

RATING ACTION COMMENTARY

Fitch Upgrades Banco La Hipotecaria's IDR to 'BBB-'; Outlook Stable

Wed 13 Apr, 2022 - 2:35 p. m. ET

Fitch Ratings - Monterrey - 13 Apr 2022: Fitch Ratings has upgraded Banco La Hipotecaria, S.A.'s (BLH) Long- and Short-Term Issuer Default Rating (IDR) to 'BBB-'/F3' from 'BB+/'B' and Shareholder Support Rating (SSR) to 'bbb-' from 'bb+'. Fitch has also upgraded the bank's National Long-Term Rating to 'AA+(pan)' from 'AA(pan)' and has affirmed the National Short-Term at 'F1+(pan)'. The Rating Outlook for the Long-Term Ratings is Stable.

The upgrade reflects Fitch's assessment about higher propensity of support from its ultimate shareholder Grupo ASSA, S.A., the holding company based in Panama that consolidates the insurance, investment and lending operations across Central America and Colombia. The upgrade in the agency's view is based on the increase in the group's recent shareholding to 80% from 69% in La Hipotecaria Holding Inc, a Panamanian entity of which BLH is a subsidiary. Also, Fitch's assessment of greater operational integration and BLH's fundamental role for its ultimate owner was also considered.

KEY RATING DRIVERS

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The bank's Long-Term IDR is equalized to Grupo ASSA's Long-Term IDR, reflecting the high propensity of support from its parent. Fitch's assessment is highly influenced by BLH's relevant role as it strengthens the group's position in a strategically relevant jurisdiction and in complementary market segments for many of its subsidiaries.

BLH's propensity of support also considers with high importance the integration with its ultimate parent, which improves the bank's franchise, as the branding is associated with its parent strengthening its business model, while providing stability in funding and business generation. In January 2022, as IFC exercised their Put Option on the shares of La Hipotecaria (Holding), Inc. under the terms agreed, Grupo ASSA acquired a larger shareholding stake of around 80%, which underpins the evaluation of integration with BLH.

The support assessment is moderately influenced by the high reputational risk for Grupo ASSA and the significant impact that a default of its subsidiary could have on its business given the importance of its operations in Panama. Also, Fitch believes any required support, if needed, would be significant to the parent, given the size of BLH, which represents about 30% of Grupo ASSA's total consolidated assets.

BLH's national ratings of 'AA+(pan)' reflect Grupo ASSA's creditworthiness and financial strength relative to other rated issuers in Panama of 'AA+(pan)'.

Senior Debt

Fitch upgraded the long-term National ratings on BLH's senior unsecured issuances. The senior unsecured debt is rated at the same level as BLH's Long- and Short-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.

The national ratings for secured tranches and negotiable obligations guaranteed by Grupo ASSA's collateral were affirmed at AA+(pan), at the same level as Grupo ASSA's national rating, reflecting the same probability of default as of its ultimate parent.

The national ratings of the tranches and on secured negotiable notes were upgraded to 'AAA(pan)' from 'AA+(pan)', one notch above the bank's national long-term ratings,

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BLH's Viability Rating (VR) reflects its established niche franchise and business profile in the residential mortgage loans segment. Although they hold a low market share near 2.5% as of December 2021 of the mortgage portfolio in Panama, they cover around 25% of their target market segment of owner-occupied, lower-middle income government-subsidized mortgages. Fitch believes BLH has 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.

Fitch also considers the assessment of the multi-jurisdictional OE of the countries in which the bank and its subsidiaries operate and assess the consolidated performance of the entity as economic recovery continues.

Asset quality deteriorated, as expected, after relief measures expired. As of December 2021, NPLs stood at 4.3% of the gross loan portfolio, although the deterioration widened because the bank securitized USD112.5 million of its mortgage loans, which was not fully offset by a growing portfolio of low-risk residential mortgage loans. The agency expects asset quality to weaken moderately given that in spite of the economic recovery, about 13% of its portfolio is still classified as modified, according to local regulator's criteria, that still clouds the visibility of the agency regarding the percentage that will materialize in non-performing loans.

BLH's profitability recovered in 2021, although it is still below pre-pandemic levels, and remains modest. At 2021 The bank's operating profit to risk-weighted assets (RWA) was 1.1% (0.6% in 2020), due to improvement in efficiency along with a lower loan impairment charge. Fitch estimates BLH's profitability ratio to return to pre-pandemic levels, sustained by revenue growth from both lending and asset management related to its securitized portfolio while loan impairment charges gradually normalize.

BLH's common equity Tier 1 (CET1) ratio decreased to a still moderate level of 11.4% at YE 2021 from 11.7% a year earlier on higher earning assets related to an increase in securities. The bank has a buffer above its regulatory minimum capital requirement (8%) that provides reasonable headroom to absorb potential credit losses. Fitch does not expect capital ratios to decline structurally as the bank is able to sustain an internal capital generation and despite dividends payments. In addition, capitalization assessment is benefited by the

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with multilateral agencies to finance housing on favorable terms and also on local issuances to diversify and better match its assets and liabilities terms. Liquidity is stable, prudently managed and underpinned by a buffer of liquid assets consisting of cash and highly rated liquid securities (about 20% of 2021 assets).

RATING SENSITIVITIES

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

--Any negative action on Grupo ASSA's IDRs would also lead to a similar action on BLH's IDRs, national, SSR and senior (secured and unsecured) issuances; 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%.

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

--Positive rating actions on BLH's IDR, national, SSR and senior (secured and unsecured) issuances 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%.

VR ADJUSTMENTS

--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).

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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

Linked to its parent company Grupo ASSA's IDRs.

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	BBB- Rating Outlook Stable	BB+ Rating Outlook Stable
	1 Upgrade		

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	Natl LT	AA+(pan)	Rating Outlook Stable	AA(pan) Rating Outlook Stable
	Upgrade			
	Natl ST	F1+(pan)	Affirmed	F1+(pan)
	Viability	bb-	Affirmed	bb-
	Shareholder Support	bbb-	Upgrade	bb+
senior unsecured	Natl LT	AA+(pan)	Upgrade	AA(pan)
senior secured	Natl LT	AAA(pan)	Upgrade	AA+(pan)
senior secured	Natl LT	AA+(pan)	Affirmed	AA+(pan)
senior unsecured	Natl ST	F1+(pan)	Affirmed	F1+(pan)

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

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

[Metodología de Calificación de Bancos \(pub. 28 Mar 2022\)](#)

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Banco La Hipotecaria, S.A.

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structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Structured Finance: Covered Bonds	Banks	Structured Finance	Latin America
Central America	Panama		

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