S&P Global Ratings

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BAC International Bank Inc.

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Table Of Contents

Table Of Contents (cont.)

BAC International Bank Inc.

Ratings Score Snapshot

Issuer Credit Rating
BBB-/Stable/A-3

SACP: bbb- → **Support: 0** → **Additional factors: 0**

Anchor	bb+	
Business position	Strong	+1
Capital and earnings	Moderate	0
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
BBB-/Stable/A-3

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Largest financial conglomerate in Central America, with outstanding diversity by country, business, and customer	Limited growth prospects owing to Central America's fragile institutions, low per-capita income, and lackluster growth
Well-executed strategy and focus on traditional banking businesses underpinning sound and resilient earnings	Asset quality pressure from global and regional economic deceleration, along with high inflation and interest rates, denting companies' and households' income capacity
Stable and fragmented deposit base and sound liquidity	

BAC International Bank Inc. (BIB) achieved good financial results in 2022, and we expect this trend to persist this year, providing stability to the bank's capitalization. The bank's healthy credit growth, improving margins, and cost containment efforts allowed it to achieve good profitability in 2022, with return on assets (ROA) and return on equity (ROE) at 1.6% and 16%, respectively. The latter, along with high retention of profits, was reflected in stable capitalization, with its risk-adjusted capital (RAC) ratio at 7.0% at year-end 2022. In 2023-2024, we expect this ratio to be about 6.6% in average.

The challenging economic outlook for 2023 will limit credit demand and pressure asset quality. We expect total loan growth to moderate toward 8%-9% this year and be 10% in 2024—after growing about 12% in 2022—while BIB maintains similar geographic and business diversification in its balance sheet. Weakening economic conditions will affect asset quality metrics, but these will remain manageable based on BIB's prudent lending practices.

We expect BIB's ample and well-diversified deposit base to keep supporting its funding profile. In addition, we believe the bank will keep managing its liquidity risk conservatively, reflected in sound liquidity. This, along with BIB's good geographic diversification and its stable capitalization,

Outlook

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

Downside scenario

We could lower the ratings on BIB if its capital metrics deteriorated, such as a projected RAC ratio below 5% or weaker-than-expected asset quality, leading us to revise its stand-alone credit profile (SACP) downward.

Additionally, we could lower the ratings on the bank if the economic risk increases in the banking systems where BIB operates, leading to a lower anchor, which is the starting point for bank ratings.

Upside scenario

Considering BIB's business and financial profiles, along with the economic risk trends in the countries the bank operates in, we do not expect an upgrade in the next 12-24 months.

Key Metrics

BAC International Bank Inc. key ratios and forecasts

	--Fiscal year ended Dec. 31--			
(%)	**2021a**	**2022a**	**2023f**	**2024f**
Growth in operating revenue	3.6	10.9	12.0-13.0	7.0-8.0
Growth in customer loans	8.7	11.6	8.0-9.0	9.5-10.5
Growth in total assets	5.4	10.6	7.5-8.5	8.5-9.0
Net interest income/average earning assets (NIM)	5.9	6.2	6.0-6.5	5.9-6.3
Cost to income ratio	56.4	57.1	55.5-56.5	55.5-56.5
Return on average common equity	17.0	16.1	16.0-16.5	16.8-17.3
Return on assets	1.7	1.6	1.5-1.7	1.6-1.8
New loan loss provisions/average customer loans	1.9	1.8	1.8-2.2	1.6-2.0
Gross nonperforming assets/customer loans	1.4	1.4	1.5-1.9	1.3-1.7
Net charge-offs/average customer loans	2.0	1.5	1.5-2.0	1.4-1.9
Risk-adjusted capital ratio	6.8	7.0	6.5-7.0	6.25-6.75

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: 'bb+' Stemming From Weighted Average Economic Risks 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+'. This anchor is based on our view of the expected weighted average economic risk in the countries to which BIB has exposure through its loan book: Costa Rica (28%), Panama (23%), Guatemala (19%), Honduras (14%), El Salvador (11%), and Nicaragua (5%) as of Dec. 31, 2022. As a result, the weighted economic risk is '7'. The common factors driving this economic risk score is low per-capita income and lackluster economic growth in the countries where BIB operates--which raises the sovereigns' 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. The industry risk trend on the Panamanian banking sector remains stable. Panama is gradually aligning with global reporting standards and strengthening its transparency, but still has some room for improvement. Additionally, profitability has been gradually recovering during the last two years; nonetheless, there are still some pressures on asset quality that could result in higher credit losses and weakening profitability. Moreover, Panama remains on the Financial Action Task Force (FATF) and the European Union's (EU) "grey" and black lists, respectively. In our view, this situation hasn't damaged investment dynamics and the financial sector. We expect continued efforts could allow Panama to exit these lists in the future. Finally, one of the main challenges for Panamanian banks its the system's lack of a lender of last resort or effective deposit insurance system to support distressed financial institutions. However, the government, through Banco Nacional de Panama, could provide liquidity to the banking system if needed.""""""

