MOODY'S INVESTORS SERVICE

CREDIT OPINION
31 March 2023

Update

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RATINGS

BAC International Bank, Inc

Domicile	PANAMA CITY, Panama
Long Term CRR	Baa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Ba1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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BAC International Bank, Inc

Update to credit analysis

Summary

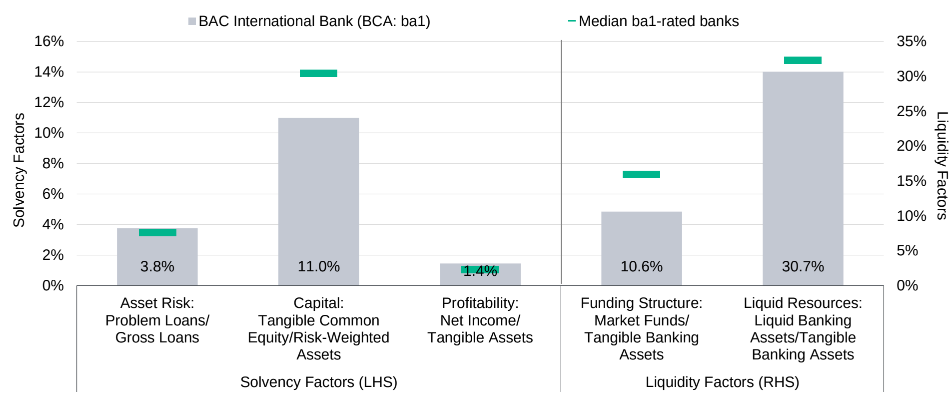
BAC International Bank, Inc's (BAC) Ba1 deposit rating incorporates the bank's standalone Baseline Credit Assessment (BCA) of ba1, and reflects its good track record supported by its disciplined risk structure, geographic and business diversification, strong access to core deposits and prudent liquidity management, which balance out the exposure to the relatively weak operating conditions in the countries where it operates. BAC benefits from solid and recurring earnings, supported by ample interest margins, which lead to good capital replenishment capacity. The rating also incorporates BAC's relatively sound level of loan delinquencies despite having a high share of its portfolio on the higher-risk retail segment.

BAC continues to be rated significantly above the sovereign rating of most of the countries in which it operates, reflecting its diversification and continued strong financial performance. Of the bank's loan portfolio, 57% is located in countries that are rated B or lower, such as Costa Rica (B2 stable), Honduras (B1 stable), El Salvador (Caa3 stable) and Nicaragua (B3 stable), with the remaining exposure in Panama (Baa2 negative) and Guatemala (Ba1 stable).

Exhibit 1

Rating Scorecard - Key financial ratios

BAC's Scorecard Ratios as of December 2022



For the problem loan and profitability ratios, we review the latest three year-end ratios, and the most recent intra-year ratio, where applicable, and base our starting point ratio on the weaker of the average of this period and the latest figure. For the capital ratio, we use the latest figure. For the funding structure and liquid asset ratios, we use the latest year-end figures.
Source: Moody's Financial Metrics

Credit strengths

» Robust profitability on the back of ample net interest margins (NIMs) and solid fee income

» Favorable funding profile based on a granular and wide deposit base with good liquidity buffers

» Improved capitalization, supported by stronger results and very low dividend payments in 2022

Credit challenges

» Potential deterioration in asset quality because of challenging macroeconomic conditions in Central America, tight financial conditions and inflationary pressures.

» Relatively weak operating conditions in most of the countries where the bank operates, as captured by the Weak+ weighted average Macro Profile, which in turn constrains the bank's ratings

Outlook

The outlook on BAC's ratings is stable because we expect the bank to maintain its fundamental strengths despite the challenging operating conditions.

Factors that could lead to an upgrade

BAC's BCA and ratings could be upgraded if there was a significant and sustained improvement in the operating conditions of the bank's main countries of operation, provided that the bank maintain its solid financial performance.

