FitchRatings

RATING ACTION COMMENTARY

Fitch Assigns International Scale Ratings to BAC International Bank

Mon 04 May, 2020 - 10:35 ET

Fitch Ratings - Monterrey - 04 May 2020: Fitch assigned Long-Term Issuer Default Rating (IDR) at 'BBB-' to BAC International Bank, Inc. (BIB). The Rating Outlook is Negative. A full list of assigned ratings follows at the end of this rating action commentary.

KEY RATING DRIVERS

IDR AND SUPPORT RATINGS

BIB's IDRs are based on the support it could receive from its parent, Banco de Bogota, S.A. (Bogota), if required. Bogota is the second-largest Colombian bank by consolidated assets and deposits, and it has a Long-Term, Foreign-Currency IDR of 'BBB-' with a Negative Rating Outlook. The Negative Outlook on BIB's Long-Term IDR is aligned with that of Bogota.

The support is highly influenced by the fundamental role that BIB has on Bogota's international strategy and regional operations, providing core services and products to a core market. BIB is part of BAC-Credomatic, the largest financial group in Central America with relevant banking and financial operations in the countries where it operates. The group has a relevant market position in the region due to its diversified product portfolio. The entity provides universal banking, serving corporate and retail sectors; with a strong focus and dominant position in the credit card segment along electronic and digital services. As of December 2019, BIB had consolidated assets of about USD24 billion. The group's consistent track record of adequate performance is also considered by Fitch Ratings in the support opinion.

Fitch also believes that Bogota has strong incentives to provide timely support to BIB given the existence of cross-default clauses, which indicate that a BIB default would grant acceleration rights to Bogota's creditors. This factor also has a high influence on the support in Fitch's view.

BIB's Support Rating (SR) of '2' reflects Fitch's opinion on the high probability of extraordinary support from Bogota if required.

VR

In Fitch's opinion, BIB's Viability Ratio (VR) is highly influenced by the adverse operating environment in Central America. The group's large exposure to countries with deteriorated economic environments and disrupted commercial activities as result of the international health crisis represents the main constraint to BIB's VR. Although the magnitude of economic and financial affectations as a consequence of the coronavirus pandemic is still not clear, Fitch believes the deteriorated operating environment across Central American countries will affect the bank's business dynamics, asset quality and profitability levels. Around 75% of the gross earning assets are located in Central American countries other than Panama.

BIB's VR is also highly influenced by its company profile. BIB consolidates the BAC|Credomatic group's operations, the largest financial conglomerate in Central America with strong franchises in every country where it operates, and has a diversified traditional banking business servicing retail and corporate segments with a focus in digital services. The group has exhibited consistent and adequate performance over the cycle while reaching a solid market position throughout the region.

Although, at the consolidated level, BIB's asset quality is reasonable considering the relevant participation of retail segments on its loan book, in the short term, the reduction in commercial and economic activities along the expected deterioration of the consumer segment will drive to higher impairment levels in the bank's loan book. As of December 2019, its non-performing loans (NPL) represented 1.5% of total loans (2018: 1.3%; 2017: 1.2%), below the banking systems' average where the group operates. Although in the near-term, the measures taken to relieve borrowers' debt would allow BIB maintaining relatively similar asset quality metrics, in Fitch's opinion, the group's credit controls' effectiveness will be tested in containing expected deterioration on its asset quality over the rating horizon.

In Fitch's opinion, BIB's profits could decrease over the near term as result of reduced business activities and expected deterioration on its clients due the worsening operating environments in the region. As of December 2019, BIB's operating profits to risk weighted assets ratio was 2.8% (2018: 3.2%; 2017:3.2%), slightly lower than previous years given mild increase in operating expenses, although remain at reasonable levels. BIB has historically exhibited profitability levels that compare favorably with those of regional banking peers and it is driven by its mostly retail-oriented and well-positioned business with good operating revenues, albeit growing, impairment charges.

Considering potential deterioration of the group's loans quality and income generation influenced by the global economic crisis, Fitch does not rule out reductions in BIB's capital position over the short to medium term. However, the bank's capitalization is also sensitive to the balance sheet's growth during this period. BIB exhibits an equity position that is in accordance with its rating level and has been consistent in the last five years. As of December 2019, its CET1 ratio was 11.5% and its tangible equity to tangible assets ratio was 10.7%. .

BIB's funding profile benefits from the solid deposit franchise the group has reached throughout the region. All subsidiaries have a relevant share of deposits in their respective countries due to their well-positioned business. As of December 2019, BIB's loan to deposit ratio was 98%, similar to that of other international banking peers. Although some reductions are due the current contingency, Fitch considers BIB's strong deposits franchise in the region would allow maintaining relatively similar levels on its loan to deposits ratio. BIB's liquidity levels are reasonable for its operations. As of December 2019, BIB's liquid assets represented close to 36% of total deposits, which are adequate for responding to requirements of liquid resources.

RATING SENSITIVITIES

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

- The LT IDR currently has a Negative Outlook, which makes an upgrade highly unlikely in the near future.

- The outlook could be revised back to Stable in the event of positive rating actions on Bogota's ratings.

- In the immediate future, positive actions in BIB's VR are highly unlikely given the negative conditions in the operating environments in Central American Countries.

- Positive action in the bank's VR are only possible over the medium term, and should reflect relevant improvement in Fitch's assessment on BIB's operating environment, proving an overcome of the current challenges. This should also be accompanied by BIB's financial performance that proves resilient to the ongoing crisis, through consistent and similar to pre-crisis financial metrics.

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

- Further downgrades on Bogota's ratings would also lead to a similar rating action on BIB's IDRs.

- Changes in Fitch's opinion about parent support, mirroring lower propensity from Bogota to provide timely support if required.

- Further deterioration in Fitch's assessment on the already adverse operating environment in the Central American region would put additional pressure to BIB's VR.

- The VR would also be downgraded in the case of sustained reductions on the bank's operations volume and business activities as result of the currently weaker economic conditions that reflect significant deterioration increases of BIB's loan book along continuous reductions on its profitability and capitalization levels, particularly in case of sustained operating profits to RWAs and CET1 metrics below 1.5% and 10%, respectively.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions 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, pledged deposits and other deferred assets were reclassified as intangible assets and were deducted from FCC since the agency considers these to have low capacity to absorb losses. Impaired loans were adjusted to reflect only loans that are overdue by 90 days or more to be consistent with Fitch's criteria and global industry practices.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of BIB's ESG credit relevance is a score of '3'. 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 our ESG Relevance Scores, visit www.fitchratings.com/esg

DATE OF RELEVANT COMMITTEE

24 April 2020

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.

RATING ACTIONS

ENTITY/DEBT	**RATING**		
BAC International Bank, Inc.	LT IDR	BBB-	New Rating
	ST IDR	F3	New Rating
	Viability	bb	New Rating
	Support	2	New Rating

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

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

BAC International Bank, Inc. EU Endorsed

DISCLAIMER

LINK: HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, THE FOLLOWING

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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