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Ratings

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BAC International Bank Inc.

Primary Credit Analyst:
Fernando Staines, Mexico City 52 (55) 50814411; fernando.staines@spglobal.com

Secondary Contact:
Jesus Sotomayor, Mexico City (52) 55-5081-4486; jesus.sotomayor@spglobal.com

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BAC International Bank Inc.

SACP	bbb-	+	Support	0	+	Additional Factors	-1

Anchor	bb+	
Business Position	Strong	+1
Capital and Earnings	Moderate	0
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
BB+/Stable/B

Major Rating Factors

Strengths:	Weaknesses:
• BAC International Bank Inc.'s (BIB) main strengths stem from its funding structure that leans on a stable and pulverized deposit base with manageable short-term financial obligations. • Lead player in consumer lending and the largest financial conglomerate in Central America; and • Highly diversified by geography, economic sector, and client, allowing us to rate the bank above the sovereign rating on Costa Rica (B+/Negative/B), to which it is highly exposed.	• Recent economic struggles related to the COVID-19 pandemic, coupled with the historical political vulnerability within the region could represent a challenge for the bank's profitability and asset quality metrics. • Large exposure to consumer segment could represent additional pressures on asset quality metrics during the pandemic. • Our current moderate capital and earnings assessment incorporates the region's high economic risks.

Outlook: Stable

The stable outlook on BIB continues to reflect that on the parent Banco de Bogotá (BdeB; BB+/Stable/B). The outlook also reflects our expectation that BIB will maintain its strong presence and leadership in Central America in terms of loans and deposits over the next 12 months. Additionally, we believe that its profitable operations and its large geographic diversification will help to maintain its business stability, despite the global economic turmoil driven by the COVID-19 pandemic. We expect BIB to keep its core status to BdeB in the future. BIB, on a consolidated basis, continues to account for a large amount of its parent's earnings and capital, and the group continues to view it as a fundamental subsidiary for its future strategy. Thus, the ratings on BIB will move in tandem with those on the parent.

Downside scenario

We could lower the rating on BIB over the next 12 months if we downgrade its parent.

Upside scenario

The rating on BdeB constrains the ratings on BIB, and the ratings on the bank will likely move in tandem with those on the parent. If we revise the outlook on the parent to positive or raise the ratings, we would take a similar action on BIB.

Rationale

Our ratings on BIB reflect our expectations that the bank will maintain its resilience and business stability despite the market and global economic turmoil caused by COVID-19. This is thanks to BIB's leading market position in Central America on a consolidated basis and its sound business stability, supported by a large, sticky and well-diversified customer base. The ratings also reflect our projected risk-adjusted capital (RAC) ratio of 6.65%, on average, for 2020-2021, underpinned by constant internal capital generation and the issuance of the Tier 1 hybrid instrument. . Moreover, we expect its manageable asset quality metrics and its highly diversified loan portfolio (by geography and economic sector) will support our risk position assessment despite the more vulnerable and weaker operational environment in 2020 and 2021 across the region. Finally, BIB's main strengths stem from its funding structure that is supported by a stable and pulverized deposit base with manageable short-term financial obligations.

Anchor:'bb+' on weighted average economic risks for countries where BIB operates and Panama's industry risk

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. We score a BICRA on a scale from 1 to 10, ranging from the lowest-risk banking systems (group '1') to the highest-risk (group '10'). The anchor for BIB is 'bb+'.

The 'bb+' anchor draws on our view of the expected weighted average economic risk in the countries in which BIB has exposure through its loan book: Costa Rica (28%), Panama (23%), Guatemala (20%), Honduras (13%), El Salvador (11%), and Nicaragua (5%), as of June 2020. As a result, the weighted economic risk rounds to '7'. The common factor driving this economic risk score is low income in the countries where the bank operates, which affects the countries' vulnerability to external shocks, and debt and payment capacity in countries with weak rule of law.

