S&P Global Ratings

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BAC International Bank Inc.

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BAC International Bank Inc.

SACP	bbb-		
Anchor	bb+		
Business Position	Strong	+1	
Capital and Earnings	Moderate	0	
Risk Position	Adequate	0	
Funding	Average	0	
Liquidity	Adequate		

\+

Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

\+

Additional Factors	-1

Issuer Credit Rating
BB+/Stable/B

Major Rating Factors

Strengths:

- BAC International Bank Inc.'s (BIB) main strengths stem from its funding structure that leans on a stable and pulverized deposit base with manageable short-term financial obligations.
- Lead player in consumer lending and the largest financial conglomerate in Central America; and
- Highly diversified by geography, economic sector, and client, allowing us to rate the bank above the sovereign rating on Costa Rica (B+/Negative/B), to which it is highly exposed.

Weaknesses:

- Recent economic struggles related to the COVID-19 pandemic, coupled with the historical political vulnerability within the region could represent a challenge for the bank's profitability and asset quality metrics.
- Large exposure to consumer segment could represent additional pressures on asset quality metrics during the pandemic.
- Our current moderate capital and earnings assessment incorporates the region's high economic risks.

Outlook: Stable

The stable outlook on BIB and its subsidiary Credomatic International Corp. (CIC) continue to reflect that on the parent Banco de Bogotá (BdeB; BB+/Stable/B). The outlook also reflects our expectation that BIB will maintain its strong presence and leadership in Central America in terms of loans and deposits over the next 12 months. Additionally, we believe that its profitable operations and its large geographic diversification will help to maintain its business stability, despite the global economic turmoil driven by the COVID-19 pandemic. We expect BIB and CIC to keep their core status to BdeB in the future. BIB, on a consolidated basis, continues to account for a large amount of its parent's earnings and capital, and the group continues to view it as a fundamental subsidiary for its future strategy. Thus, the ratings on BIB and CIC will move in tandem with those on the parent.

Downside scenario

We could lower the rating on BIB and CIC over the next 12 months if we downgrade their parent.

Upside scenario

The rating on BdeB constrains the ratings on BIB and CIC, and the ratings on the bank and CIC will likely move in tandem with those on the parent. If we revise the outlook on the parent to positive or raise the ratings, we would take a similar action on BIB and CIC.

Rationale

Our ratings on BIB and CIC reflect our expectations that the bank and its subsidiary will maintain their resilience and business stability despite the market and global economic turmoil caused by COVID-19. This is thanks to BIB's leading market position in Central America on a consolidated basis and its sound business stability, supported by a large, sticky and well-diversified customer base. The ratings also reflect our projected risk-adjusted capital (RAC) ratio of 6.85%, on average, over the next two years, underpinned by constant internal capital generation and a conservative dividend payout policy. Moreover, we expect its manageable asset quality metrics and its highly diversified loan portfolio (by location and sector) will support our risk position assessment despite the more vulnerable and weaker operational environment in 2020. Finally, BIB's main strengths stem from its funding structure that is supported by a stable and pulverized deposit base with manageable short-term financial obligations.

Anchor:'bb+' on weighted average economic risks for countries where BIB operates 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+'.

The 'bb+' anchor draws on our view of the expected weighted average economic risk in the countries in which BIB has exposure through its loan book: Costa Rica (28%), Panama (24%), Guatemala (20%), Honduras (12%), El Salvador (11%), and Nicaragua (5%), as of December 2019. As a result, the weighted economic risk rounds to '7'. The common factor driving this economic risk score is low income in the countries where the bank operates, which affects the countries' 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. Panama does not have a central bank or formal lender of last resort, or an effective deposit insurance system to support distressed financial institutions. To address the economic impact of COVID-19, the Superintendency of Banks allowed banks to use the accumulated dynamic provisioning (about US$1.3 billion, or 2% of GDP)to absorb the impact of credit losses. It also allowed banks to undertake voluntary loan restructuring with troubled borrowers. Finally, the government has successfully used public-owned bank, Banco Nacional de Panama (BNP), as the vehicle to provide adequate liquidity to the banking system and under stressful conditions. On the other hand, the country's financial system regulation continues to improve, reducing the gap with international regulators, although implementation challenges remain. In 2019, FATF placed Panama back on its "grey" list of countries for legal and regulatory shortcomings related to insufficient preventative measures against money laundering and financing terrorism. Panama's missing recommendations are primarily outside the Panamanian financial sector, limiting the possibility of a significant impact on the financial system. These factors, along with the regulator's efforts to strengthen the banking system's institutional framework, should allow market confidence to remain unaffected so far, in our view.

