FitchRatings

RATING ACTION COMMENTARY

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

Wed 10 Feb, 2021 - 5:03 PM ET

Fitch Ratings - Monterrey - 10 Feb 2021: Fitch Ratings has affirmed Banco La Hipotecaria, S.A.'s (BLH) Long-Term Issuer Default Rating (IDR) and Short-Term IDR at 'BB+' and 'B', respectively. Fitch also affirmed the bank's Viability Rating (VR) at 'bb-'. The Rating Outlook remains Negative, which reflects the Outlook of its parent Grupo ASSA, S.A. The affirmation follows the downgrade of Panama's sovereign rating (see "Fitch Downgrades Panama's IDR to 'BBB-'; Outlook Negative," dated Feb. 3, 2021 available on www.fitchratings.com).

Feedback

KEY RATING DRIVERS

IDRs

Banco La Hipotecaria, S.A.'s (BLH) IDRs are based on Fitch's appreciation of the potential support it would receive from its parent company Grupo ASSA, S.A., if required. Grupo Assa 's Long-Term Foreign Currency IDR of 'BBB-' with a Negative Outlook shows its ability to provide support.

Fitch considers that the propensity for support is reflected in the key role for Grupo Assa as this subsidiary operates in core market for the group and in complementary market segments. Fitch's assessment of Grupo Assa's propensity to support its subsidiary also considers that the implication of default would be very material to its business given the synergies among the entities.

VR

BLH's VR is highly influenced by its limited franchise in the Panamanian banking sector. The bank has market shares of total assets, loans and deposits below 1% and a business model weighted towards domestic mortgages, having lower revenue diversification relative to its higher rated peers. BLH is the only Panamanian bank that has securitized its mortgage loan portfolio in international markets.

Fitch has also revised the Panamanian operating environment for financial institutions (OE) to 'bb+' from 'bbb-' with a negative trend. The downward revision of the OE in Panama reflects the estimated economic contraction of 17.7% and high unemployment rate of 18.5% in 2020 as a result from the stringent lockdown measures due to the pandemic.

Fitch estimates that the bank's performance will remain under pressure linked to the pandemic-related economic downturn. Limited mortgage loan yields and net fees, as well as an increase of provisioning levels for nonperforming loans (NPLs) could limited revenue generation. As of 3Q20, BLH's operating profit/ risk-weighted assets ratio was 0.9%, a low level compared to regional peers and the system's average. This reflects the bank's lower risk business model, which results in a narrow net interest margin, and its high non-interest expenses.

In Fitch's opinion, the current operating environment will drive lower loan book growth than in previous years, which will pressure asset quality levels. However, the bank's defined underwriting policies and its controlled risk appetite should enable the bank to maintain controlled levels of delinquency, bellow other domestic banks. Its non-performing loan (NPL) ratio remained low at 0.9% as of September 2020, which is lower than the banking system's average.

Fitch believes refinancing risk has been adequately handled during the crisis, and risks have been partially mitigated by its growing liquidity levels based on cash, deposits in banks and an investment portfolio offering coverage of 49.4% of total deposits as of September 2020. BLH's funding structure is well diversified allowing to reduce volatility. The bank's growing deposits along with by credit lines and debt issuances have results in a Loans/ Customer Deposits ratio at around 200%, above that of its peers.

BLH's Common Equity Tier 1 Ratio was 11.6% (12.2% in 2019) at September 2020, maintaining a slightly lower level than the previous year as a result of retained earnings and lower portfolio growth compared to prior years. Regulatory levels are above the required level (Dec 2020: 12.6%), providing adequate capacity to absorb unexpected losses. Fitch expects capital levels to remain stable even when losses generated by variations in foreign currency (Colombian peso) have pressured capitalization, limiting the bank's capacity to deal with unexpected losses.

SUPPORT RATING

The bank's Support Rating reflects Fitch's opinion on Grupo ASSA's ability and propensity to support BLH if required. According to Fitch's criteria, BLH's IDR of 'BB+' corresponds to a support rating of'3'.

RATING SENSITIVITIES

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

Changes in Banco La Hipotecaria's IDR and senior issuances would reflect any changes in its shareholder's risk profile or changes on Fitch's assessment of its ability, or willingness, to provide support to its subsidiary, which we do 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:

The IDR and National Ratings could be affirmed and the Negative Outlook revised to Stable to reflect an upgrade in its shareholder's risk profile or changes on Fitch's assessment of its ability, or willingness, to provide support

Upward potential of the rating is limited in the short term given the Negative Outlook on its shareholder's ratings. The IDR and National Ratings could be affirmed and the Negative Outlook revised to Stable to reflect an upgrade in its shareholder's risk profile or changes on Fitch's assessment of its ability, or willingness, to provide support

An upward potential of the rating is limited in the short term given the Negative Outlook on its shareholder's ratings.

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]

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 related to those of 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
	Viability	bb-	Affirmed	bb-
	Support	3	Affirmed	3

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Banco La Hipotecaria, S.A.	EU,UK Endorsed

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