For BIB's industry risk score, we use Panama's '5' score. Panama doesn't have a central bank or formal lender of last resort, or an effective deposit insurance system to support distressed financial institutions. To address the economic impact of COVID-19, the regulator allowed banks to use the accumulated dynamic provisioning (about $1.3 billion or 2% of GDP) to absorb the impact of credit losses. It also allowed banks to undertake voluntary loan restructurings with troubled borrowers. Finally, in the past, the government has successfully used Banco Nacional de Panamá as the vehicle to provide adequate liquidity to the banking system under stressful conditions through a short-term liquidity facility. On the other hand, the country's financial regulation continues to improve, reducing the gap with international regulators, although implementation challenges remain. In 2019, FATF placed Panama back on its "grey" list of countries for legal and regulatory shortcomings related to insufficient preventative measures against money laundering and financing terrorism. FATF's missing recommendations are primarily outside the Panamanian financial sector, limiting the possibility of a significant impact on it. These factors, along with the regulator's efforts to strengthen the banking system's institutional framework, should allow market confidence to remain unaffected so far, in our view.

Table 1

BAC International Bank Inc.--Key Figures					
	--Year ended Dec. 31--				
(Mil. PAB)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	25,026.1	23,575.3	22,383.7	21,640.1	19,658.7
Customer loans (gross)	16,795.8	16,788.0	16,195.4	15,481.7	14,315.9
Adjusted common equity	2,103.7	2,467.6	2,329.9	2,255.5	1,984.5
Operating revenues	1,044.9	2,135.6	2,079.1	1,912.4	1,776.1
Noninterest expenses	581.0	1,199.1	1,128.0	1,058.1	1,019.8
Core earnings	187.4	410.5	405.3	376.0	360.2

*Data as of June 30. PAB--PAB-Balboa.

Business position: Adequate revenue diversification and business stability despite more vulnerable operating conditions

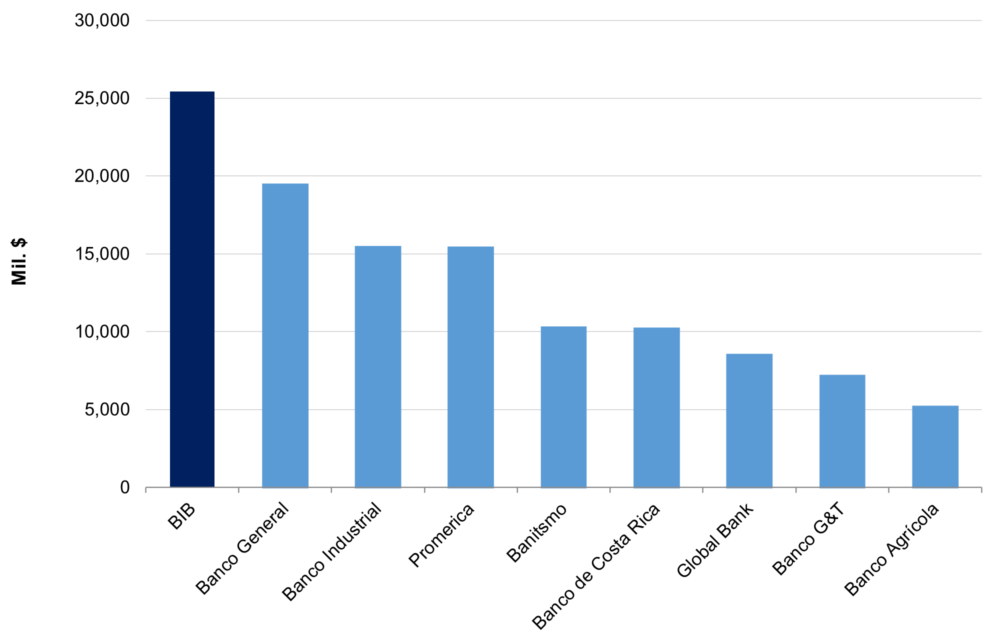
Despite the bleak market and economic conditions because of the turmoil caused by COVID-19, we expect BIB's sound market share, ample revenue diversification, and historically stable operating revenue to support our overall business position assessment under current circumstances.