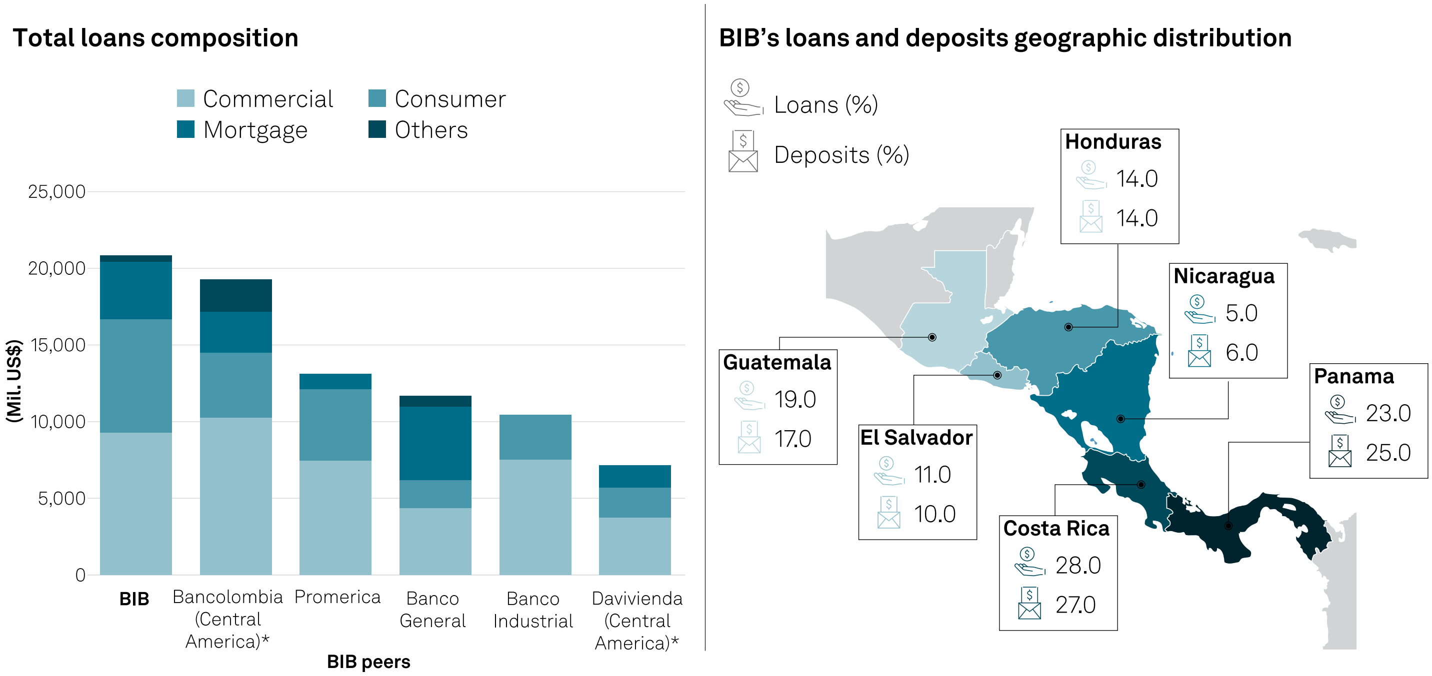
Business Position: BIB's Wide Geographic And Business Diversity Remain A Key Rating Strength

In our opinion, BIB benefits from a robust business model focused on a traditional banking business that generates sound and stable earnings. The bank's outstanding geographic diversification allowed it to weather the recent pandemic shock and to recover rapidly from that crisis. In our view, one of BIB's key competitive advantages is its long track record investing in its digital platform, which has allowed the bank to grow with healthy asset quality at lower costs.

