

# BAC International Bank, Inc.

## Update

### Key Rating Drivers

**Standalone Profile:** BAC International Bank, Inc.'s (BIB) Issuer Default Rating (IDR) and National Ratings are driven by its Viability Rating (VR), which is constrained by the operating environment (OE) of Central American countries in which it has a presence. BIB's blended OE is rated 'bb-' with a stable trend. In Fitch Ratings' opinion, the persistent yet lessening risks from the economic environments in the region are balanced by BIB's resilient and consistent business and financial profile.

**Good Business Profile:** BIB's VR also considers its strong business profile as the largest financial group in Central America with significant market shares and systemic importance in each country. It has highly integrated operations, along with a strong focus on and leadership in some lending segments, in addition to a well-developed means of payments business. The group serves the corporate and retail sectors with a diversified portfolio that generates a relatively stable income. The group's four-year average total operating income was USD2,101 million.

**Sound Asset Quality:** Despite a challenging OE, BIB's asset quality has improved in 1H22, reflecting an effective risk framework. As of June 2022, its non-performing loans (NPLs) accounted for 1.2% of gross loans, a minimum in the fiscal years reviewed (average of fiscal years 2018-2021: 1.5%), while the reserves coverage of NPLs stood at a maximum of 298%. Fitch believes BIB will keep its credit quality metrics under control in 2H22.

**Increasing Profitability:** BIB's profitability metrics have strengthened due to its well-positioned regional franchise, which has allowed the group to take advantage of the business expansion opportunities during 1H22. Moreover, a reversion of the decreasing trend of the net interest margin, relatively lower loan impairment charges, an increasing participation of non-interest income and controls on operational efficiency have also boosted profitability. The operating profit to risk weighted assets (RWA) ratio increased to 3.5%, a maximum in the fiscal years reviewed (average of fiscal years 2018-2021: 2.7%).

**Capitalization:** BIB's tightened core capital position remains, but it is partly supported by its subordinated perpetual bond program issue, which is categorized as AT1 in regulatory capitalization metrics. Its Common Equity Tier 1 (CET1) ratio stood stable during 1H22 (June 2022: 9.1%). BIB's Tier 1 capital still stands below 12%, whereas the regulatory capital adequacy ratio was 12.3%.

**Funding Profile:** BIB's funding structure benefits from a robust and increasing deposit base, due to the group's solid franchise in the countries where it operates. All the banking subsidiaries have a significant share of deposits in the corresponding countries and also have a diversified non-deposit funding profile. BIB's loan to deposit ratio continued along its increasing trend, and stood at 88% as of June 2022.

### Rating Sensitivities

#### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A downgrade of BIB's IDR and National Ratings would reflect the same action on BIB's VR. Any IDR downgrade would be limited to a one-notch movement, to BIB's current Shareholder Support Rating (SSR) of 'bb-'.
- A deterioration in Fitch's assessment of the OE in the Central American countries would put additional pressure on BIB's VR.

### Ratings

#### Foreign Currency

Long-Term IDR	BB
Short-Term IDR	B

#### Local Currency

Viability Rating	bb
Shareholder Support Rating	bb-

#### National

Long Term	AA-(pan)
Short Term	F1+(pan)

#### Sovereign Risk

Long-Term Foreign-Currency IDR	BBB-
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#### Outlooks

Long-Term Foreign-Currency IDR	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable

### Applicable Criteria

[Bank Rating Criteria \(September 2022\)](#)

[National Scale Rating Criteria \(December 2020\)](#)

### Related Research

[BAC International Bank - Update \(April 2022\)](#)

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- BIB's VR would also be pressured in case of sustained reductions of its business operations that lead to a significant deterioration of its loan book, along with continuous reductions on its profitability and capitalization levels, particularly in the case of operating profit to RWA and CET1 metrics consistently below 1.5% and 9%, respectively;
- A downgrade of BIB's SSR could result from a downgrade of Banco de Bogota's IDR or from a reduced ability or propensity of Banco de Bogota to support BIB.
- BIB's bond, commercial paper (CP) and subordinated perpetual bond National Ratings, would be downgraded in the case of negative actions on BIB's National Ratings, as the bond and CP ratings will remain in line with BIB's National Rating, while the subordinated perpetual bond ratings will maintain a four-notch difference with respect to the issuer's National Rating.

#### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- BIB's IDR and National Ratings would be upgraded if its VR is upgraded.
- Positive rating action in BIB's VR would reflect relevant improvement in Fitch's assessment of BIB's OE, maintaining good asset quality, constant profit generation and stable levels of capital and liquidity.
- Under the current OE, upside potential in BIB's VR would come from maintaining its well-positioned business and sound loan portfolio, while exhibiting sustained improvements in profitability and capitalization levels, particularly in case of operating profit to RWA and CET1 metrics consistently above 3% and 12%, respectively.
- Positive rating actions on BIB's SSR could be driven by positive rating actions on Banco de Bogota's IDR or a relevant improvement in Fitch's assessment of Banco de Bogota's propensity to support BIB.
- BIB's bond, CP and perpetual subordinated bond National Ratings would be upgraded in the case of positive actions on BIB's National Ratings, as the bond and CP ratings will remain in line with BIB's National Rating, while the subordinated perpetual bond ratings will maintain a four-notch difference with respect to the issuer's National Rating.

### VR — Adjustments to Key Rating Drivers

Fitch has assigned a Capitalization & Leverage score of 'bb-', which is above the 'b' category implied score, due to the following adjustment reason: regulatory capitalization (positive).

#### Debt Rating Classes

Rating Level	Rating
Junior Subordinated: National Long Term	BBB+(pan)
Senior Unsecured: National Long Term	AA-(pan)
Senior Unsecured: National Short Term	F1+(pan)

Source: Fitch Ratings.

BIB's long-term (LT) bond and short-term (ST) CP National Ratings of 'AA-(pan)' and 'F1+(pan)', respectively, are at the same level as the issuer's LT and ST National Ratings. Fitch views the likelihood of default of these senior unsecured debt programs as the same as BIB because they do not have specific guarantees.

BIB's junior subordinated perpetual debt National LT Rating of 'BBB+(pan)' is four notches below its anchor rating, BIB's National LT Rating. That is a two-notch downgrade for loss severity due to the bonds' deep subordination, and an additional two notches for incremental non-performance risk, given the bonds' non-cumulative coupon omission capability.

## Summary Financials and Key Ratios

(USD Mil., Year End Dec. 31)	6/30/22 Six Months – Interim Reviewed – Unqualified	2021 Audited – Unqualified	2020 Audited – Report Not Seen	2019 Audited – Unqualified	2018 Audited – Unqualified
<b>Summary Income Statement</b>					
Net Interest and Dividend Income	697.8	1,255.9	1,254.8	1,293.9	1,217.1
Net Fees and Commissions	330.8	598.6	566.4	687.9	648.2
Other Operating Income	183.0	274.3	249.7	147.8	210.4
Total Operating Income	1,211.6	2,128.8	2,070.9	2,129.6	2,075.7
Operating Costs	641.8	1,202.3	1,164.8	1,199.1	1,128.1
Pre-Impairment Operating Profit	569.8	926.5	906.1	930.5	947.6
Loan and Other Impairment Charges	152.4	348.6	465.6	382.9	376.6
Operating Profit	417.4	577.9	440.5	547.6	571.0
Other Non-Operating Items (Net)	N.A.	8.3	4.3	6.9	-0.5
Tax	110.6	138.6	130.2	144.0	165.2
Net Income	306.8	447.6	314.6	410.5	405.3
Other Comprehensive Income	(224.2)	(36.2)	(106.4)	108.9	(113.6)
Fitch Comprehensive Income	82.6	411.4	208.2	519.4	291.7
<b>Summary Balance Sheet</b>					
<b>Assets</b>					
Gross Loans	19,590.8	18,665.6	17,174.6	16,736.4	16,142.8
- Of which Impaired	230.9	239.2	294.2	257.2	216.2
Loan Loss Allowances	687.2	647.1	669.7	511.3	483.8
Net Loan	18,903.6	18,018.5	16,504.9	16,225.1	15,659.0
Interbank	4,177.1	4,368.4	5,152.0	3,244.1	3,466.1
Derivatives	N.A.	N.A.	0.8	N.A.	0.5
Other Securities and Earning Assets	3,780.8	3,617.9	2,919.7	2,242.2	1,704.3
Total Earning Assets	26,861.5	26,004.8	24,577.4	21,711.4	20,829.9
Cash and Due from Banks	624.0	741.7	708.7	727.1	704.2
Other Assets	1,281.6	1,319.0	1,337.8	1,526.6	1,217.6
Total Assets	28,767.1	28,065.5	26,623.9	23,965.1	22,751.7
<b>Liabilities</b>					
Customer Deposits	22,248.6	21,897.4	20,310.7	17,149.2	15,686.9
Interbank and Other Short-Term Funding	222.1	38.9	25.9	297.1	340.8
Other Long-Term Funding	2,549.2	2,613.3	2,997.6	2,608.4	3,209.3
Trading Liabilities and Derivatives	N.A.	N.A.	N.A.	N.A.	1.8
Total Funding and Derivatives	25,019.9	24,549.6	23,334.2	20,054.7	19,238.8
Other Liabilities	919.1	770.6	780.5	989.2	821.1
Preference Shares and Hybrid Capital	N.A.	0.0	N.A.	N.A.	N.A.
Total Equity	2,828.1	2,745.3	2,509.2	2,921.2	2,691.8
Total Liabilities and Equity	28,767.1	28,065.5	26,623.9	23,965.1	22,751.7
Exchange Rate	USD1 = USD1	USD1 = USD1	USD1 = USD1	USD1 = USD1	USD1 = USD1