Factors that could lead to a downgrade

The bank's BCA could be downgraded if asset-quality pressures proved to be more significant and prolonged than expected, and resulted in a significant decline in the bank's profitability and capitalization metrics.

Key indicators

Exhibit 2

BAC International Bank, Inc (Consolidated Financials) [1]

	12-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (USD Million)	31,049.9	28,065.5	26,623.9	23,965.1	22,751.7	8.1[4]
Tangible Common Equity (USD Million)	2,765.6	2,287.7	2,065.2	2,467.4	2,318.3	4.5[4]
Problem Loans / Gross Loans (%)	3.1	4.0	4.2	3.4	2.7	3.5[5]
Tangible Common Equity / Risk Weighted Assets (%)	11.0	10.0	10.1	12.4	12.7	11.2[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	18.5	25.2	26.5	19.3	15.8	21.1[5]
Net Interest Margin (%)	5.2	4.8	5.1	5.8	5.7	5.3[5]
PPI / Average RWA (%)	4.2	4.3	4.6	5.0	5.3	4.7[6]
Net Income / Tangible Assets (%)	1.5	1.6	1.2	1.7	1.8	1.6[5]
Cost / Income Ratio (%)	57.2	56.2	56.1	56.2	54.3	56.0[5]
Market Funds / Tangible Banking Assets (%)	10.6	7.7	9.6	12.4	15.9	11.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	30.6	31.5	33.5	26.5	26.4	29.7[5]
Gross Loans / Due to Customers (%)	89.3	85.2	84.6	97.8	102.7	91.9[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

BAC International Bank, Inc (BAC) is the largest bank in Central America. It serves the retail and corporate segments in Costa Rica (28% of total loans), Panama (23%), Guatemala (19%), Honduras (14%), El Salvador (11%) and Nicaragua (5%). Retail banking represents 54% of its portfolio, with consumer loans accounting for 36% of gross loans and residential mortgages for 18% as of December 2022. Corporate exposures account for 46% of the total. BAC reported total assets of around $31.1 billion as of December 2022.

Recent developments

On 15 September 2021, Banco de Bogota S.A.(Banco de Bogota, Baa2/Baa2 stable, ba1)[1] and Grupo Aval Acciones y Valores S.A. (Grupo Aval, Ba2 negative) announced their plans to list BAC Holding International Corp. (BHI), formerly known as Leasing Bogotá Panamá S.A. and BAC's parent, via a spinoff transaction of 75% of Banco de Bogotá's ownership in BHI in favor of the ultimate shareholders of Banco de Bogotá and Grupo Aval, while Banco de Bogotá retained 25% ownership. The transaction was completed in March 2022 and did not imply any changes in control or ultimate beneficial ownership. At the end of the year, Banco de Bogotá reduced its ownership of BAC's parent company to 4.11%; by March 2023, Banco de Bogotá no longer owns any shares of BHI.

Despite the transaction, BAC's ratings remain adequately positioned at the current level, capturing the bank's consistent financial fundamentals, as reflected by its geographic and business diversification, continued strong earnings generation even at times of stress, steady access to core deposits and adequate liquidity management, factors that help compensate the relatively weak operating conditions in the countries where it operates. The spin-off has not led to significant changes in the bank's financial and business fundamentals. The bank has a well-established franchise as the largest bank in Central America, which we expect to continue to provide it with business opportunities and access to funding.

Detailed credit considerations

Prudent risk management, although pressured by slower economic growth and persistent inflationary strains

The bank has historically been able to maintain low delinquencies despite the challenging economic environment in some of the countries where it operates and its relatively high risk appetite given its retail focus (retail loans represented about 54% of the bank's loan book as of December 2022). At the same time, BAC's good asset-quality track record reflects management's deep knowledge of the bank's markets and the proactive treatment of problem loans. However, the tighter global financial conditions and scenario will strain its asset-quality metrics. We expect BAC to be able to cope with this pressure and the deterioration to be manageable.

