STANDARD & POOR'S RATINGS SERVICES

RatingsDirect®

Research Update:

BAC International Bank Inc. and Credomatic International Corp. 'BBB-/A-3' Ratings Affirmed; Outlook Remains Stable

Primary Credit Analyst:
Arturo Sanchez, Mexico City (52) 55-5081-4468; arturo.sanchez@standardandpoors.com

Secondary Contact:
Jesus Sotomayor, Mexico City 52 (55) 5081 4486; jesus.sotomayor@standardandpoors.com

Table Of Contents

Research Update:

BAC International Bank Inc. and Credomatic International Corp. 'BBB-/A-3' Ratings Affirmed; Outlook Remains Stable

Overview

- Panama-based BIB's leading position in the region within the credit card segment supports its strong business position.
- We are affirming our 'BBB-' long-term and 'A-3' short-term issuer credit ratings on BIB and on its core entity Credomatic.
- We expect BIB to maintain its leading market position in Central America, while it continues to grow and maintaining adequate risk concentrations.

Rating Action

On Aug. 16, 2013, Standard & Poor's Ratings Services affirmed its long-term issuer credit rating on BAC International Bank Inc. (BIB) and its core and main operating entity, Credomatic International Corp. (Credomatic), at 'BBB-'. At the same time, we affirmed our short-term 'A-3' issuer credit ratings on both entities. The outlook is stable.

Rationale

The ratings on BIB reflect its "strong" business position, our "moderate" assessment for its capital and earnings, "adequate" risk position, and our view of its "average" funding and "adequate" liquidity (as our criteria defines these terms). The bank's SACP remains at 'bbb-'.

The 'bb+' anchor draws on our Banking Industry Country Risk Assessment (BICRA) methodology and our view of the weighted average economic risk in the countries in which BIB has exposure through its loan book--Costa Rica (32%), Panama (12%), El Salvador (11%), Honduras (15%), Guatemala (11%), and Nicaragua (10%) as of June 2013. As a result, the weighted economic risk is about '7'. A BICRA is scored on a scale from 1 to 10, ranging from the lowest-risk banking systems (group '1') to the highest-risk (group '10'). The common factor driving this economic risk score is low income in the countries where the bank operates, which affects the country's vulnerability to external shocks, and debt and payment capacity in countries with weak rule of law. Our industry risk assessment of '5' recognizes that Panama adequately regulates financial institutions; this has fostered the stability of its financial system. Despite high leverage levels, Panama engages in oversight and implements international standards. There are some minor exceptions to this policy but Panama's major banks' conservative management mitigates these.

Nevertheless, our industry risk assessment remains limited by the absence of a lender of last resort in the country. Although we believe the government might provide some sort of support to its major banks during times of stress, there is a low degree of certainty regarding how and who would receive this support in the event of an adverse economic scenario.

Our opinion of BIB's business position remains "strong." Its leading position in the region within the credit card segment, coupled with business stability and relative diversity of business activities support our assessment. BIB is the second largest bank in Central America with operations across the region. With total consolidated assets as of June 2013 of $11.3 billion, it serves just over 2.5 million customers. Despite its focus on credit cards, BIB's business operations are well diversified by asset class and by geography, in our view. Of its total loan portfolio, about 34% is within the commercial/corporate segment, 26% relates to residential mortgage loans, and the remaining 40% is consumer distributed across credit cards (25%), auto loans (7%), leasing (2%) and other consumer loans (6%).

Amid current global economic uncertainties, its total loan portfolio has grown at a compound annual rate (CAGR) of 11% over the past three and half years. Total revenues had a CAGR of 21% for the same period. Strong revenue stability is due to a solid revenue structure.

BIB has announced the acquisition of Guatemala-based Grupo Reformador (not rated), including its most important operating subsidiary, Banco Reformador S.A. (not rated). This acquisition will likely further expand its Central America operations, spring boarding of Grupo Reformador's product offering and current client base. Also, BIB's main parent Banco de Bogota S.A. y Subsidiarias (BdB; BBB-/Stable/A-3), has announced its intention to acquire Banco Bilbao Vizcaya Argentaria (Panama) S.A. y Subsidiaria (BBVA Panama; BB+/CWDeveloping/B) through its Panamanian subsidiary Leasing Bogota Panama. We expect BIB's Panamanian operations to incorporate those of BBVA Panama in 2014. We expect these transactions to close by first-quarter 2014 solidifying BIB's position as the second largest bank in the region.

We revised our assessment of capital and earnings to "moderate" from "adequate," primarily based on our forecasted risk-adjusted capital (RAC) ratio, which we expect to average 6.3% over the next two years. Our forecast RAC ratio considers loan portfolio growth of about 25% during 2013 as a consequence of the Grupo Reformador acquisition, and 30% during 2014, considering the BBVA Panama acquisition. Our analysis also considers $266 million of additional goodwill, which we will deduct from its total reported equity. We expect a dividend payout similar to that of previous years and that BIB will maintain its current net interest margins. We view BIB's capital and earnings as strong thanks to the high quality of its capital but most importantly because of its sound and resilient quality of earnings. The bank's main profitability metrics continue to compare well with other large regional players within the same industry risk score. Core earnings to average adjusted assets have hovered around 2% over the past four years, and we expect them to remain similar over the next 24 months. Also, BIB's revenue mix remains healthy. Net interest income accounts for about 61% of total revenues, fees for 31%, trading for 6%, and the remainder is other operating income. The bank's adequate cost-income ratio, which has stabilized at 59% over the past 18 months, and the low share of both trading gains and other revenues in the mix, historically about 8%, support our assessment. We forecast quality of capital and earnings will remain strong in the foreseeable future due to our expectations for growth and good underwriting and cost policies.

