



## RATING ACTION COMMENTARY

# Fitch Affirms Banco La Hipotecaria's IDR at 'BBB-'; Outlook Stable

Thu 30 Mar, 2023 - 16:49 ET

Fitch Ratings - Monterrey - 30 Mar 2023: Fitch Ratings has affirmed Banco La Hipotecaria, S.A.'s (BLH) Long-Term (LT) and Short-Term (ST) Issuer Default Rating (IDR) at 'BBB-' and 'F3', respectively, and its Viability Rating (VR) at 'bb-'. In addition, Fitch has affirmed BLH's Shareholder Support Rating (SSR) at 'bbb-' and the LT and ST National Scale ratings at 'AA+(pan)' and 'F1+(pan)', respectively. The Rating Outlook for the long-term ratings is Stable.

## KEY RATING DRIVERS

BLH's IDRs, SSR, National and senior (secured and unsecured) debt ratings are based on Fitch's assessment on the support the bank would receive from its ultimate shareholder, Grupo ASSA, S.A. (Grupo ASSA; BBB-/Stable), if required. In Fitch's view, Grupo ASSA's strong ability and propensity to support BLH remains high, given its importance to the group and the strong integration.

**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 in 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 the parent. Additionally, Fitch believes any required support for BLH, if needed, could be significant to the parent given the size of BLH, which represents about 30% of Grupo ASSA's total consolidated assets.

**Niche Franchise, Multijurisdictional Environment:** The bank's business model continues to be focused on the established housing financing segment, in which it is an important player with close to a 25% their target market segment of owner-occupied, lower-middle income, government-subsidized mortgages. However, their concentration in a single niche has implied a small market position at the overall banking system level, with a market share of close to 2.1% in YE 2022. BLH's financial profile analysis incorporates the blended approach of the operating environment (OE) due to the multijurisdictional nature of BLH. 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.

**Relatively High Impairments:** The stage 3 loans ratio declined to 3.8% at YE 2022, down from 7.6% at 2021, a year when transitory rules placed by the regulator drove the high ratio; despite the improvement, the level is still above the local banking system. This improvement is related to lower impaired loans originations, as well as a close monitoring of borrowers' repayment capacity to mitigate the significant increase. As of YE 2022, the bank holds a high proportion of stage 2 portfolio, classified as such on a prudential basis upon regulatory elimination of the modified category. Of which, Fitch estimates that a significant proportion could potentially deteriorate in a high interest rate environment, stabilizing near 3.5%. However, any additional deterioration would remain manageable within its category.

**Profitability Improving Slowly:** BLH's operating profit to risk-weighted assets (RWA) reached 1.2% as of 2022 (2021:1.1%) and that compares favorably with its closest local peers. The bank kept a steady profitability growth supported by a relatively higher net interest margin (NIM), improvement in efficiency along with controlled loan loss provisions (LLPs). Fitch expects profitability metrics will stabilize and remain slightly above its pre-pandemic levels due to its strategies focused on improving its earnings and profitability.

**Reasonable Capitalization:** Fitch expects BLH to sustain common equity Tier 1 (CET1) ratio commensurate with its risk profile at around 11.5%-12.0% in 2023, similar to 2022 level due to its moderate internal capital generation and more conservative loan growth

projections. BLH's downside risks are mitigated by the ordinary support from its shareholder, if needed.

**Diversified Funding and Good Liquidity:** BLH's funding structure benefits from a well-balanced mix of customer deposits and credit lines with multilateral agencies and social impact funds. At YE 2022, its loan-to-deposit ratio remained high, at 187.1% as the bank relies on diversifying its funding to benefit its cost of fund. Fitch expects the bank's loan-to-deposit ratio to remain above 150% in the near term, a level commensurate with its rating category. The bank's liquidity is stable, prudently managed and underpinned by an adequate buffer of liquid assets. By 2022, BLH's liquidity coverage ratio was 38.6% of total deposits.

## **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 changes, 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-to-RWA ratio below 10%, could result in a downgrade of the 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-to-RWA ratio consistently above 1.5% and a CET1-to-RWA ratio of at least 15%.

## **VR ADJUSTMENTS**

--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).

## **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 were reclassified as intangibles and deducted from total equity to reflect their low absorption capacity.

## **Sources of Information**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **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 based on the potential support they would receive from their parent, Grupo ASSA, S.A., if needed.

## **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](https://www.fitchratings.com/esg).

## RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
Banco La Hipotecaria, S.A.	LT IDR	BBB- Rating Outlook Stable		BBB- Rating Outlook Stable
	Affirmed			
	ST IDR	F3	Affirmed	F3
	Natl LT	AA+(pan) Rating Outlook Stable		AA+ (pan) Rating Outlook Stable
	Affirmed			
	Natl ST	F1+(pan)	Affirmed	F1+(pan)
	Viability	bb-	Affirmed	bb-
	Shareholder Support		bbb- Affirmed	bbb-
senior secured	Natl LT	AA+(pan)	Affirmed	AA+(pan)
senior unsecured	Natl LT	AA+(pan)	Affirmed	AA+(pan)
senior secured	Natl LT	AAA(pan)	Affirmed	AAA(pan)
senior unsecured	Natl ST	F1+(pan)	Affirmed	F1+(pan)

[VIEW ADDITIONAL RATING DETAILS](#)

**FITCH RATINGS ANALYSTS****Ricardo Aguilar**

Director

Primary Rating Analyst

+52 81 4161 7086

ricardo.aguilar@fitchratings.com

Fitch Mexico S.A. de C.V.

Prol. Alfonso Reyes No. 2612, Edificio Connexity, Piso 8, Col. Del Paseo Residencial,  
Monterrey 64920

**Nadia Calvo**

Associate Director

Secondary Rating Analyst

+503 2516 6611

nadia.calvo@fitchratings.com

**Alejandro Garcia Garcia**

Managing Director

Committee Chairperson

+1 212 908 9137

alejandro.garciagarcia@fitchratings.com

**MEDIA CONTACTS****Elizabeth Fogerty**

New York

+1 212 908 0526

elizabeth.fogerty@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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**APPLICABLE CRITERIA**

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

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

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

[Future Flow Securitization Rating Criteria \(pub. 27 Apr 2022\) \(including rating assumption sensitivity\)](#)

[Bank Rating Criteria \(pub. 07 Sep 2022\) \(including rating assumption sensitivity\)](#)

## **ADDITIONAL DISCLOSURES**

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## **ENDORSEMENT STATUS**

Banco La Hipotecaria, S.A.

EU Endorsed, UK Endorsed

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