating Criteria \(pub. 17 Aug 2021\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

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

[Solicitation Status](#)[Endorsement Policy](#)

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Banco La Hipotecaria, S.A.

EU,UK Endorsed

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