N. A. – Not available.

Source: Fitch Ratings, Fitch Solutions, BIB.

## Summary Financials and Key Ratios

(As of Dec. 31)	6/30/22	2021	2020	2019	2018
<b>Ratios (annualized as appropriate)</b>					
<b>Profitability</b>					
Operating Profit/Risk Weighted Assets	3.5	2.5	2.2	2.8	3.2
Net Interest Income/Average Earning Assets	5.3	5.0	5.4	6.1	6.0
Non-Interest Expense/Gross Revenue	53.0	56.5	56.3	56.3	54.4
Net Income/Average Equity	22.2	17.0	11.7	14.2	15.3
<b>Asset Quality</b>					
Impaired Loans Ratio	1.2	1.3	1.7	1.5	1.3
Growth in Gross Loans	5.0	8.7	2.6	3.7	4.6
Loan Loss Allowances/Impaired Loans	297.6	270.5	227.6	198.8	223.8
Loan Impairment Charges/Average Gross Loans	1.6	1.9	2.7	2.3	2.4
<b>Capitalization</b>					
Common Equity Tier 1 Ratio	9.1	9.1	9.1	11.5	11.8
Fully Loaded Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital Ratio	10.2	10.2	10.3	12.7	13.1
Tangible Common Equity/Tangible Assets	8.6	8.5	8.0	10.7	10.4
Basel Leverage Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Net Impaired Loans/Common Equity Tier 1	(20.9)	(19.5)	(20.2)	N.A.	N.A.
Net Impaired Loans/Fitch Core Capital	(18.8)	(17.4)	(17.8)	(10.1)	(11.5)
<b>Funding and Liquidity</b>					
Gross Loans/Customer Deposits	88.1	85.2	84.6	97.6	102.9
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Total Non-Equity Funding	88.9	89.2	87.0	85.5	81.6
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.	N.A.

N. A. – Not available.

Source: Fitch Ratings, Fitch Solutions, BIB.

## Environmental, Social and Governance Considerations

### Credit-Relevant ESG Derivation

BAC International Bank, Inc. has 5 ESG potential rating drivers

- ➡ BAC International Bank, Inc. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- ➡ Governance is minimally relevant to the rating and is not currently a driver.

	key driver	0	issues	5	
	driver	0	issues	4	
	potential driver	5	issues	3	
	not a rating driver	4	issues	2	
		5	issues	1	

### Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality

### E Scale

5
4
3
2
1

**How to Read This Page**  
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

**The Environmental (E), Social (S) and Governance (G) tables** break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

**The Credit-Relevant ESG Derivation table** shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

### Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile

### S Scale

5
4
3
2
1

**Classification** of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations' Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

**Sector references** in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

### Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)

### G Scale

5
4
3
2
1

### CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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 <https://www.fitchratings.com>.

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