BIB's highly diversified business profile and its status as the largest financial conglomerate in Central America on a consolidated basis (about 11% of market share in terms of loans and deposits as of December 2022), will keep supporting the bank's business stability through resilient revenue over the economic cycle. We expect operating revenue to grow about 12.5% in 2023 while ROA will remain 1.6%. Finally, we project lending to increase about 8.0%-9.0% in 2023 and about 10.0% in 2024, mainly driven by 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 shield it from economic woes in the past. Overall, we believe BIB is bet'er positioned than smaller regional peers—which don't benefit from geographic and business diversification—to weather the difficult economic outlook for 2023.

Chart 1

BIB's business position at a glance



Data as of December 2022. *Only exposure in Central America. BIB--BAC International Bank Inc. Source: Bank's financial reports.

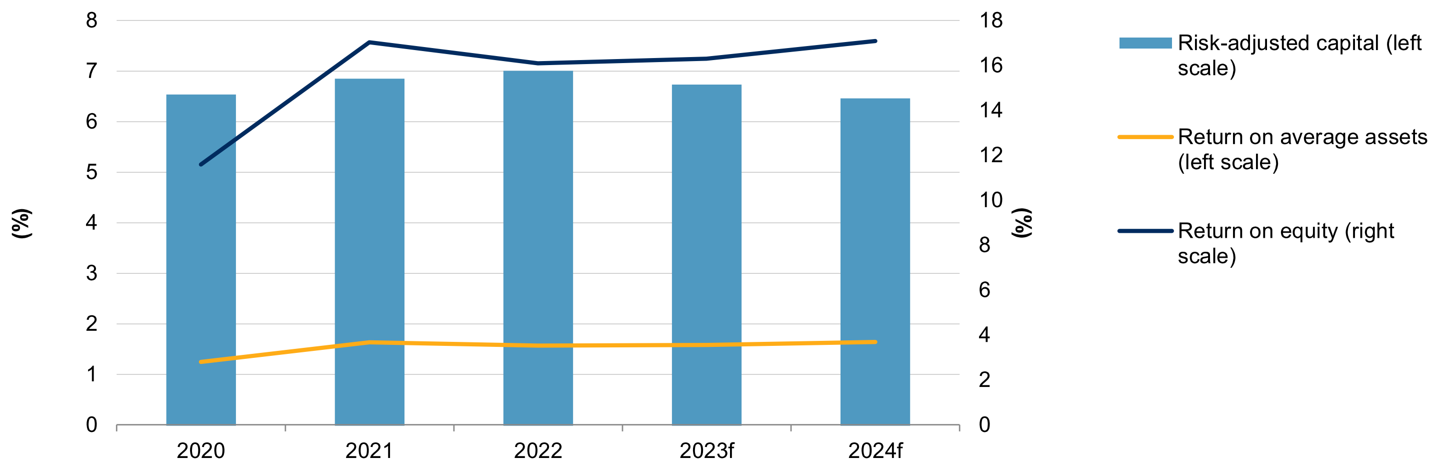
Capital And Earnings: Capitalization Will Remain Resilient, Supported By Its Sound Profitability

We expect BIB's RAC ratio to stand at about 6.6% in average through 2023-2024. The bank's resilient and high-quality earnings based on stable income sources (such as interest and fee income that account for about 75%-80% of total operating noninterest income), relatively modest growth prospects, and healthy reserve coverage ratios will provide stability to BIB's capitalization during the next two years.

In our view, BIB's optimization of its branch network amid its expanding digital platform will allow the bank to keep improving its efficiency and supporting profitability in the next few years. After the pandemic shock that weakened BIB's net profits (the bank's net income decreased by 42% in 2020), the bank returned to profitability. We expect BIB's ROA and ROE to average 1.6% and 17%, respectively, in 2023-2024.

