



RATING ACTION COMMENTARY

Fitch Places BAC International Bank's Ratings on Negative Watch; Subs' Ratings Unchanged

Fri 24 Sep, 2021 - 17:11 ET

Fitch Ratings - Monterrey - 24 Sep 2021: Fitch Ratings has placed BAC International Bank, Inc.'s (BIB) Long Term (LT) Issuer Default Rating (IDR) of 'BB+' and LT National Scale Rating of 'AA(pan)' on Rating Watch Negative. These actions follow the Sept. 15, 2021 announcement by BIB's ultimate parent, Grupo Aval Acciones y Valores S.A.'s (Aval), that it plans to deconsolidate Leasing Bogota S.A. Panama (Leasing BP, BIB's full owner) from Banco de Bogota S.A. (Banco de Bogota).

Fitch expects to resolve the Rating Watch upon closing of the transaction, which could take more than six months. The transaction is dependent on regulatory approval and expected to be completed during 1Q2022.

The ratings for Banco de Bogota, Aval and Multibank, Inc (Multibank) are unaffected by the announcement. Fitch expects Banco de Bogota's financial ratios to remain commensurate with its current rating even taking into consideration potential changes, especially in the bank's capitalization levels after BAC's deconsolidation. Potential financial ratios variations will be monitored by Fitch and could take several months to become clear. Aval's ratings are driven by the business and financial profile of its main operating subsidiary, Banco de Bogota. Fitch's assessment of the potential support Multibank's ratings would receive from

its parent, if required, remains unchanged by this transaction. However, if there is eventually a material change in Fitch's assessment of the capital adequacy and/or double leverage of these entities during or after the completion of the corporate reorganization, this could potentially trigger a negative rating action, although this is not the baseline scenario at present.

KEY RATING DRIVERS

According to Aval's statement, Banco de Bogota intends to separate 75% of its shares in Leasing BP in favor of its own shareholders, including Aval. The Rating Watch reflects the possibility that Fitch's assessment of Banco de Bogota's (BB+/Stable) propensity to provide support to BIB could be lower, after the transaction is completed. If Fitch's support assessment results in a downward differentiation between BIB's IDR and Banco de Bogota's IDR, BIB's IDRs and National ratings would be based on its standalone profile, reflected in its Viability Rating (VR) of 'bb'. Therefore, any potential downgrade of BIB's LT IDR would be limited to a one-notch movement at its current VR level. On the other hand, if Fitch concludes that the potential support remains unchanged, BIB's IDR would be affirmed at its current level.

Currently BIB's ratings are equalized with those of Banco de Bogota, reflecting Fitch's assessment of the potential support they would receive from their parent if required. Fitch also placed BIB's junior subordinated perpetual debt issuance's national LT rating on Negative Watch, mirroring the same action on the issuer's National LT rating. BIB's Short-Term (ST) IDR and ST National Scale rating were affirmed at 'B' and 'F1+(pan)', respectively. Fitch affirmed BIB's Support Ratings (SR) at '3', reflecting a moderate probability of support from its shareholder, given its rating, and Fitch's assessment of moderate ability and propensity to provide support to BIB if required.

Fitch also affirmed Banco BAC San Jose, S.A.'s (BAC San Jose) LT Foreign Currency (FC) and LT Local Currency (LC) IDRs at 'B+' and 'BB-', respectively and its ST FC IDR and ST LC IDR at 'B'. BAC San Jose's IDR will remain at its current levels, despite this corporate event, as Fitch's support assessment, reflected in BAC San Jose's SR of '4', will continue to be limited by the country risk. The Outlook for BAC San Jose's LT IDRs is Negative in line with the Negative Outlook on Costa Rica's sovereign rating. BAC San Jose's national ratings, including its debt issuances national ratings, are not affected by this event.

The national ratings of the rest of BAC Credomatic's subsidiaries in Central America (Banco de America Central, S.A. from El Salvador, Inversiones Financieras de America Central S.A., Banco de America Central, S.A. from Guatemala, BAC Bank, Inc., Credomatic de Guatemala,

S.A., Financiera de Capitales, S.A. and Banco de America Central Honduras, S.A.), including its debt issuances national ratings, are not affected by this corporate event.

RATING SENSITIVITIES

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

--BIB's IDR and national ratings may be downgraded after the transaction is completed in case of a reduction in Fitch's assessment of Banco de Bogota's propensity to support its subsidiary. Any potential downgrade would be limited to a one-notch movement, given BIB's current VR of 'bb'.

--Before the transaction is completed any negative action on Banco de Bogota's IDRs would also lead to a similar action on BIB's IDRs; BIB's IDR and SR could also be downgraded if Fitch's assessment of its parent's willingness to support its subsidiary is reduced;

--BIB's subordinated perpetual bonds' National Rating would be downgraded in case of negative actions over BIB's National Ratings, as the bonds' ratings will maintain its four-notch difference respect to the issuer's National Rating;

--Negative movements in Costa Rica's sovereign ratings and Country Ceiling would lead to similar actions on BAC San Jose's IDRs and SR;

--Any perception by Fitch of significantly reduced propensity from Banco de Bogota may trigger a downgrade of BAC San Jose's IDRs and SR. A multi-notch downgrade of Banco de Bogota's IDRs would also cause a downgrade of BAC San Jose's IDRs.

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

--Positive rating actions on BIB's IDR, National Ratings and SR are unlikely at present due to the Rating Watch Negative;

--BIB's perpetual subordinated bonds' National Rating would be upgraded in case of positive actions on BIB's National Ratings as the bonds' ratings will maintain its four-notch difference with respect to the issuer's National Rating;

--Positive actions in the BAC San Jose's ratings are unlikely in the foreseeable future. The Outlook would be revised to Stable if Fitch's assessments of the operating environment and the Costa Rican sovereign rating's Outlook are revised to Stable.

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

BIB's ratings are equalized with those of Banco de Bogota (BB+/Stable), reflecting Fitch's assessment of the potential support they would receive from their parent if required

	Support	3	Affirmed	3
● junior subordinated	Natl LT	A-(pan) Rating Watch Negative	Rating Watch On	A-(pan)
Banco BAC San Jose, S.A.	LT IDR	B+ Rating Outlook Negative	Affirmed	B+ Rating Outlook Negative
	ST IDR	B	Affirmed	B
	LC LT	BB- Rating Outlook Negative	Affirmed	BB- Rating

IDR

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Outlook

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APPLICABLE CRITERIA

[Metodología de Calificación de Bancos \(pub. 18 Sep 2019\)](#)

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

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

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

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BAC International Bank, Inc.

EU Endorsed, UK Endorsed

Banco BAC San Jose, S.A.

EU Endorsed, UK Endorsed

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