BIB maintains its leading position in Central America, as well as its solid business diversification by geography, segment, and client. The bank has regional market shares of 9.6% in total assets, 10.4% in loans, and 10% in deposits, and is one of the five largest banks in each country it operates in as June 2020. This has resulted in historical revenue stability, with a total operating revenues compound annual growth rate of 6.3% in the last three fiscal years. Although we expect operating revenue growth rate to contract this year, we believe BIB's sticky customer base, development of digital channels and large business lines should help the bank to surpass the regional economic contraction, and to generate positive bottom-line results during 2020 and 2021.

Finally, we believe BIB benefits from a strong management team that has ample experience within the Central American banking industry, and has been very successful with the group's business growth strategy. The latter has enhanced its regional presence and helped it overcome adverse economic conditions in the past. Overall, we believe BIB has a more advantageous position compared to smaller regional peers.

Chart 1

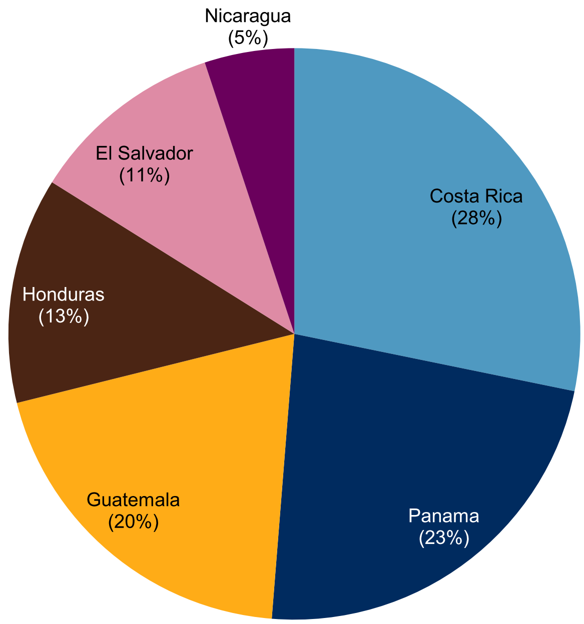
Assets Comparison
Data as of June 2020



Source: Banks' Financial Statements

Chart 2

Loan Breakdown By Country



Source: BIB's Financial Statements

Table 2

BAC International Bank Inc.--Business Position

	'--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Commercial & retail banking/total revenues from business line	89.9	92.8	89.6	91.8	92.4
Total revenues from business line (currency in millions)	1,044.9	2,135.6	2,082.6	1,907.0	1,755.3
Trading and sales income/total revenues from business line	8.1	4.6	7.9	6.2	6.4
Other revenues/total revenues from business line	2.0	2.6	2.5	2.0	1.1
Investment banking/total revenues from business line	8.1	4.6	7.9	6.2	6.4
Return on average common equity	13.8	14.6	15.2	15.0	15.0

*Data as of June 30.

Capital and earnings: Average RAC ratio of 6.65% over the next 18 to 24 months

We expect lower business volumes, mainly reflected in a decrease of fees, and asset quality deterioration to drag down BIB's profitability. Additionally, the bank distributed dividends to its ultimate parent in the second quarter of 2020. However, current capitalization levels include the Tier 1 hybrid instruments issued in May 2020 that along with the healthy nonperforming assets (NPAs) reserve coverage ratios, reflect the bank's capacity to withstand COVID-19's global disruption without affecting our overall capital and earnings assessment, at least for the next 12 months.

Our 6.65% forecasted RAC ratio considers the following assumptions:

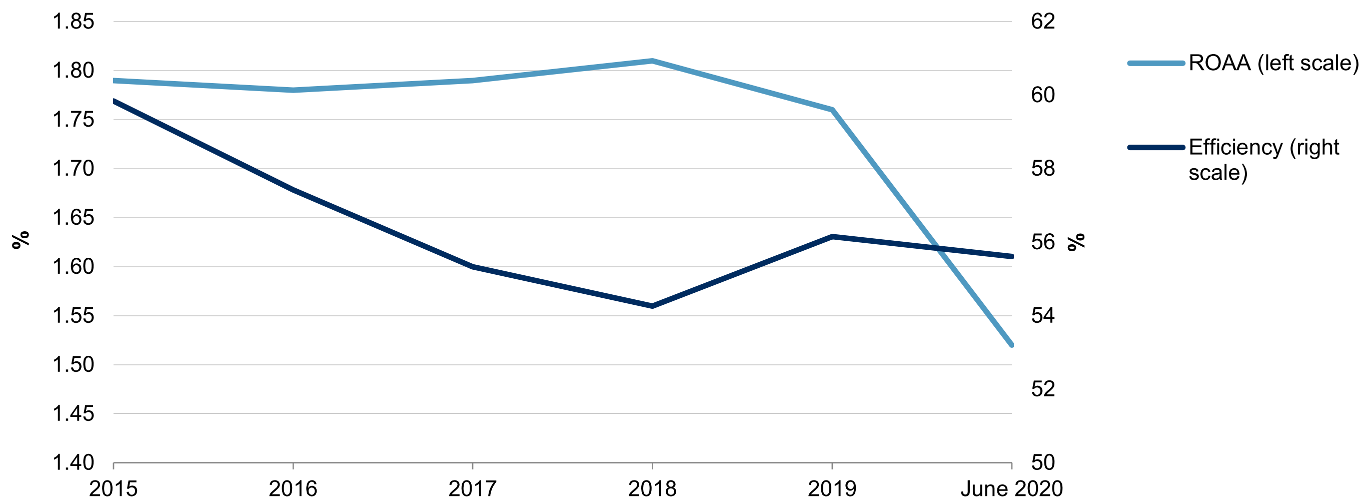
- Central American economies to contract as follows during 2020: Costa Rica (3.6%); Guatemala (2.0%); Honduras (2.5%); El Salvador (7.5%); and Panamá (3%).
- Flat loan portfolio growth for 2020 and modest growth for 2021;
- Lower net interest margins due to a change in portfolio mix as consumer-lending demand remains low. Also, because we expect the highly competitive environment along with higher economic risks in the region will continue pressuring lending prices and funding costs.
- Lower profitability levels, between 0.9% and 1.2%, resulting from higher new loan loss provisions and lower business volume.
- Nonperforming assets (NPAs) and credit losses above the historical average due to the economic lockdown and regional GDP contraction, but still manageable and fully covered by reserves.

We continue to see a high quality of capital. Although we now include the Tier 1 perpetual subordinated bonds under BIB's capital structure, it represents less than 20% of the total adjusted capital. The rest continue to consist mainly of paid-in capital and retained earnings. Most importantly, we factor the sound and resilient quality of earnings that provides sufficient financial flexibility to pass our sovereign stress test for its 28% exposure in Costa Rica.

Moreover, the bank's adequate cost-income ratio supports its quality of earnings. This ratio was 55.61% as of June 2020, somewhat improved from previous years reflecting the cut on costs and digital transformation. Furthermore, net interest income accounts for about 63% of total revenues, fees for 27%, and trading for 8%. We expect this mix to remain the same over the next two years.

Chart 3

BIB's Profitability Metrics



ROAA--Return on average assets. Source: S&P Global Ratings

Table 3

BAC International Bank Inc.--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	12.2	11.5	11.8	11.8	11.0
S&P Global Ratings' RAC ratio before diversification	N/A	6.7	6.4	6.5	6.2
S&P Global Ratings' RAC ratio after diversification	N/A	5.7	5.4	5.5	5.3
Adjusted common equity/total adjusted capital	80.2	100.0	100.0	100.0	100.0
Net interest income/operating revenues	63.1	60.6	58.5	60.0	60.2
Fee income/operating revenues	26.8	32.2	31.2	31.5	31.2
Market-sensitive income/operating revenues	8.1	4.6	8.0	6.2	6.4
Cost to income ratio	55.6	56.1	54.3	55.3	57.4
Preprovision operating income/average assets	3.8	4.0	4.2	4.1	3.9
Core earnings/average managed assets	1.5	1.8	1.8	1.8	1.9

*Data as of June 30. N/A--Not applicable.