Chart 2

BAC International Bank's capitalization and profitability evolution



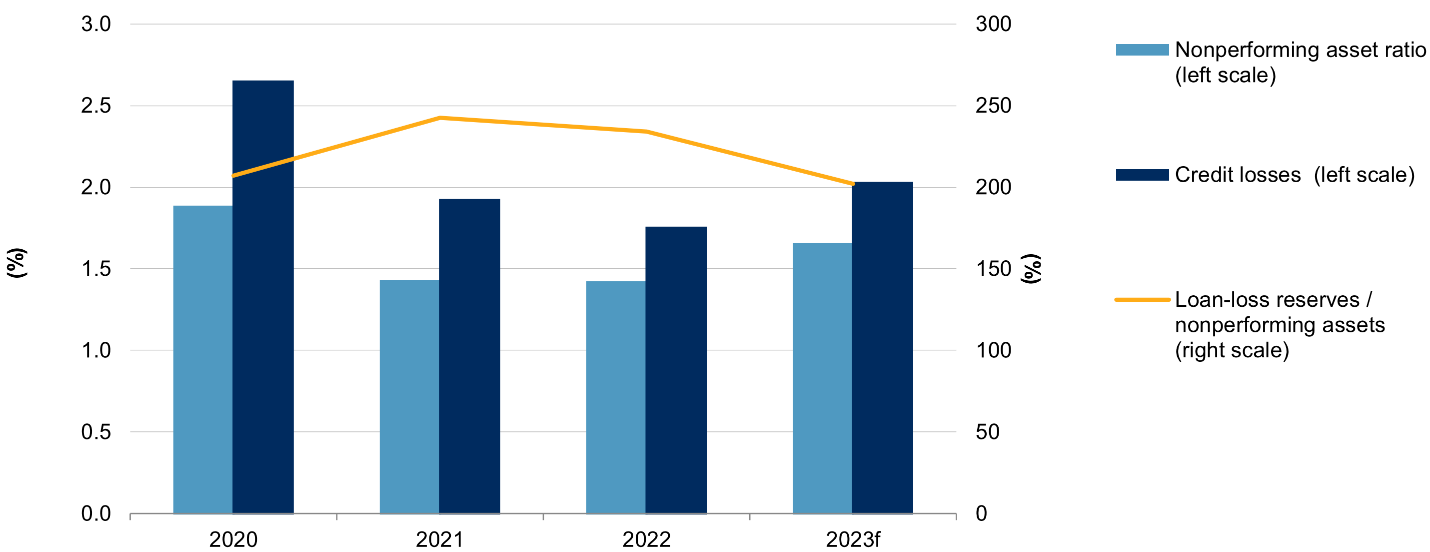
Sources: S&P Global Ratings and BAC International Bank's financial statements.

Risk Position: Geographic And Risk Diversification Will Support Healthy Asset Quality Despite Weakening Economic Conditions

We believe BIB will keep its good asset quality metrics during the next two years based on its conservative lending policies and limited risk appetite, despite the region's grim economic outlook for the year. The bank's COVID-19 borrower relief program covered 51% of its total loans at its peak in June 2020. Nevertheless, as of year-end 2022, the vast majority of borrowers under this program have resumed payments and just less than 1% of the total loan book remains under forbearance programs. As of December 2022, BIB's nonperforming assets (NPAs: nonperforming loans of more than 90 days, plus foreclosed assets) stood at 1.4%, fully covered by reserves, and credit losses (measured by new loan-loss reserves to total loans) were 1.8% of the total portfolio. We expect NPAs to rise slightly to about 1.7% this year and to remain fully covered by reserves, while credit losses would stand at about 1.8%. This is because of weakening economic conditions that will pressure companies' and households' income capacity. Finally, the bank's well-diversified risk portfolio could help limit future losses and help it navigate difficult conditions this year.

Chart 3

BAC International Bank's asset quality expectations



f--Forecast. Credit losses measured as the ratio of new loan loss provisions to average customer loans.
Sources: S&P Global Ratings and BAC International Bank's financial statements.

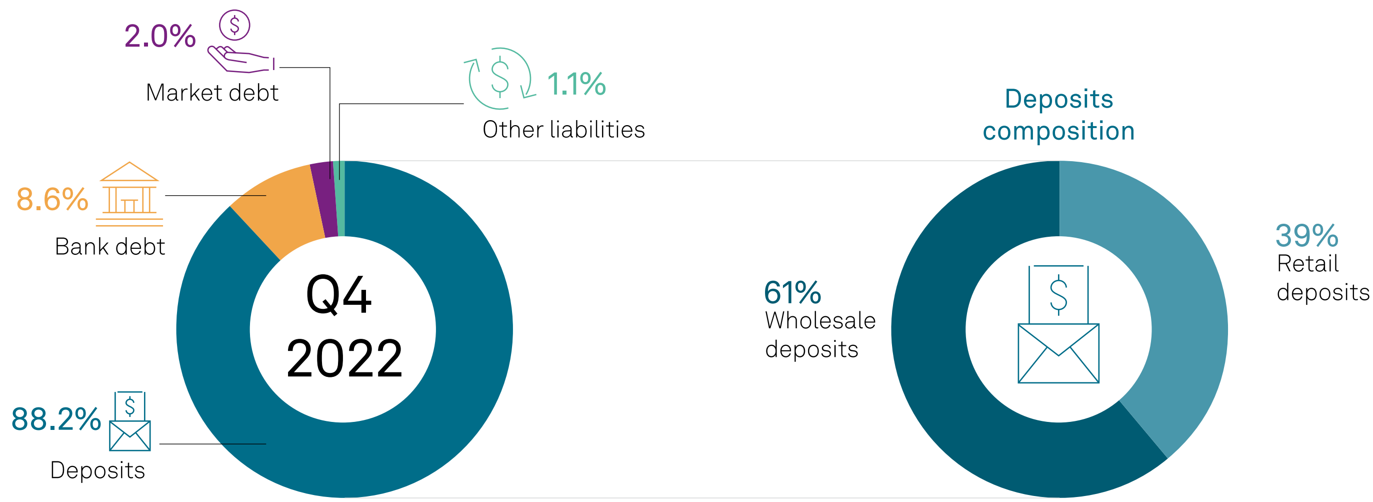
Funding And Liquidity: BIB Benefits From Its Stable Funding Profile And Sound Liquidity

