FitchRatings

Banks
Retail & Consumer Banks
Panama

Banco La Hipotecaria, S.A.

Key Rating Drivers

Ratings Driven by Shareholder Support: Banco La Hipotecaria, S.A.'s (BLH) Issuer Default Ratings (IDRs), Shareholder Support Rating (SSR), National Ratings and local debt ratings reflect Fitch Ratings' assessment of Grupo ASSA, S.A., strong ability and propensity to support the subsidiary if needed. The Rating Outlook on BLH's Long-Term IDRs is the same as that of its shareholder.

Core Role in Group: Fitch believes that the Panamanian subsidiary plays a core and long-term strategic role in the group's positioning in the regional market, as the bank operates in a relevant jurisdiction and complementary market segments for many other subsidiaries. Support propensity also considers the high reputational risk should the subsidiary default as the brand is associated with that of its parent company and because of the group's regional presence.

Close Integration with Parent: Fitch believes that Grupo ASSA, which owns around 80% of BLH, has a strong propensity to support its subsidiary and considers with high importance the significant integration between the subsidiary and parent. Additionally, Fitch believes any required support for BLH, if needed, from the parent could be significant given the size of BLH, which represents about 30% of Grupo ASSA's total consolidated assets.

Niche Franchise, Multijurisdictional Environment: Fitch's assessment of BLH's business profile reflects the bank's niche franchise focused in the housing financing segment. Despite having a small market position at the overall banking system level, with a market share of gross loans close to 1% as of 3Q23, the agency believes it has competitive advantages over its target market segment that support through-the-cycle profitability. BLH's financial profile analysis also incorporates the blended approach of the operating environment (OE) due to its multijurisdictional nature. A significant proportion of its business and risk exposures are in low rated markets. However, this does not materially affect Fitch's OE assessment given that it represents 22% of total assets.

Asset Quality and Profitability Improving Slowly: Stage-3 loans kept gradually decreasing, reducing pressure over BLH's asset quality, comparing well with local banking system. Fitch estimates that Stage 3 loans could stabilize around the current level of 2.8% given the ongoing OE, any additional deterioration would remain manageable within its category. The bank has maintained steady profitability growth supported by a relatively higher net interest margin (NIM) and improved efficiency along with controlled loan loss provisions (LLPs). As of 3Q23, BLH's operating profit to risk-weighted assets (RWA) reached 1.6%, up from 2022's 1.1%, which compares favorably with its closest local peers and is expected to be sustained.

Reasonable Capitalization, Stable Funding Profile: Moderate 3Q23 9.2% loan growth and earnings continued to support BLH's capital metrics. Common equity Tier 1 (CET1) ratio of 11.8% is expected to remain commensurate with its risk profile by YE 2023 given conservative loan growth projections. BLH's downside risks are mitigated by the ordinary support from its shareholder, if needed. The bank relies on a well-diversified funding to benefit its cost of fund, leading to a high loan/deposit ratio of 182.4%. The bank's liquidity is stable, prudently managed and underpinned by an adequate buffer of liquid assets. By 3Q23, BLH's liquidity coverage ratio was 31.6% of total deposits.

Ratings

Foreign Currency	
Long-Term IDR	BBB–
Short-Term IDR	F3
Viability Rating	bb–
Shareholder Support Rating	bbb–
National Rating	
National Long-Term Rating	AA+(pan)
National Short-Term Rating	F1+(pan)
Sovereign Risk (Panama)	
Long-Term Foreign-Currency IDR	BBB–
Country Ceiling	AA–
Outlooks	
Long-Term Foreign-Currency IDR	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Negative

Applicable Criteria

Bank Rating Criteria (September 2023)

National Scale Rating Criteria (December 2020)

Related Research

Panama Banks' Operating Environment Unaffected by Negative Sovereign Outlook (October 2023)

Fitch Revises Panama's Outlook to Negative, Affirms IDR at 'BBB-' (September 2023)

Latin American Banks: 2023 Midyear Outlook (June 2023)

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Rating Sensitivities

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

- BLH's IDR, SSR, national ratings and senior (secured and unsecured) issuances 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.
- A sustained deterioration in profitability metrics, as measured by an operating income-to-RWA ratio consistently below 0.5% and capitalization metrics that drives its CET1/RWA ratio below 10%, could result in a downgrade of the Viability Rating (VR).