Dynamic economic growth in Central American and the end of relief programs in 2022 supported the recovery of BAC's asset quality metrics. The consolidated problem loans, measured as loans classified as Stage 3 under IFRS, decreased to 3.1% as of December 2022 from 4.0% in December 2021. The trend has been similar among BAC's main lines of business, with Stage 3 loans decreasing to 2.5% from 2.7% of gross loans in the commercial portfolio between December 2021 and December 2022, and 3.1% from 5.2% in the consumer segment, while the metric for mortgages remained 4.5% over the period.

Altogether, 90-day past due loans remained stable at 1.2% in 2022 compared to 1.3% in 2021, below from the 1.8% reported in 2020. Loan growth in 2022 accelerated to 12% in 2022 and it has been focused on the corporate portfolio, which generally entails a lower level of nonperforming loans, helping contain the deterioration in asset-risk metrics.

We expect asset quality to remain pressured by persistent high inflation, tighter financial conditions and slower growth, which will weigh on borrowers' repayment capacity. However, the bank is well positioned to mitigate asset quality deterioration considering its ample reserve buffers, with loan loss reserves representing 3.3% of total loans in December 2022, compared with a pre-pandemic level of 3.0% in 2019. These reserves represented 108% of Stage 3 loans and 273% of 90-day past due loans in 2022, which compares favorably with 89% and 200% in 2019, respectively.

Robust profitability on the back of ample margins and solid fee income

BAC's profitability is strong, benefiting from the bank's focus on credit cards and an array of other retail and corporate products that result in ample margins and robust fee income. Although lending margins in the commercial business are strained by increasing competition in the region, the bank is well positioned to face this risk, given the breadth of its customer base, continued innovation in payments technologies and funding access. Bottom-line profitability levels are above pre-pandemic levels, supported by its low funding costs, which support rising margins and lower loss provisioning levels. In 2022, BAC's net income slightly decreased to an annualized 1.5% of tangible assets from 1.6% in the same period a year earlier.

Loan loss provisions declined to 1.7% of gross loans, which was well below the 2.6% recorded in 2020 and even lower than the historical 2.2% in 2017-19. Still, provisions remained below that level mainly because of a shift toward less risky and lower yielding assets such as corporate loans and mortgages. Nonetheless, we expect credit costs to return progressively to pre-pandemic levels, as asset quality deteriorates moderately amid a more challenging macroeconomic outlook.

In the fiscal year that ended in December 2022, interest income increased 12% from the same period a year earlier and interest expense increased 2%, highlighting BAC's good funding costs and contained growth in expensive time deposits, while demand deposits and saving accounts grew faster in the same period. BAC's low cost of funding led to a solid 17% growth in net interest income, driving an improvement in the NIM to 5.2% in December 2022, higher than the 4.8% a year earlier and in line with the average for 2016-19. BAC sound profitability it's explained by its hability to maintain its good cost of funding, shifting away from expensive deposits and maintaining its low reliance on market funds, and repricing its loan portfolio in line with the higher interest rate environment in all Central American countries.

Moreover, fee income has grown a considerable 16% in the same period, after the sharp 18% contraction reported in 2020. Fee income contributed a solid 29% of the bank's net revenue.

BAC's operating expenses also increased by 13% in 2022, compared to the same period of 2021. The bank maintains strict cost controls and constantly seeks optimization of business processes to help improve operating efficiency and, ultimately, the bottom-line results.

Overall, we expect BAC's profitability to remain strong, supported by high interest rates in the region and continued solid fee income, which will offset a potential increase in provisions driven by the above-mentioned asset risks.

Improved capitalization, supported by stronger results and earnings retention in 2022

Our ba2 capital score reflects the bank's Moody's-defined Tangible Common Equity (TCE) to consolidated Risk Weighted Assets (RWAs) of 11% as of December 2022, compared with 10% a year earlier, captures our assessment of the bank's ability to access additional sources of capital and internally generate capital even during times of stress. Our capitalization ratio contemplates that over 50% of BAC's cash and dues from banks assets are in affiliate countries, which have a stricter regulatory treatment for RWAs under the Panamanian authority.