In our opinion, BIB's resilient funding structure is supported by its large and well-diversified customer deposit base, which makes up about 90% of the total funding base as of December 2022. The bank's retail deposits represented about 39% of its total deposit base as of year-end 2022. We view these deposits as more stable during adverse market and economic conditions. BIB's wholesale deposits have remained stable, which underscores its long-standing relationships with institutional clients. 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 "flight-to-quality" conditions. We expect our stable funding ratio to remain above 100% in 2023-2024 because we don't expect significant changes in BIB's funding composition.

The bank's liquidity is more than sufficient to cover its operations. As of December 2022, its liquidity ratio stood at 5.8x, with a two-year average of 6.1x. BIB's liquidity coverage ratio is significantly higher than the average in Latin America. However, we believe this is a prudent approach, mainly because some of BIB's security holdings are instruments that trade in the domestic capital market, which lacks a deep and developed secondary market that could otherwise provide liquidity under adverse conditions. In addition, BIB operates in countries like Panama and El Salvador, which have no lender of last resort. Therefore, operating with sound liquidity reflects BIB's conservative liquidity policies.

Chart 4

BIB's funding mix



Segments may not total 100% due to rounding. Source: BIB's financial statements.

Support: No Longer A Subsidiary Of Banco de Bogota

BIB completed its spin-off from Banco de Bogota (BBogota; BB+/Stable/B). 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 majority held by Grupo Aval's controlling shareholder. Given that BIB is no longer a subsidiary of BBogota, our ratings on BIB are at the same level as its 'bbb-' SACP. 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 grow its market shares across the countries where it operates.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Environmental, social, and governance factors have no material influence on our credit rating analysis of BIB. Like other banks in Central America, BIB is on the path of improving its sustainable objectives and policies, with an increasing environmental and social loan book in recent years. The bank is in the process of measuring its direct footprint in the countries where it operates. While environmental factors are relevant for the bank's long-term strategy, they don't have more influence on BIB's credit quality than they do for its peers. Social factors have a neutral effect on BIB's credit quality. Diversity and inclusion remain top priorities and have improved in recent years. We believe inclusion could lead to more a profitable and productive organization. Finally, BIB has built sound risk control and governance practices that have enabled it to maintain its reputation, execute its diversification strategy throughout Central America, and face a wider range of legal and nonfinancial risks. At the same time, we believe that its solid framework will allow the bank to adapt and implement the regulatory changes across different jurisdictions. In our opinion, BIB's governance standards are prudent and in line with those of peers; therefore, we consider governance factors to have a neutral influence on the bank's creditworthiness.

Key Statistics

Table 1

BAC International Bank Inc. key figures

	--Year-ended Dec. 31--				
(Mil. PAB)	**2022**	**2021**	**2020**	**2019**	**2018**
Adjusted assets	30,652.4	27,675.9	26,228.8	23,575.3	22,383.7
Customer loans (gross)	20,824.2	18,665.6	17,174.6	16,788.0	16,195.4
Adjusted common equity	2,765.8	2,288.0	2,065.4	2,467.6	2,329.9
Operating revenues	2,365.4	2,133.1	2,059.5	2,135.6	2,079.1
Noninterest expenses	1,350.9	1,202.3	1,164.8	1,199.1	1,128.0
Core earnings	464.2	447.6	314.6	410.5	405.3

PAB--Panamanian balboa.