Table 1

BAC International Bank Inc. Key Figures

	--Year-ended Dec. 31--				
(Mil. $)	**2019**	**2018**	**2017**	**2016**	**2015**
Adjusted assets	23,575.3	22,383.7	21,640.1	19,658.7	18,331.3
Customer loans (gross)	16,788.0	16,195.4	15,481.7	14,315.9	13,108.3
Adjusted common equity	2,531.4	2,323.7	2,250.4	1,984.5	1,848.7
Operating revenues	2,135.6	2,079.1	1,912.4	1,776.1	1,592.5
Noninterest expenses	1,199.1	1,128.0	1,058.1	1,019.8	953.0
Core earnings	410.5	405.3	376.0	360.2	319.9

Business position: Adequate revenue diversification and business stability despite more vulnerable operating conditions

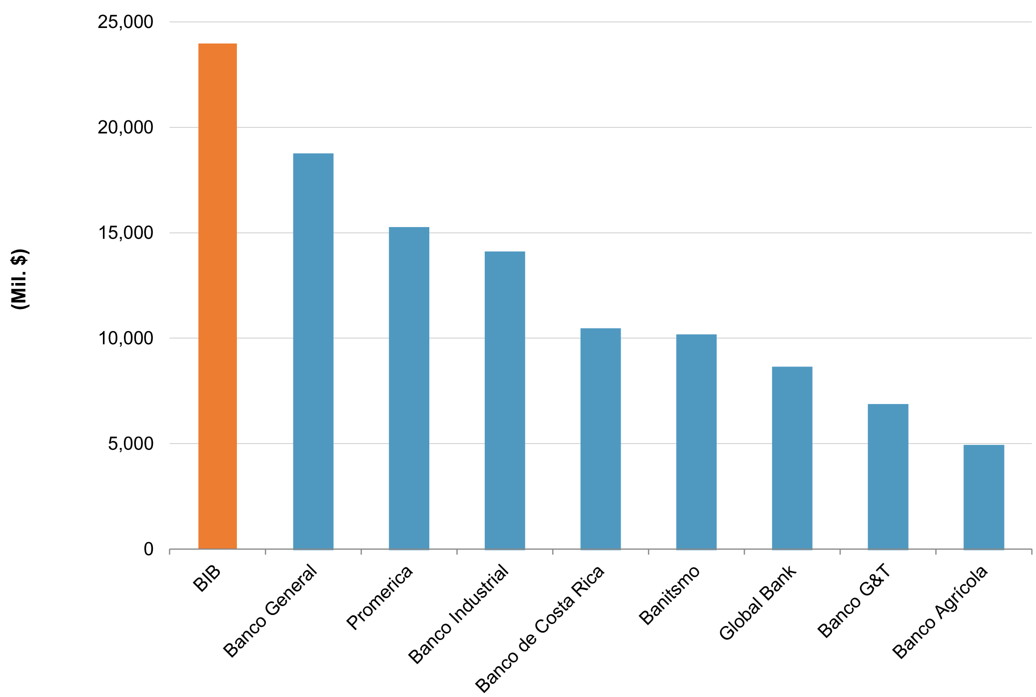
Despite the bleak market and economic conditions because of the turmoil caused by COVID-19, we expect BIB's sound market share, ample revenue diversification, and historically stable operating revenue to support our overall business position assessment under current circumstances.

