



RATING ACTION COMMENTARY

Fitch Revises Grupo ASSA and BLH's Outlook to Stable, Affirms Ratings

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Fitch Ratings - Monterrey - 07 Feb 2022: Fitch Ratings has affirmed Grupo ASSA y Subsidiarias' (Grupo ASSA) Long-Term Issuer Default Rating (IDRs) at 'BBB-' and Short-Term IDR at 'F3', and affirmed its subsidiary Banco La Hipotecaria, S.A. (BLH)'s Long-Term IDR at 'BB+' and Short-Term IDR at 'B'. The Rating Outlooks on the Long-Term IDRs of both entities were revised to Stable from Negative.

The Outlook revision of the LT IDR to Stable is driven by Fitch's opinion that Grupo ASSA was able to sustain its current financial performance despite the downside risk of its multi-jurisdictional operating environment (OE). This is reflected in lesser influence of the OE on Grupo ASSA's IDR, after Fitch revised the Outlook of Panama's OE to Stable from Negative as well as the Stable Outlook of the financial factors of Grupo ASSA, deemed favorable in light of the pandemic effects of the past two years and the particularities and increasing challenges of the higher risk jurisdictions. BLH's Outlook revision mirrors its ultimate parent Grupo ASSA.

Fitch has also withdrawn BLH's Support Rating as it is no longer relevant to the agency's coverage following the publication of its updated Bank Rating Criteria on Nov. 12, 2021. In line with the updated criteria, Fitch has assigned a Shareholder Support Rating (SSR).

KEY RATING DRIVERS

Grupo ASSA

Grupo ASSA's IDRs and VR are driven by the company's intrinsic creditworthiness, which is highly influenced by Fitch's assessment of its business profile, which is underpinned by the strong franchise of its main business in the insurance segment, close to 25% in Panama and 12% in the rest of Central America, at the same time its business's profile benefits by the segment and geographical diversification. The second most relevant contributor to the company's profit is the non-controlling stake in Banco General and its holding company, as in 2021 this investment was the largest provider of upstream dividends. The retail lending business in the mortgage segment of La Hipotecaria Holding and the Nicaraguan Grupo BDF has a smaller contribution to the PNL in line with a more modest business profile of each subsidiary.

The ratings also consider the entity multi-jurisdictional OE, currently at 'bb+', which still has a Negative Outlook. In Fitch's opinion the influence of this factor has moderated given the resilience shown by the company in recent years, and the gradual shift toward jurisdictions with better sovereign ratings and/or OE scores. Grupo ASSA consolidates operations from its insurance subsidiaries across Central America and lending subsidiaries located in Panama, Nicaragua, El Salvador and Colombia. Its core market, Panama, generates close to 58% of consolidated income. Despite the stabilization of Panama's OE, given the OE of Nicaragua, El Salvador and Costa Rica still have Negative Outlooks, a multiple-notch downgrade in those jurisdictions would trigger a revision of the company's OE.

Grupo ASSA's capitalization is one of its strengths as reflected in the metric of tangible equity to tangible assets of 31.0% as of September 2021, while the metric of consolidated gross debt to tangible equity was 1.3x, including customer deposits. At the holding level the company has no leverage and the good consolidated capital metrics come mostly from the insurance arm.

The stagnation of growth in the past four years has contributed to maintaining good consolidated capital levels. This was especially visible in the banking business of Nicaragua. Even though in some segments and markets 2022 could be a year of recovery, the growth previsions are still modest, contributing to preserve the capital cushion.

Asset performance in the company is defined by the credit profile of the three main subsidiaries and its own investment portfolio. In turn, the holding company, ASSA Tenedora, is the largest subsidiary, and accounts for 37.8% of consolidated assets before eliminations. In Fitch's opinion, the insurance arm has a strong credit profile, underpinned by the strong business profile, ample capital levels and good financial performance comparing favorably

with peers. The lending subsidiaries of La Hipotecaria Holding and Grupo BDF have also shown a good performance and reasonable resilience to the environments in their operating countries.

As of September 2021, the net income to average assets ratio was 2.3% for Grupo ASSA, close to the last four-year average of 2.4%. Some declines in the insurance business were seen due to the increase in the claims of life and health segments due to the impact of the pandemic, below the 2020 performance. The decline was partially offset by changes in the insurance investment portfolio. The rest of business maintained a reasonable performance yoy and small improvements should be made in 2022.