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

- BLH's IDRs, national ratings, SSR and senior (secured and unsecured) issuances could be upgraded if the parent's IDR is upgraded.
- BLH's VR could only be upgraded over the medium term from a sustained strengthening of the bank's overall business and risk profile, accompanied by improvement in profitability and capitalization, reflected in an operating income/RWA ratio consistently above 1.5% and a CET1/RWA ratio of at least 15%.

Other Debt and Issuer Ratings

Rating Level	Rating
Senior secured by trust over loan portfolio: National Long-Term	AAA(pan)
Senior unsecured/secured by Grupo ASSA's collateral: National Long-Term	AA+(pan)
Senior secured/unsecured short-term debt	F1+(pan)

Source: Fitch Ratings

The senior debt tranches secured by a trust over the loan portfolio are rated one notch above the bank's long-term national ratings, reflecting the benefits of such a guarantee.

The national ratings of the senior secured debt tranches guaranteed by the collateral of Grupo ASSA are at the same level as the national ratings of Grupo ASSA, reflecting the same probability of default as of that of its ultimate parent.

The senior unsecured debt tranches are rated at the same level as BLH's long-term and short-term national ratings, reflecting an average recovery prospect due to the absence of subordination or specific guarantees.

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

- Any negative rating action on Grupo ASSA's IDRs would lead to a similar action on BLH's senior (secured and unsecured) issuances.

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

- Positive rating actions on BLH's senior (secured and unsecured) issuances could be driven by positive rating actions on its shareholder's IDR.

Significant Changes from Last Review

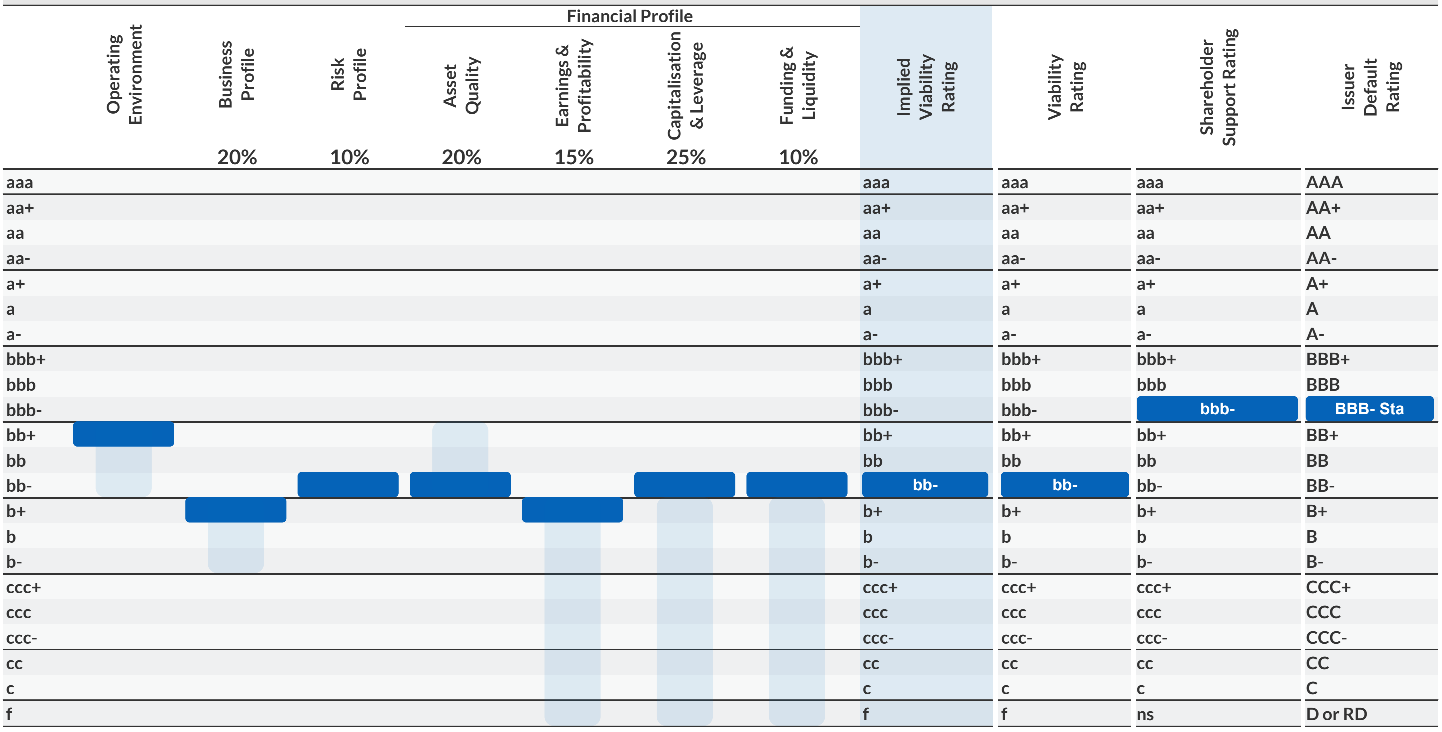
Stable Operating, but Headwinds Are Strengthening