Although RWA grew 10% on account of a 12% expansion of the loan portfolio in 2022, the bank's TCE grew 21% in the same period because of low dividends paid during 2022 and a strong recovery in bottom-line results.

All of BAC's operating subsidiaries must comply with higher minimum total capital requirements than the 8% minimum applied to BAC according to Panamanian regulations.

Stable funding structure and good liquidity buffers

BAC continues to benefit from a sound funding profile, supported by its broad and steady base of customer deposits, consistent with its well-established banking franchise in the region, which significantly reduces refinancing and repricing risks. As a result, its reliance on market funds, which were 10.6% of tangible banking assets as of December 2022, will likely remain low. In 2020-22, the bank experienced an inflow of deposits, which funded 75% of the bank's assets as of December 2022, compared with an average of around 70% for 2017-19. Corporate clients accounted for 74% of deposits.

BAC's low funding cost has also been supported by a stable composition of its deposit base. While expensive time deposits grew 1.1% in 2022, cheaper demand deposits and savings accounts increased 8.0% and 13.3%, respectively, in the same period.

This strong funding profile, combined with adequate liquidity buffers, which account for almost a third of the balance sheet, further support BAC's financial flexibility. The bank's ample liquidity buffers reflect high liquidity reserve requirements in the countries where it operates, given the absence of a lender of last resort in some of its main markets. Liquid resources comprise cash, dues from banks, government debt, corporate debt and equity securities.

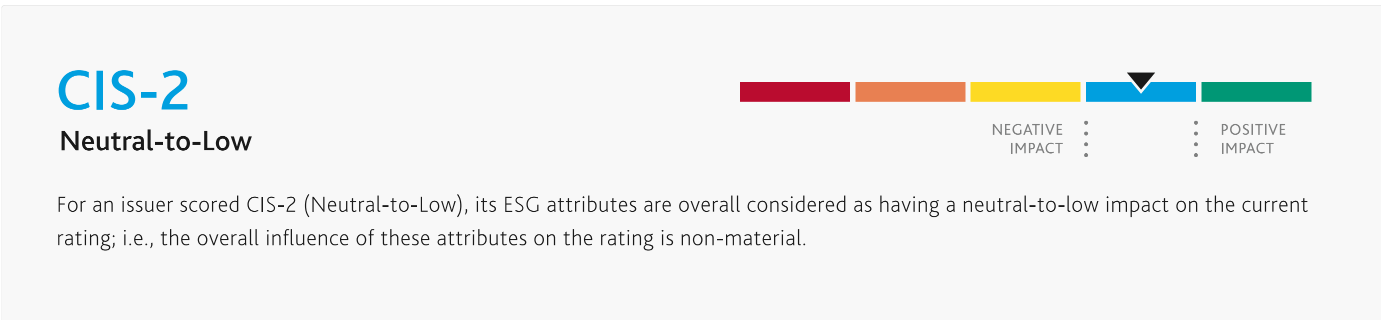
BAC's ratings are constrained by its Weak+ weighted average Macro Profile

BAC's Macro Profile is derived from a blended score, reflecting the composition of its loan portfolio as a bank operating in countries with Moderate to Very Weak+ Macro Profile scores: Panama (Moderate), Costa Rica (Weak+), Guatemala (Weak+), Honduras, El Salvador (Very Weak+) and Nicaragua. The overall Weak+ Macro Profile reflects the relatively small economies in the region, with low GDP per capita, developing institutions and lack of true lenders of last resort in some cases, which increase the bank's susceptibility to event risks. The bank's Macro Profile is balanced by positive economic and institutional trends during the past decade, and strengthening of bank regulatory frameworks.