Risk position: Asset quality and credit losses at manageable levels in spite of economic contraction

Central America's economic slowdown due to the COVID-19 pandemic could widen BIB's credit losses. However, we believe historically prudent underwriting standards and the highly diversified loan portfolio by country, segment, and client will support asset quality and our overall risk position assessment.

Its loan portfolio as of June 2020 consisted of 46% in the commercial segment, 20% in residential commercial mortgage loans, and 34% in consumer loans. We note that sectors highly vulnerable to the impact of the COVID-19 pandemic such as tourism, restaurants, entertainment, construction, and transportation, among others, represent less than 5% of the bank's total consolidated loan portfolio.

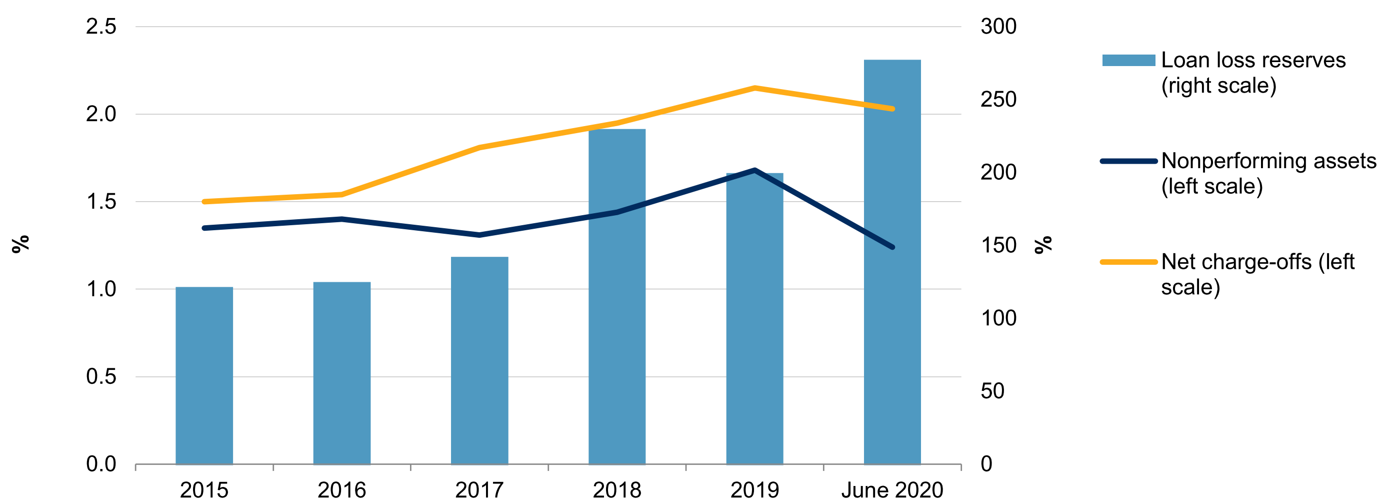
Moreover, in terms of single exposures, BIB's top 20 largest loans represented less than 10% of its total loan portfolio and 50% of its total adjusted capital. The latter reflects the bank's large focus on retail in its credit operations, keeping its loan portfolio relatively pulverized.

Asset quality has remained stable and healthy because of the bank's adequate origination policies and expansion strategy in segments where it's historically operated. NPAs and credit losses were 1.24% and 2.03%, respectively, as of June 30, 2020. On a consolidated basis, BIB still has manageable asset quality metrics and we expect that to continue in the next 12 months, despite the expected deterioration during 2020-2021 that could double the NPAs and charge-offs amount.

BIB participated in the moratorium programs according to each country's policies and regulatory frameworks. Reliefs on a case-by-case basis represented about 37% of the total commercial portfolio as of June 2020. Reliefs in the SME and consumer portfolios reached a peak at 60% due to an automatic approach, but have been decreasing over the past months to about 13.5% as of September 2020. We expect BIB to continue supporting clients in need of additional restructures and to continue generating new loan loss reserves in order to maintain healthy reserve coverage for potential credit losses after this period.

