



RATING ACTION COMMENTARY

Fitch Affirms La Hipotecaria's Mortgage Covered Bonds at 'BBB-'; Outlook Stable

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Fitch Ratings - São Paulo - 29 Dec 2022: Fitch Ratings has affirmed Banco La Hipotecaria, S.A.'s (BLH, BBB-/Stable) mortgage covered bonds at 'BBB-'. The Outlook is Stable. The rating is constraint by Panama's sovereign rating (BBB-/Stable) and it is also based on the bank's Long-Term Issuer Default Rating (IDR) of 'BBB-'.

KEY RATING DRIVERS

Sovereign Constraint: BLH's 'BBB-' mortgage covered bond rating is constrained by Panama's Long-Term IDR (BBB-/Stable) due to the cover pool's exposure to the State. More than 60% of the residential mortgages in the cover pool are granted to civil servants, and more than 70% of the loans have subsidies from the government of the Republic of Panama.

Three-Notch Uplift: BLH's covered bonds are rated at the bank's IDR, out of a maximum achievable uplift of three notches. The latter consists of a resolution uplift of zero notches, a payment continuity uplift (PCU) of one notch, and a recovery uplift of two notches. The recovery uplift decreased one notch, as the timely payment rating level for the bonds is now investment grade.

OC: In its analysis, Fitch relies upon a contractual overcollateralization (OC) level of 25%, which provides more protection than the agency's breakeven OC level of 0% for the rating. Fitch expects a fully collateralized program secured by residential mortgage loans to generate good recoveries given default. However, the rating uplift is capped by the sovereign rating, given that the OC credited by Fitch is unlikely to sustain the high cover pool stresses applied by the agency in a scenario where the sovereign is assumed to be in default.

Counterparty Trigger Breach: On May 2022, Fitch affirmed the rating of Banco General S.A. (BG) at 'BBB-/Stable. Since February 2021, the rating has been below the minimum threshold for the account bank rating under the program documents, which stipulate it should be the greater of 'BBB' and the sovereign rating of Panama (currently BBB-). Remedial action was not able to be implemented. However, this does not impact the rating of the covered bonds, as the timely payment is not tested under this scenario.

RATING SENSITIVITIES

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

An upgrade of the rating of BLH's covered bonds would be possible if the issuer IDR or Panama's sovereign rating is upgraded. For the later, this is as long as the relied-upon OC for the program remains above the breakeven OC commensurate with the corresponding rating scenario.

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

BLH's 'BBB-' covered bond rating has the rating of the bank as a floor, but it could be vulnerable to a downgrade in-line with downwards movement of the sovereign Long-Term IDR, coupled with the bank's rating downgrade, given that the sovereign rating acts as a cap to the rating's uplift. In addition, the bonds could be downgraded if the bank's Long-Term IDR falls by five or more notches to 'B' or below.

The 'BBB-' breakeven OC would increase in the event of an IDR downgrade for more than one notch. Under Fitch's criteria, the program could use more than one notch of recovery uplift if OC compensates for credit losses in the respective rating scenario. If Fitch were to test cash flows for timely payment, this would absorb more OC than in a recovery given default analysis, as recovery expectations are not tied to a particular time horizon.

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

The covered bond rating is linked to Banco La Hipotecaria's rating.

ESG CONSIDERATIONS

Banco La Hipotecaria, S.A.'s mortgage covered bonds have an ESG Relevance Score of '4'[+] for Human Rights, Community Relations, Access & Affordability due to lower default rates observed considering the segment, which is explained by a payroll deductibility mechanism in place as well as interest rate subsidies from the government of the Republic of Panama. This has a positive impact on the credit profile and is relevant to the ratings in conjunction with other factors.

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 ⇅
Banco La Hipotecaria, S.A.	
senior secured, Mortgage Covered Bonds, Mortgage Covered Bonds	LT BBB- Rating Outlook Stable Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Latin America RMBS Rating Criteria – Effective April 7, 2022 to September 25, 2023 \(pub. 07 Apr 2022\) \(including rating assumption sensitivity\)](#)

[Structured Finance and Covered Bonds Country Risk Rating Criteria - Effective from 15 July 2022 to 10 February 2023 \(pub. 15 Jul 2022\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria - Effective from July 29, 2022 to March 14, 2023 \(pub. 29 Jul 2022\)](#)

[Bank Rating Criteria - Effective from 8 September 2022 to 1 September 2023 \(pub. 07 Sep 2022\) \(including rating assumption sensitivity\)](#)

[Covered Bonds Ratings Criteria - Effective from 22 November 2022 to 5 June 2023 \(pub. 22 Nov 2022\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

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Banco La Hipotecaria, S.A.

EU Endorsed, UK Endorsed

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