Table 2

BAC International Bank Inc. business position

	--Year-ended Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Total revenues from business line (currency in millions)	2,365.4	2,133.1	2,059.5	2,135.6	2,082.6
Commercial banking/total revenues from business line	91.7	86.9	88.4	92.8	89.6
Trading and sales income/total revenues from business line	4.5	10.4	10.1	4.6	7.9
Other revenues/total revenues from business line	3.8	2.6	1.5	2.6	2.5
Investment banking/total revenues from business line	4.5	10.4	10.1	4.6	7.9
Return on average common equity	16.1	17.0	11.6	14.6	15.2

Table 3

BAC International Bank Inc. capital and earnings

	--Year-ended Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Tier 1 capital ratio	11.5	11.9	11.6	11.5	11.8

Table 3

BAC International Bank Inc. capital and earnings (cont.)

	--Year-ended Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
S&P Global Ratings' RAC ratio before diversification	7.0	6.8	6.5	6.6	6.4
S&P Global Ratings' RAC ratio after diversification	5.8	5.6	5.4	5.7	5.4
Adjusted common equity/total adjusted capital	84.2	81.5	79.9	100.0	100.0
Net interest income/operating revenues	62.3	58.9	60.9	60.6	58.5
Fee income/operating revenues	29.3	28.1	27.5	32.2	31.2
Market-sensitive income/operating revenues	4.5	10.4	10.1	4.6	8.0
Cost to income ratio	57.1	56.4	56.6	56.1	54.3
Preprovision operating income/average assets	3.4	3.4	3.5	4.0	4.2
Core earnings/average managed assets	1.6	1.6	1.2	1.8	1.8

Table 4

BAC International Bank Inc. risk position

	--Year-ended Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Growth in customer loans	11.6	8.7	2.3	3.7	4.6
Total diversification adjustment/S&P Global Ratings' RWA before diversification	20.0	20.9	20.5	15.5	18.2
Total managed assets/adjusted common equity (x)	11.2	12.3	12.9	9.7	9.8
New loan loss provisions/average customer loans	1.8	1.9	2.6	2.3	2.4
Net charge-offs/average customer loans	1.5	2.0	1.7	2.2	2.0
Gross nonperforming assets/customer loans + other real estate owned	1.4	1.4	1.9	1.7	1.4
Loan loss reserves/gross nonperforming assets	234.3	242.6	207.2	198.9	229.2

Table 5

BAC International Bank Inc. funding and liquidity

	--Year-ended Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Core deposits/funding base	88.2	91.7	89.8	86.5	81.5
Customer loans (net)/customer deposits	86.3	82.3	81.3	94.6	99.8
Long-term funding ratio	95.4	95.8	96.9	97.2	97.0
Stable funding ratio	123.7	125.3	130.2	117.5	119.1
Short-term wholesale funding/funding base	5.1	4.7	3.4	3.1	3.3
Broad liquid assets/short-term wholesale funding (x)	5.8	6.5	9.6	8.3	7.6
Broad liquid assets/total assets	25.3	25.8	28.0	21.3	21.3
Broad liquid assets/customer deposits	33.7	33.1	36.7	29.7	30.8
Short-term wholesale funding/total wholesale funding	37.2	44.5	27.5	23.0	18.0

Table 6

BAC International Bank Inc. rating component scores

Issuer Credit Rating	**BBB-/Stable/A-3**
SACP	bbb-

Table 6

BAC International Bank Inc. rating component scores (cont.)	
Issuer Credit Rating	**BBB-/Stable/A-3**
Anchor	bb+
Economic risk	7
Industry risk	5
Business position	Strong
Capital and earnings	Moderate
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Sector And Industry Variables | Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Update: April 2023, April 28, 2023
- 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

Related Research

- Latin America Sector Roundup Q2 2023: Slower Growth, Tighter Financing Compound Pain, April 26, 2023
- Credit Conditions Emerging Markets Q2 2023: Enduring Risks, March 28, 2023
- Banking Industry Country Risk Assessment: Guatemala, Dec. 28, 2022
- Banking Industry Country Risk Assessment: Honduras, Nov. 1, 2022
- Banking Industry Country Risk Assessment: El Salvador, Sept. 20, 2022
- Banking Industry Country Risk Assessment: Costa Rica, Aug. 19, 2022
- Banking Industry Country Risk Assessment: Panama, June 17, 2022

Ratings Detail (As Of May 11, 2023)*	
BAC International Bank Inc.	
Issuer Credit Rating	BBB-/Stable/A-3
Issuer Credit Ratings History	
08-Apr-2022	BBB-/Stable/A-3
20-Sep-2021	BB+/Watch Pos/B
12-Dec-2017	BB+/Stable/B
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

*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.