BIB maintains its leading position in Central America, as well as its solid business diversification by geography, segment, and client. The bank has regional market shares of 9.3% in total assets, 10.2% in loans, and 9.5% in deposits, and is one of the five largest banks in each country it operates in as of year-end 2019. This has resulted in historical revenue stability, with a total operating revenues compound annual growth rate of 6.3% in the last three fiscal years. Although we expect operating revenue growth rate to contract this year, we believe BIB's sticky customer base and large business lines should help the bank to surpass the regional economic contraction, and to generate positive bottom-line results during 2020.

Finally, we believe BIB benefits from a strong management team that has ample experience within the Central American banking industry, and has been very successful with the group's business growth strategy. The latter has enhanced its regional presence and helped it overcome adverse economic conditions in the past. Overall, we believe BIB has a more advantageous position compared to smaller regional peers.

Chart 1

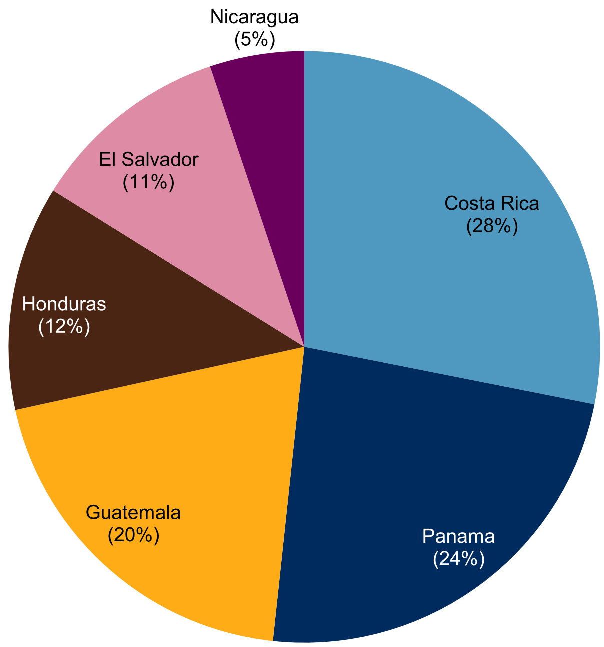
Total Assets Of BIB and Peers



Source: Banks' financial statements.

Chart 2

Loan Breakdown By Country



Source: BIB's financial statements.

Table 2

BAC International Bank Inc. Business Position

	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (currency in millions)	2,135.6	2,082.6	1,907.0	1,755.3	1,592.5
Commercial & retail banking/total revenues from business line	N/A	89.6	N/A	N/A	N/A
Trading and sales income/total revenues from business line	4.6	7.9	6.2	6.4	5.5
Other revenues/total revenues from business line	2.6	2.5	2.0	1.1	2.1
Investment banking/total revenues from business line	4.6	7.9	6.2	6.4	5.5
Return on average common equity	14.6	15.2	15.0	15.0	15.2

N/A--Not applicable.

Capital and earnings: Average RAC ratio of 6.85% over the next 18 to 24 months

We expect lower business volumes and asset quality deterioration to drag down BIB's profitability, and consequently, our projected RAC ratio for 2020 and 2021. However, current capitalization levels and manageable asset quality indicators reflects the bank's capacity to withstand COVID-19's global disruption without affecting our overall capital and earnings assessment, at least for the next 12 months.

Our RAC forecast considers the following assumptions:

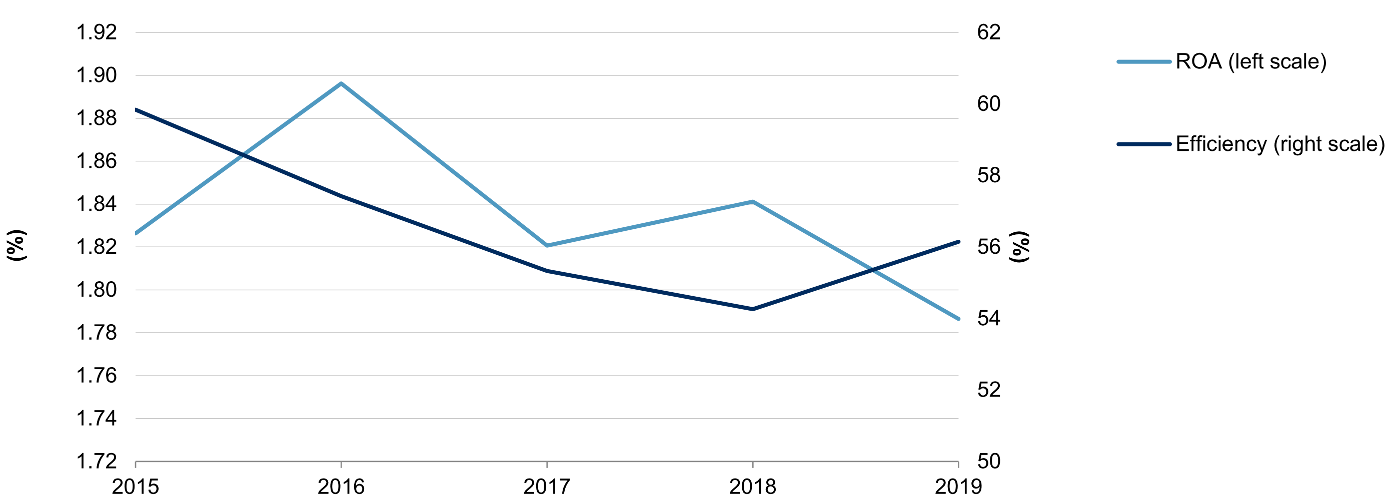
- Central American economies to contract as follows during 2020: Costa Rica: -2.6%; Guatemala: -3.7%; Honduras -2.5%; El Salvador: -4.5%, and Panamá -2.0%.
- Modest single digit loan portfolio growth rates for 2020 and 2021;
- Lower net interest margins because we expect the highly competitive environment along with higher economic risks in the region will continue pressuring lending prices and funding costs.
- Lower profitability levels, between 0.5% and 1.0%, resulting from higher new loan loss provisions and lower business volume.
- Nonperforming assets (NPAs) and credit losses above the historical average due to the economic lockdown and regional GDP contraction, but still manageable and fully covered by reserves.

We continue to see a high quality of capital, based on BIB's absence of hybrid capital instruments, but most importantly due to the sound and resilient quality of earnings that provides sufficient financial flexibility to pass our sovereign stress test for its 28% exposure in Costa Rica.

Moreover, the bank's adequate cost-income ratio supports its quality of earnings. This ratio was 56.15% as of year-end 2019, somewhat improved from previous years. Furthermore, net interest income accounts for about 61% of total revenues, fees for 32%, and trading for 5%. We expect this mix to remain the same over the next two years. We believe these factors will continue to support our overall capital and earnings assessment despite the expected pressures on its capital metrics.

Chart 3

BIB's Profitability Metrics



Source: S&P Global Ratings

Table 3

BAC International Bank Inc. Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	11.5	11.8	11.8	11.0	13.5
S&P Global Ratings' RAC ratio before diversification	N/A	6.4	6.5	6.2	N/A
S&P Global Ratings' RAC ratio after diversification	N/A	5.4	5.4	5.3	N/A
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	60.6	58.5	60.0	60.2	61.6
Fee income/operating revenues	32.2	31.2	31.5	31.2	30.8
Market-sensitive income/operating revenues	4.6	8.0	6.2	6.4	5.5
Noninterest expenses/operating revenues	56.1	54.3	55.3	57.4	59.8
Preprovision operating income/average assets	4.0	4.2	4.1	3.9	3.6
Core earnings/average managed assets	1.8	1.8	1.8	1.9	1.8

N/A--Not applicable.

Risk position: Asset quality and credit losses at manageable levels in spite of economic contraction

Central America's economic slowdown and the uncertainty about the government's capacities and economic policies to deal with the COVID-19 pandemic could widen BIB's credit losses. However, we believe historically prudent underwriting standards and the highly diversified loan portfolio by country, segment, and client will support asset quality and our overall risk position assessment.