Chart 4

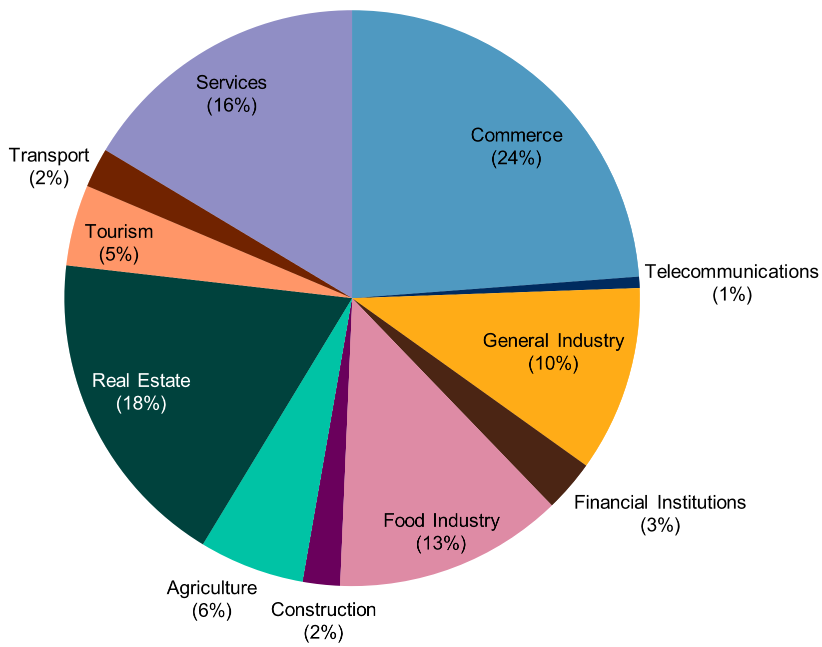
BIB's Asset Quality



Source: S&P Global Ratings

Chart 5

Commercial Loans By Economic Sector



Source: BIB's Financial Statements

Table 4

BAC International Bank Inc.--Risk Position

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	0.1	3.7	4.6	8.1	9.2
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	16.0	18.2	18.8	16.5
Total managed assets/adjusted common equity (x)	12.1	9.7	9.8	9.8	10.1
New loan loss provisions/average customer loans	2.4	2.3	2.4	2.1	1.9
Net charge-offs/average customer loans	2.0	2.2	2.0	1.8	1.5
Gross nonperforming assets/customer loans + other real estate owned	1.2	1.7	1.4	1.3	1.4
Loan loss reserves/gross nonperforming assets	276.6	198.9	229.2	141.4	124.1

*Data as of June 30. N/A--Not applicable.

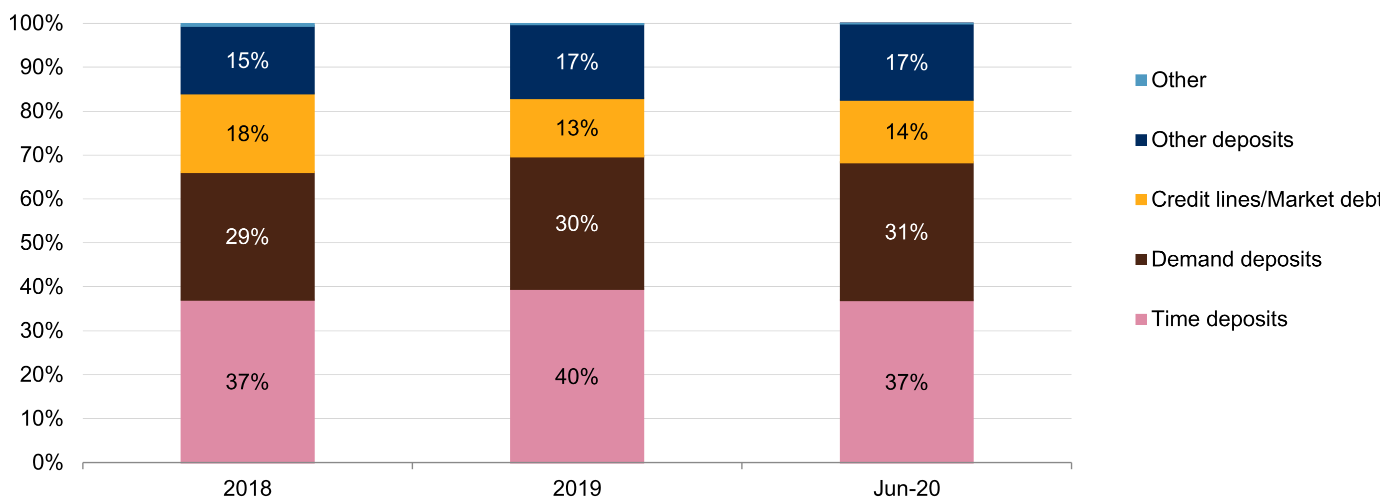
Funding and liquidity: Highly stable funding base that provides financial flexibility under stressful conditions