ESG considerations

BAC International Bank, Inc's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 3
ESG Credit Impact Score



Source: Moody's Investors Service

BAC's ESG Credit Impact Score is neutral-to-low (**CIS-2**). This reflects the limited credit impact of environmental and social risk factors on the rating to date and the bank's moderate risk for governance. BAC's track record of good risk management practices and consistently good financial results offset governance risks stemming from a concentrated ownership and a complex corporate structure.

Exhibit 4
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental
BAC faces moderate exposure to carbon transition risk stemming from its corporate loan book. The bank operates in Central American countries that are exposed to excessive rains, droughts and hurricanes, but has small loan portfolios with rural and tourism segments. Also, the bank's exposure to environmental risks is mitigated by its the diversification of its geographical footprint and its loan book to different industries.

Social
BAC faces high industrywide social risks related to regulatory and litigation risk, requiring the bank to meet high compliance standards, particularly related to its large retail portfolio. High cyber and personal data risks are mitigated by a strong IT framework. Opportunities from financial inclusion are reflected in a better than industrywide exposure to demographic and societal trends.

Governance
BAC faces moderate governance risks. The bank has adequate corporate governance and risk management practices, supported by a management team with good track record in delivering its strategic goals. This strength mitigates risks stemming from concentrated shareholder ownership and a complex organizational structure, reflecting the bank's multiple international subsidiaries.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Government support

We do not incorporate government support uplift into BAC's deposit ratings because of the lack of a true lender of last resort in its home market of Panama, which is fully and legally dollarized, and in its other main markets, most of which are either fully or highly dollarized.

Counterparty Risk Ratings (CRRs)

BAC's CRRs are Baa3/Prime-3

BAC's CRRs, before government support, are positioned one notch above the Adjusted BCA of ba1 and, therefore, above deposit ratings. This reflects our view that BAC's CRR liabilities have a lower probability of default than the bank's deposits, as they will more likely be preserved to minimize banking system contagion and losses, and avoid disruption of critical functions.

The CRRs do not incorporate government support uplift, in line with our support assumptions on deposits.

Counterparty Risk (CR) Assessment

BAC's CR Assessment is Baa3(cr)/Prime-3(cr)

BAC's CR Assessment, before government support, is positioned one notch above the bank's Adjusted BCA of ba1 and, therefore, above the deposit ratings. This reflects our view that the probability of default is lower than that of deposits. Senior obligations represented by the CR Assessment will be more likely preserved to limit contagion, minimize losses and avoid disruption of critical functions.

We do not assign any government support uplift to the CR Assessment, in line with the deposit rating.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our rating committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 5

Macro Factors							
Weighted Macro Profile	**Weak +**	**100%**					
Factor		**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency							
Asset Risk							
Problem Loans / Gross Loans		3.8%	ba2	↔	ba1	Expected trend	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		11.0%	b1	↔	ba2	Access to capital	
Profitability							
Net Income / Tangible Assets		1.4%	ba2	↔	ba1		
Combined Solvency Score			ba3		ba1		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		10.6%	ba2	↔	ba1	Expected trend	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		30.6%	ba2	↔	ba2		
Combined Liquidity Score			ba2		ba1		
Financial Profile					ba1		
Qualitative Adjustments					Adjustment		
Business Diversification					0		
Opacity and Complexity					0		
Corporate Behavior					0		
Total Qualitative Adjustments					0		
Sovereign or Affiliate constraint					Baa2		
BCA Scorecard-indicated Outcome - Range					baa3 - ba2		
Assigned BCA					ba1		
Affiliate Support notching					0		
Adjusted BCA					ba1		

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	1	0	baa3	-		Baa3
Counterparty Risk Assessment	1	0	baa3 (cr)	-	Baa3(cr)	
Deposits	0	0	ba1	-	Ba1	Ba1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
BAC INTERNATIONAL BANK, INC	
Outlook	Stable
Counterparty Risk Rating	Baa3/P-3
Bank Deposits	Ba1/NP
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)

Source: Moody's Investors Service

Endnotes

1 The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating (where available) and Baseline Credit Assessment.

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