Its loan portfolio as of December 2019 consisted of 43% in the commercial segment, 20% in residential commercial mortgage loans, and 37% in consumer loans. We note that sectors highly vulnerable to the impact of the COVID-19 pandemic such as tourism, restaurants, entertainment, construction, and transportation, among others, represent less than 5% of the bank's total consolidated loan portfolio.

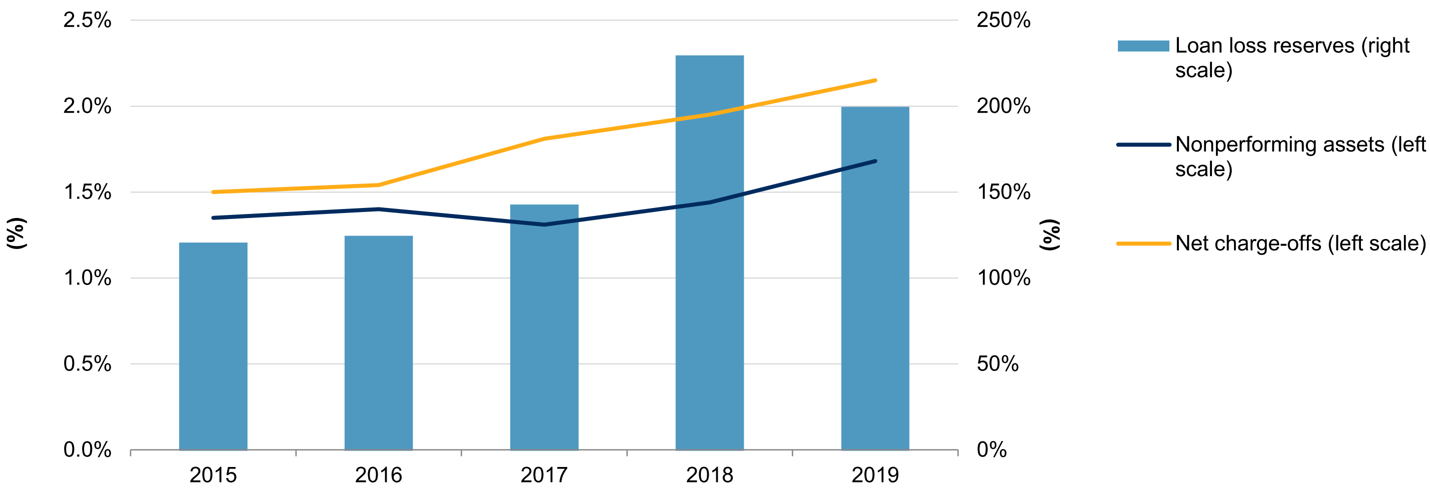
Moreover, in terms of single exposures, BIB's top 20 largest loans represented only 7.3% of its total loan portfolio and 48.4% of its total adjusted capital. The latter reflects the bank's large focus on retail in its credit operations, keeping its loan portfolio relatively pulverized.

Asset quality has remained stable and healthy because of the bank's adequate origination policies and expansion strategy in segments where it's historically operated. NPAs and credit losses were 1.68% and 2.15%, respectively, as of Dec. 31, 2019. On a consolidated basis, BIB still has manageable asset quality metrics and we expect that to continue in the next 12 months, despite the expected deterioration during 2020 that could double the NPAs amount.

Finally, we expect BIB to participate in the moratorium programs according to each country's policies and regulatory frameworks, but we also expect the bank to start generating new loan loss reserves in order to maintain healthy reserve coverage for potential credit losses after this period.

