Research Update:

BAC International Bank Inc. Upgraded To 'BBB-/A-3' From 'BB+/B' Following Spin-Off From Banco de Bogota, Outlook Stable

April 8, 2022

PRIMARY CREDIT ANALYST

Eric Ramos
Mexico City
+ 52 55 5081 4482
eric.ramos
@spglobal.com

SECONDARY CONTACT

Jesus Sotomayor
Mexico City
+ 520445513524919
jesus.sotomayor
@spglobal.com

Overview

- On March 31, 2022, BAC International Bank Inc. (BIB) announced that its 75% spin-off from Banco de Bogota's (BBogota; BB+/Stable/B)ownership was completed after regulatory approvals and legal procedures were finalized.
- The bank's parent company, BAC Holding International Corp. (BHI, formerly Leasing Bogotá Panamá S.A.), is now listed on the Colombian and Panamanian stock exchanges and is held by Grupo Aval's ultimate shareholders. BBogota owns the remaining 25% equity.
- BIB is no longer a subsidiary of BBogota, so our ratings on BIB will now reflect the level of its stand-alone credit profile (SACP), which is 'bbb-'.
- As a result, S&P Global Ratings raised its long- and short-term issuer credit ratings on the bank to 'BBB-' from 'BB+' and 'A-3' from 'B', respectively, and removed the ratings from CreditWatch with positive implications.
- The stable outlook for the next 12-24 months reflects our expectation that BIB will maintain its business resilience supported by its solid market access and business diversification across Central America. The outlook also incorporates that the bank will keep its manageable asset quality metrics and stable capital ratios.

Rating Action

On April 8, 2022, S&P Global Ratings raised its long-term short-term issuer credit ratings on BIB to 'BBB-' from 'BB+' and 'A-3' from 'B', respectively, and removed the ratings from CreditWatch positive. The outlook is stable.

Rationale

The rating action follows the completion of the spin-off of BHI from BBogota. The transaction was completed after local and external regulators granted approvals. As a result, we raised our ratings on BIB to the level of its 'bbb-' SACP because we no longer consider BIB as a subsidiary of BBogota. Therefore, we removed our previous rating cap at the level of the ratings on BBogota.

The transaction's main objectives were to simplify the bank's corporate structure to allow for more efficient use of capital and to optimize decision-making processes throughout Central America. In addition, the new corporate structure should allow BIB to improve its strategic position to capture future growth and to grow its market position across the different countries where it operates.

Business and geographic diversification will continue providing cushion against adverse economic and political conditions in 2022-2023. In our view, BIB's highly diversified business profile and its position as the largest financial conglomerate in Central America on a consolidated basis (about 11.1% and 10.8% of market share of loans and deposits, respectively, as of December 2021), will continue providing business stability. While the pandemic-related economic shock moderately hurt the bank's operating revenues, in 2021, BIB had a relatively strong recovery, reflected in an increase of about 4% in operating revenues and 42.3% in net income from 2020 results. In 2022, we expect operating revenues to grow about 5.6% and net income to be about 3.5% higher than 2021 levels. Finally, we project lending to increase about 9% in 2022-2023, mainly in the corporate lending and mortgage sectors. Management's experience operating in the Central American banking industry allowed the bank to expand its regional presence and helped overcome economic woes in the past. Overall, we believe BIB is better positioned than smaller regional peers.

Capitalization remains stable amid rising profitability for the next 12-24 months. We forecast the risk-adjusted capital (RAC) ratio for 2022-2023 to average 6.2%. BIB's high earnings quality based on stable income sources--such as interest and fee income that account for about 88% of total operating revenues--relatively modest growth prospects, and healthy reserve coverage ratios will prevent its capital and earnings from weakening for at least the next two years. In this context, net income jumped about 42.3% in 2021, reflecting higher business volumes and lower cost of risk as credit conditions improved for most of BIB's customers. Bottom-line results also benefited from solid efficiency--about 56% of operating revenue--reflecting BIB's optimization of its branch network amid its expanding digital platform. Finally, for 2022-2023, we expect profitability to return to pre-pandemic levels, with a projected return on adjusted assets of about 1.7%.

Manageable asset quality and credit losses despite worldwide and regional adverse economic conditions. In our view, BIB will maintain manageable asset quality metrics in the next few years due to its adequate underwriting standards and conservative risk appetite, despite the region's weak economy. The bank's COVID-19 borrower relief program covered 51% of its total loans at its peak in June 2020. Nevertheless, as of December 2021, the vast majority of borrowers under this program have resumed payments and just 1% of the total loan book remains under forbearance programs. As of December 2021, the bank's nonperforming assets (NPAs) were 1.4%, with reserve coverage of 242% and net charge-offs of about 2.0% of the total portfolio. We expect NPAs to slightly rise to about 1.7%, fully covered by reserves. Finally, the bank's well-diversified risk portfolio in terms of country, economic sector, and client could help limit future losses and help it navigate difficult conditions this year.

A stable funding base and healthy liquidity have provided financial flexibility under stressful conditions. BIB's funding structure remains resilient, supported by a large customer deposit base that makes up about 92% of the total funding base as of December 2021. Additionally, although access to funding could narrow and liquidity needs could increase during adverse economic and market conditions, we expect BIB's deposit base to remain stable, as client loyalty is bolstered under the "flight-to-quality" conditions. We expect our stable funding ratio to remain above 100% in 2022 because we don't forecast significant changes in the funding mix.

BIB's liquidity is more than sufficient to cover its operations. As of December 2021, its liquidity ratio was 6.5x with a three-year average of 8.1x. Its liquidity coverage ratio is significantly higher than the average of banking systems in Central America and banks across Latin America. However, we think this is a prudent approach, mainly because some of BIB's security holdings are instruments that trade in the local capital market, which lacks a deep and developed secondary market that could otherwise provide liquidity under adverse conditions.

Outlook

The stable outlook for the next 12-24 months primarily reflects our expectation that BIB will maintain its strong presence and leading position in Central America, as well as wide diversification by country, all of which will continue to support its business stability. Additionally, the outlook incorporates that the bank will keep manageable asset quality metrics, stable capitalization, a solid funding base, and a healthy liquidity position.

Downside scenario

A downgrade of the bank in the next two years would result from a worsening of the bank's credit fundamentals, driven by an notable deterioration of its capital metrics reflected in a projected RAC ratio below 5%, and/or asset quality beyond our base-case scenario, leading us to revise its SACP downward.

Additionally, we could lower the ratings on the bank in the next two years if the economic risk of the different banking systems in which BIB operates worsens, leading to a lower anchor level, which is the starting point of bank ratings.

Upside scenario

We could upgrade BIB in the next 24 months if it generates enough internal capital to consistently keep our projected RAC ratio above 7% while asset quality metrics remain healthy.

Ratings Score Snapshot

BAC International Bank Inc.	To	From
Issuer Credit Rating	BBB-/Stable/A-3	BB+/Watch Pos/B
SACP	bbb-	bbb-
Anchor	bb+	bb+
Business position	Strong (+1)	Strong (+1)
Capital and earnings	Moderate (0)	Moderate (0)

BAC International Bank Inc.	To	From
Risk position	Adequate (0)	Adequate (0)
Funding	Adequate (0)	Adequate (0)
Liquidity	Adequate (0)	Adequate (0)
CRA adjustment	N/A	N/A
Support		
ALAC support	0	0
GRE support	0	0
Group support	0	(-1)
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile. CRA--Comparable ratings analysis. N/A--Not applicable.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
BAC International Bank Inc.		
Issuer Credit Rating	BBB-/Stable/A-3	BB+/Watch Pos/B

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.