Fitch affirmed the Panamanian banking system's OE at 'bb+'/Stable following Panama's Sovereign Outlook Revision to Negative from Stable as the government's fiscal pressures are not expected to weaken the recovery of banks' financial profiles. However, Panamanian banks still face challenges related to growth and quality of credit in an economic slowdown environment, with GDP expected growth of 4.5% in 2024 compared with 6.5% forecasted for 2023, higher interest rates and still recovering capacity of borrowers. Furthermore, a continuation of social unrest or increased uncertainty from the May 2024 presidential election that significantly and negatively affects the economy and the financial performance of banks could put pressure on the OE. In Fitch's view, social and political uncertainty, as well as sovereign fiscal pressures, could limit the potential benefits of reduced risk, and improved investor confidence and bank financing conditions resulting from the recent removal of the country from the Financial Action Task Force's gray list for financial crimes.

Ratings Navigator

Banco La Hipotecaria, S.A. ESG Relevance:

Banks
Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

- The Capitalizations & Leverage score of ‘bb–’ has been assigned above the implied score of ‘b & below’ due to the following adjustment reason(s): Capital Flexibility and Ordinary Support (positive);
- The Funding & Liquidity score of ‘bb–’ has been assigned above the implied score of ‘b & below' due to the following adjustment reason(s): Non-Deposit Funding (positive).

Financials

Summary Financials

	9/30/23 Nine Months - Third Quarter		12/31/22	12/31/21	12/31/20	12/31/19
	USD Mil. Not Disclosed	PAB 000 Not Disclosed	PAB 000 Not Disclosed	PAB 000 Audited - Unqualified	PAB 000 Audited - Report Not Seen	PAB 000 Unaudited
Summary Income Statement						
Net interest and dividend income	8	8,044.0	17,104.0	15,470.5	14,238.1	16,180.7
Net fees and commissions	5	4,990.4	6,201.3	5,912.2	6,260.5	5,795.7
Other operating income	3	2,789.0	3,251.6	3,862.9	4,439.5	2,955.0
Total operating income	16	15,823.3	26,557.0	25,245.7	24,938.2	24,931.4
Operating costs	12	12,103.3	17,630.5	16,943.9	17,387.5	18,666.5
Pre-impairment operating profit	4	3,720.0	8,926.5	8,301.8	7,550.7	6,264.9
Loan and other impairment charges	0	304.2	2,293.4	1,853.2	4,073.9	662.3
Operating profit	3	3,415.8	6,633.1	6,448.6	3,476.8	5,602.5
Other non-operating items (net)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Tax	1	983.0	1,286.7	1,597.2	139.1	1,367.2
Net income	2	2,432.8	5,346.4	4,851.3	3,337.7	4,235.3
Other comprehensive income	4	3,625.9	-7,536.8	-5,174.0	-1,123.3	559.0
Fitch comprehensive income	6	6,058.7	-2,190.4	-322.6	2,214.4	4,794.4
Summary Balance Sheet						
Assets						
Gross loans	789	788,799.1	722,099.9	650,621.9	731,201.1	702,622.0
- of which impaired	22	21,769.0	27,149.4	49,731.5	10,964.4	6,372.8
Loan loss allowances	4	3,505.7	4,178.5	3,914.0	4,049.0	678.8
Net loans	785	785,293.3	717,921.4	646,707.9	727,152.1	701,943.2
Interbank	31	30,838.4	47,561.6	56,624.2	67,764.9	40,572.4
Derivatives	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Other securities and earning assets	106	105,551.3	101,311.2	114,063.0	99,370.3	98,816.1
Total earning assets	922	921,683.1	866,794.1	817,395.1	894,287.4	841,331.7
Cash and due from banks	0	327.5	265.5	242.1	252.6	319.3
Other assets	64	63,517.4	59,336.6	53,077.7	51,383.5	25,493.2
Total assets	986	985,528.0	926,396.2	870,714.8	945,923.4	867,144.2
Liabilities						
Customer deposits	432	432,363.0	385,953.6	370,289.7	338,468.7	289,333.7
Interbank and other short-term funding	370	370,458.5	421,519.5	348,666.1	439,707.0	407,013.1
Other long-term funding	88	88,205.4	29,750.8	64,357.5	79,299.7	84,358.8
Trading liabilities and derivatives	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total funding and derivatives	891	891,026.9	837,224.0	783,313.3	857,475.4	780,705.5
Other liabilities	13	12,837.2	13,584.7	10,026.6	10,621.5	10,811.8
Preference shares and hybrid capital	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total equity	82	81,663.9	75,587.5	77,374.9	77,826.5	75,626.9
Total liabilities and equity	986	985,528.0	926,396.2	870,714.8	945,923.4	867,144.2
Exchange rate		USD1 = PAB1	USD1 = PAB1	USD1 = PAB1	USD1 = PAB1	USD1 = PAB1