Our view of an "adequate" risk position is mainly driven by what we consider adequate growth and changes in exposure and risk diversification. However, we believe that its exposure to higher risk economies somewhat limit our assessment. BIB carries out mostly plain vanilla operations with no significant complexity. The bank has no important off-balance sheet transactions or complex derivative products. However, in Panama the regulator does not compute any capital requirement for market risk. Therefore, our RAC calculation in terms of market risk is not comparable with other Latin American banking systems, and the risk weight for market risk assets is also lower. Nonetheless, BIB has a low proprietary trading, and main market risks could rise with the interest rate in its credit and investment portfolio, and currency risk due to the number of countries in which the bank operate. As a consequence of its low proprietary trading, we believe the impact on capital would be marginal in the case regulatory changes. Currency risk, however, may not produce the same impact.

Credit loss experience is sound especially as its loan portfolio mix primarily focuses on consumer loans. Nonperforming assets (NPAs) averaged 2.3% and credit losses 1.6%, for the past three years. We estimate NPAs and credit losses will remain at less than 2% over the next two years. Bib's historical prudent conservative underwriting, coupled with a full and deep understanding of the different market segments and economies in which it participates has limited its credit losses. We do not expect these important credit risk management features to change in the future, therefore maintaining low credit losses.

BIB's funding remains "average" compared to the industry norm, in our view. As of June 2013, the stable funding ratio for BIB was 112.9% with a three-year average of 118%. The bulk of its funding base is customer deposits, accounting for 78% of the total funding base as of June 2013. Both of these ratios compared similarly to the Panamanian banking industry. About 40% of BIB's total deposit base is made up of retail deposits, which we deem as more stable. The remaining funding base is primarily composed of repos and other loans. We anticipate no changes in BIB's funding structure given that we expect growth in its deposit base to continue to provide the bank with the necessary resources to continue growing.

Our assessment of "adequate" liquidity is based on the bank's prudent liquidity policies in the diverse countries in which it operates. We believe that refinancing risk is manageable, as a result of an adequate maturity profile. Its institutional funding sources of slightly more than 26%, which include credit lines, local market issuances and repos, mature after 2016. As of June 2013, its broad liquid assets cover 2.4x its short-term wholesale funding with a three year average of 3.6x. However, these liquidity levels are similar for most of the Panamanian banking system due to a general lack of a lender of last resort, and BIB has historically proved to be consistent in terms of its liquidity. Therefore, we do not anticipate significant liquidity needs in the next 12 months, and the banks' large deposit base supports its funding and liquidity needs.

We continue to view BIB, and in turn Credomatic, as core entities to BdB. BIB operates in the same business lines as its parent and is closely linked to BdB's reputation and risk management. BIB has maintained its performance in line with its parent's expectations. As of March 2013, BIB accounted for 25.8% of BdB's total operating revenues, 29.2% of loans, and 30.2% of total reported equity.

Outlook

The stable outlook BIB and Credomatic, reflect that of their parent, BdB, as a result of their status as core entities. We also expect BIB will maintain its leading business position in Central America in terms of the credit card sector.

If our assessment of its core status to BdB remains unchanged in the future, the ratings on both BIB and Credomatic will move in tandem with those of the parent. If BIB's SACP suddenly weakens, due to a RAC lower than our base-case expectation, or the bank worsens its "adequate" risk position due to aggressive growth in untested and riskier market segments, we are unlikely to downgrade the bank because of its core status. However, we would revise its SACP.

Ratings Score Snapshot

Issuer Credit Rating	BBB-/Stable/A-3
SACP	bbb-
Anchor	bb+
Business Position	Strong (+1)
Capital and Earnings	Moderate (0)
Risk Position	Adequate (0)
Funding and Liquidity	Average and Strong (0)
Support	0
GRE Support	0
Group Support	0
Government Support	0
Additional Factors	0

Related Criteria And Research

- Credit Conditions: Subdued Growth Is Increasing Downside Risks For Latin America, Aug. 9, 2013
- Latin American Banks' Financial Performance Remained Adequate Amid Favorable Regional Economy, June 11, 2013
- General Criteria: Group Rating Methodology, May 7, 2013
- S&P Risk-Adjusted Capital Ratios Provide A Consistent Assessment Of Latin American Banks' Credit Quality, April 29, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Ratings List

Ratings Affirmed

BAC International Bank Inc.
Credomatic International Corp.

Counterparty Credit Rating	BBB-/Stable/A-3

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.