Chart 4

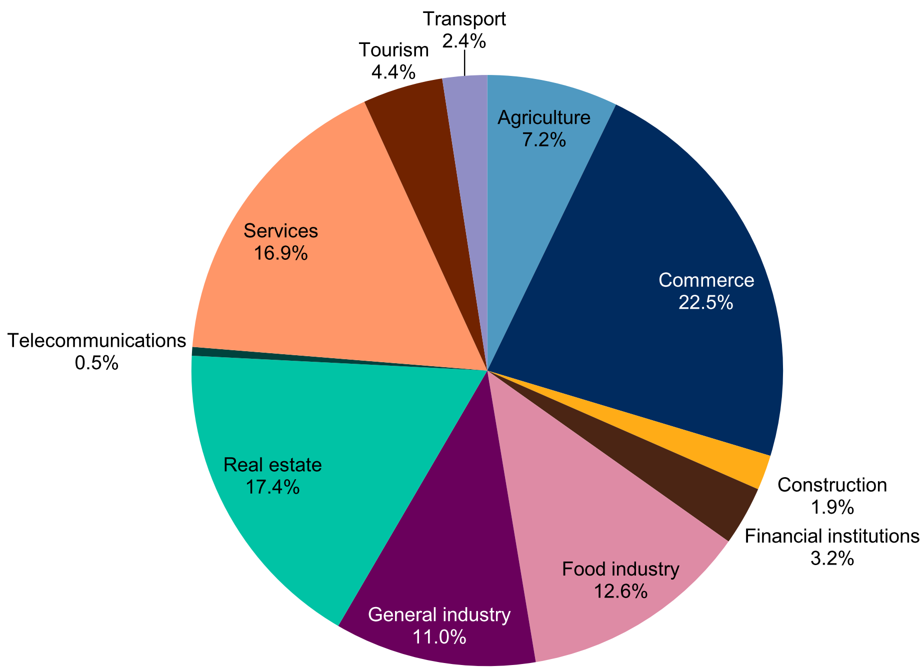
BIB's Asset Quality



Source: S&P Global Ratings.

Chart 5

Commercial Loans By Economic Sector



Source: BIB's financial statements.

Table 4

BAC International Bank Inc. Risk Position					
	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	3.7	4.6	8.1	9.2	13.1
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	18.5	19.0	16.5	N/A
Total managed assets/adjusted common equity (x)	9.5	9.8	9.8	10.1	10.1
New loan loss provisions/average customer loans	2.3	2.4	2.1	1.9	1.6
Net charge-offs/average customer loans	2.2	2.0	1.8	1.5	1.5
Gross nonperforming assets/customer loans + other real estate owned	1.7	1.4	1.3	1.4	1.3
Loan loss reserves/gross nonperforming assets	198.9	229.2	141.4	124.1	120.8

N/A--Not applicable.

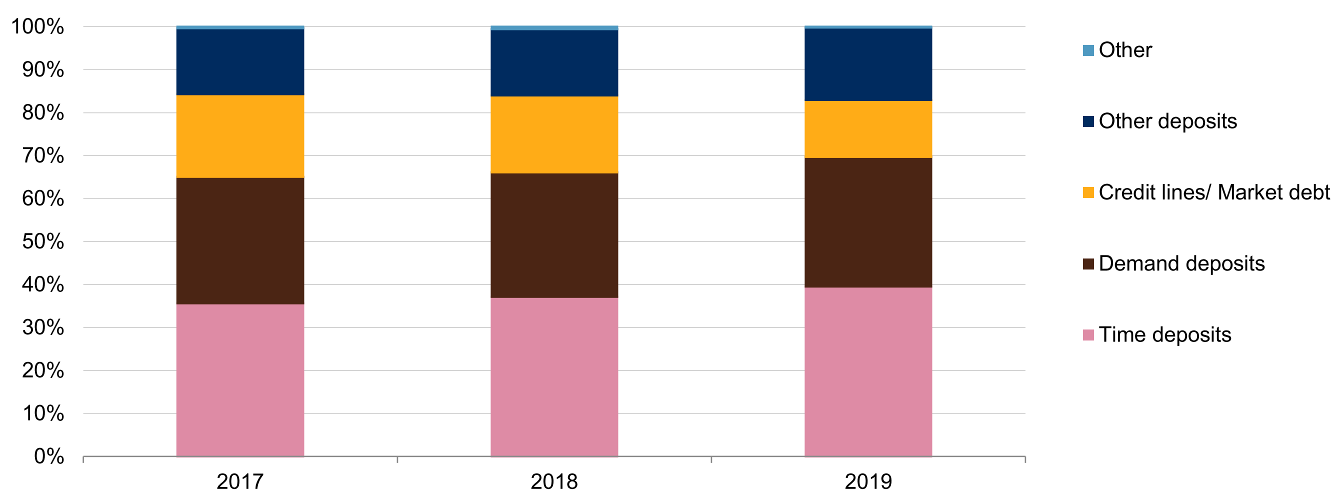
Funding and liquidity: Highly stable funding base that provides financial flexibility under stressful conditions