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

Key Ratios

	9/30/23	12/31/22	12/31/21	12/31/20	12/31/19
Ratios (Annualized as Appropriate)					
Profitability					
Operating profit/risk-weighted assets	0.8	1.2	1.1	0.6	1.0
Net interest income/average earning assets	1.2	2.0	1.8	1.6	2.0
Non-interest expense/gross revenue	76.5	66.4	67.1	69.7	74.9
Net income/average equity	4.1	7.0	6.3	4.4	5.8
Asset quality					
Impaired loans ratio	2.8	3.8	7.6	1.5	0.9
Growth in gross loans	9.2	11.0	-11.0	4.1	2.1
Loan loss allowances/impaired loans	16.1	15.4	7.9	36.9	10.7
Loan impairment charges/average gross loans	0.1	0.3	0.3	0.6	0.1
Capitalisation					
Common equity Tier 1 ratio	11.8	11.6	11.4	11.7	12.2
Fully loaded common equity Tier 1 ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital ratio	13.2	12.9	12.9	13.4	13.8
Tangible common equity/tangible assets	8.2	8.0	8.7	8.1	8.6
Basel leverage ratio	7.4	7.2	7.7	7.1	7.7
Net impaired loans/common equity Tier [1]	25.4	34.6	68.7	10.4	8.9
Net impaired loans/Fitch Core Capital	22.7	31.1	60.6	9.1	7.7
Funding and liquidity					
Gross loans/customer deposits	182.4	187.1	175.7	216.0	242.8
Gross loans/customer deposits + covered bonds	178.1	177.2	154.3	187.7	206.4
Liquidity coverage ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Customer deposits/total non-equity funding	48.5	46.1	47.3	39.5	37.1
Net stable funding ratio	N.A.	N.A.	N.A.	N.A.	N.A.

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

Support Assessment

Shareholder Support

Parent IDR	BBB-
Total Adjustments (notches)	0
Shareholder Support Rating	bbb-
Shareholder ability to support	
Shareholder Rating	BBB-/ Stable
Shareholder regulation	1 Notch
Relative size	2+ Notches
Country risks	Equalised
Shareholder propensity to support	
Role in group	Equalised
Reputational risk	1 Notch
Integration	Equalised
Support record	1 Notch
Subsidiary performance and prospects	1 Notch
Legal commitments	2+ Notches

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

The 'bbb–' SSR reflects Fitch's view that BLH's ultimate parent, Grupo ASSA, has relatively high propensity to support its subsidiary should the need arise. The holding company based in Panama consolidates the insurance, investment and lending operations across Central America and Colombia.

Fitch recognizes the propensity of the parent company to provide support due to the importance of BLH in strengthening the group's position in a strategically relevant jurisdiction and complementary market segments for many of Grupo ASSA's subsidiaries.

Also, Fitch's assessment considers integration as high based on the shareholding of 80% in La Hipotecaria Holding Inc, a Panamanian entity of which BLH is a subsidiary, and high level of management and operational integration.

Environmental, Social and Governance Considerations

FitchRatings **Banco La Hipotecaria, S.A.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Banco La Hipotecaria, S.A. has 5 ESG potential rating drivers

- Banco La Hipotecaria, S.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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: http://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.