Key factors to consider under tightening financing conditions and a stalled economy are liquidity needs and funding flexibility. We believe BIB enjoys a favorable position with its large and highly pulverized deposit base. The bank also has maintained very manageable short-term wholesale obligations given that it funds most of its operations with customer deposits. As of June 30, core customer deposits had increased 9.7% from 2019 year-end figures. This reflects BIB's solid brand recognition and reputation in Central America, which provides additional strength and financial flexibility under the fly-to-quality conditions. In this sense, despite the adverse environment, we expect BIB to maintain its solid deposit base, manageable liquidity needs, and satisfactory financial flexibility for 2020.

In terms of liquidity, BIB's liquidity levels are more than enough to cover its operations. As of June 2020, its liquidity ratio was 6.2x with a three-year average of 7.7x. Its liquidity coverage ratio is significantly higher than those of other banking systems in Central America and banks across Latin America. However, we believe this is a prudent approach, mainly because some of its security holdings are instruments that trade in the local and undeveloped capital market, which lacks a deep and developed secondary market that could provide liquidity under adverse conditions.

Chart 6

BIB's Funding Mix



Source: S&P Global Ratings.

Table 5

BAC International Bank Inc.--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	87.8	86.5	81.5	80.4	77.8
Customer loans (net)/customer deposits	86.2	94.6	99.8	101.7	106.7
Long-term funding ratio	95.7	97.2	97.0	97.0	96.8
Stable funding ratio	124.1	117.5	119.1	117.9	115.1
Short-term wholesale funding/funding base	4.9	3.1	3.3	3.3	3.5
Broad liquid assets/short-term wholesale funding (x)	6.2	8.3	7.6	7.3	6.3
Short-term wholesale funding/total wholesale funding	33.4	23.0	18.0	17.0	15.9

*Data as of June 30.

Support: Core subsidiary for parent

We continue to view BIB as a core entity for BdeB. Among other things, BIB operates in the same business lines as its parent and is closely linked to BdeB's reputation and risk management. BIB has kept its performance in line with the group's expectations. As June 2020, BIB accounted for 42% of BdeB's total reported equity, 44% of total assets, and 57% of total net income. We believe that any potential financial stress at the parent level would likely affect BIB's stand-alone credit profile (SACP). The relatively weaker parent could potentially divert assets from the subsidiary or burden it with liabilities during financial stress that could result in much less flexibility for BIB's debt and capital raising. In that sense, the ratings on BdeB will continue to limit the ratings on BIB.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	6	**7**	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	**bb+**	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of November 4, 2020)*	
BAC International Bank Inc.	
Issuer Credit Rating	BB+/Stable/B
Issuer Credit Ratings History	
12-Dec-2017	BB+/Stable/B
28-Jul-2016	BBB-/Negative/A-3
26-Feb-2016	BBB-/Watch Neg/A-3
17-Feb-2016	BBB-/Negative/A-3
Sovereign Rating	
Panama	BBB+/Negative/A-2
Related Entities	
Banco de Bogota S.A. y Subsidiarias	
Issuer Credit Rating	BB+/Stable/B
Senior Unsecured	BB+
Multibank Inc. y Subsidiarias	
Issuer Credit Rating	BB+/Stable/B
Senior Unsecured	BB+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.