Key factors to consider under tightening financing conditions and a stalled economy are liquidity needs and funding flexibility. We believe BIB enjoys a favorable position with its large and highly pulverized deposit base. The bank also has maintained very manageable short-term wholesale obligations given that it funds most of its operations with customer deposits. As of April 21 (latest information provided by issuer), core customer deposits had increased 4% from 2019 year-end figures. This reflects BIB's solid brand recognition and reputation in Central America, which provides additional strength and financial flexibility under the fly-to-quality conditions. In this sense, despite the adverse environment, we expect BIB to maintain its solid deposit base, manageable liquidity needs, and satisfactory financial flexibility for 2020.

In terms of liquidity, BIB's liquidity levels are more than enough to cover its operations. As of the end of 2019, its liquidity ratio was 8.28x with a three-year average of 7.7x. Although its liquidity coverage ratio is significantly higher than those of other banking systems in Central America (and higher than other banks across Latin America), we believe this is a prudent approach, mainly because some of its security holdings are instruments that trade in the local and undeveloped capital market, which lacks a deep and developed secondary market that could provide liquidity under adverse conditions.

Chart 6

BIB's Funding Mix



Source: S&P Global Ratings.

Table 5

BAC International Bank Inc. Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	86.5	81.5	80.4	77.8	77.6
Customer loans (net)/customer deposits	94.6	99.8	101.7	106.7	104.9
Long-term funding ratio	97.2	97.0	97.0	96.8	97.4
Stable funding ratio	117.5	119.1	117.9	115.1	116.4
Short-term wholesale funding/funding base	3.1	3.3	3.3	3.5	2.9
Broad liquid assets/short-term wholesale funding (x)	8.3	7.6	7.3	6.3	7.8

Table 5

BAC International Bank Inc. Funding And Liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Short-term wholesale funding/total wholesale funding	23.0	18.0	17.0	15.9	12.9

Support:Core subsidiary for parent

We continue to view BIB and CIC as core entities for BdeB. Among other things, BIB operates in the same business lines as its parent and is closely linked to BdeB's reputation and risk management. BIB has kept its performance in line with the group's expectations. As of the end of 2019, BIB (on a consolidated basis, including CIC) accounted for 44% of BdeB's total reported equity, 45% of total assets, and 44% of total net income. We believe that any potential financial stress at the parent level would likely affect BIB's stand-alone credit profile (SACP). The relatively weaker parent could potentially divert assets from the subsidiary or burden it with liabilities during financial stress that could result in much less flexibility for BIB's debt and capital raising. In that sense, the ratings on BdeB will continue to limit the ratings on BIB and consequently on CIC.

Related Criteria

General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019

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: Group Rating Methodology, Nov. 19, 2013

General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013

Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013

Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011

Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	6	**7**	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	**bb+**	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of May 7, 2020)*

BAC International Bank Inc.	
Issuer Credit Rating	BB+/Stable/B
Issuer Credit Ratings History	
12-Dec-2017	BB+/Stable/B
28-Jul-2016	BBB-/Negative/A-3
26-Feb-2016	BBB-/Watch Neg/A-3
17-Feb-2016	BBB-/Negative/A-3
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+
Credomatic International Corp.	
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.