BLH

BLH's Long-Term IDR and National is based in Fitch's opinion of its parent's ability and propensity to provide support in case of need, and the 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 providing complementary services in strategically important markets. Fitch's also considers the high reputational risk for Grupo ASSA and the significant impact that the default of its subsidiary could have on its business.

Fitch has also withdrawn BLH's Support Rating of '3' as it is no longer relevant to the agency's coverage following the publication of our updated Bank Rating Criteria on Nov. 12, 2021. In line with the updated criteria, Fitch has assigned BLH an SSR of 'bb+'.

BLH's VR considers the assessment of the multi-jurisdictional OE of the countries in which the bank and its subsidiaries operate. BLH's OE assessment has been revised to Stable from Negative given the stabilization of Panama's OE, its main market. Fitch has adjusted its OE assessment for the Panamanian banking system to Stable from Negative, following Fitch's revision of Panama's sovereign Outlook to Stable from Negative, due to higher than-expected economic recovery and lessening risks that fiscal or economic pressures could affect the recovery prospects of the banks' financial performance.

In addition, the VR considers BLH's specialized and concentrated business model in the mortgage segment and its moderate risk appetite. This has resulted in sustained good asset quality (four-year average of 1%), but with a narrow net interest margin (four-year average of 1.1%) below that of its competitors. Fitch also considers the moderate capital position that provides reasonable buffers above regulatory requirements, as reflected in its common equity Tier 1 (CET1) to risk-weighted assets (RWA) ratio at 11.3% and the bank's diversified funding structure and good liquidity position.

RATING SENSITIVITIES

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

Grupo ASSA

--The Long-Term IDR has limited upside potential given the current OE of Grupo ASSA with several individual jurisdictions yet to be stabilized;

--Over the medium term, ratings could be positively influenced by a material improvement in the economic conditions and broader OE, as well as its assets performance.

BLH

--Positive rating actions on BLH's IDR, National and SSR could be driven by positive rating actions on its shareholder's IDR;

--BLH's VR could only be upgraded over the medium term as a result of the sustained strengthening of its business profile and the financial profile of the bank as reflected in an operating income to RWA ratio consistently above 1.5% and a CET1 to RWA ratio of at least 15%.

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

Grupo ASSA

--The IDRs could be pressured if a weaker assessment of Grupo ASSA's multijurisdictional OE, weakens its financial performance, which is not Fitch's baseline scenario at present;

--Grupo ASSA's IDRs would also be sensitive to significant and consistent weakening of its financial profile resulting from deterioration of its main subsidiaries or core investments.

BLH

--Any negative action on Grupo ASSA's IDRs would also lead to a similar action on BLH's IDRs, National and SSR; in addition, BLH's IDR and National could also change if Fitch's assessment of its parent's ability, or willingness to support its subsidiary changes, which is not expected at present;

--BLH's VR could be downgraded as a result of a sustained low profitability, as measured by an operating income to RWA ratio consistently below 0.5%, or by a material deterioration in its financial performance that drives its CET1 to RWA ratio below 10%.

VR ADJUSTMENTS

BLH

--The Capitalizations & Leverage score has been assigned above the implied score due to the following adjustment reason(s): Capital Flexibility and Ordinary Support (positive);

The Funding & Liquidity score has been assigned above the implied score due to the following adjustment reason(s): Non-Deposit Funding (positive).

In accordance with Fitch Ratings' policies, the issuer appealed and provided additional information to Fitch Ratings that resulted in a Rating action that is different than the original Rating committee outcome.

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

BLH

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

BLH:

BLH's IDRs are driven by the potential support it could receive from its parent, Grupo ASSA, S.A. if required.

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 Stable		BB+ Rating Outlook Negative
	Affirmed			
	ST IDR	B	Affirmed	B
	Natl LT	AA(pan) Rating Outlook Stable		AA(pan) Rating Outlook Negative
	Affirmed			
	Viability	bb-	Affirmed	bb-
	Support	WD	Withdrawn	3

Shareholder Support bb+ New Rating

Grupo ASSA, S.A.

LT IDR BBB- Rating Outlook Stable

BBB- Rating
Outlook
Negative

Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

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

[Metodología de Calificación de Instituciones Financieras no Bancarias \(pub. 18 Sep 2019\)](#)

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

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

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

[Bank Rating Criteria \(pub. 12 Nov 2021\) \(including rating assumption sensitivity\)](#)

[Non-Bank Financial Institutions Rating Criteria \(pub. 31 Jan 2022\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Grupo ASSA, S.A.

EU Endorsed, UK Endorsed

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