

BAC International Bank, Inc.

Update

Key Rating Drivers

Parent Support: BAC International Bank, Inc.'s (BIB) Issuer Default Ratings (IDRs) and National Ratings are driven by the potential support it could receive from its parent, Banco de Bogota, S.A. (Banco de Bogota; Foreign Currency IDR: BB+/Stable Rating Outlook), if required. The Stable Rating Outlook on BIB's Long-Term Ratings mirrors Banco de Bogota's Rating Outlook.

Core Operation to Parent due to Relevant Regional Footprint: BIB's key and fundamental role is to serve Banco de Bogota's international strategy and regional operations, providing core services and products to a core market. BIB has a general license in Panama and it consolidates BAC Credomatic's group operations in Central America. BIB is the largest financial group in the region with well-integrated operations between its subsidiaries. As of March 2021, BIB had consolidated assets of about USD26.8 billion.

BIB Included in Parent's Cross-Default Clauses: The existence of cross-default clauses highly influences Fitch Ratings' view that Banco de Bogota has a strong incentive to provide timely support to BIB, as this indicates that a BIB default would grant acceleration repayment rights to Banco de Bogota's creditors.

Weakened Operating Environment: BIB's Viability Rating (VR) is highly influenced by its operating environment, which considers geographic diversification relating to its consolidated operations in Central America. However, the weakened conditions of the region's economies will continue to weigh on the bank's regional business dynamics and financial performance.

Solid Company Profile: The group has a relevant market position within the region due to its diversified product portfolio, which provides relatively resilient financial performance. The entity provides universal banking, serving corporate and retail sectors, with a strong focus and dominant position in the credit card segment and digital services.

Asset Quality and Profits Under Relative Pressure: BIB's asset quality and profitability remain appropriate for the bank's loan book composition. However, modest economic recovery expectations along with possible deterioration in the consumer segment and the end of coronavirus-related forbearance measures may weigh on the bank's impairment and profitability metrics. As of March 2021, its loans overdue past 90 days metric was 1.7%, and its operating profits-to-risk-weighted assets (RWA) ratio was about 2.5%.

Capitalization Sustained by Parent Support: In Fitch's opinion, BIB's capitalization levels are underpinned by support from Banco de Bogota. As of March 2021, BIB's common equity Tier 1 (CET1) ratio was 9.1%. However, its Tier 1 capital remains close to 12% enhanced by a USD520 million perpetual subordinated bonds program issuance acquired by Grupo Aval (Banco de Bogota's largest owner) that is categorized as AT1 capital in the regulatory metric.

Solid Deposit Base: BIB has an ample and stable deposit base that benefits from its solid deposit franchise and well-positioned businesses in every Central American country. As of March 2021, BIB's loans-to-deposits ratio was about 82%, which particularly improved in 2020, when the increase in deposits was relevant notwithstanding the adverse environment.

Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Positive rating actions on BIB's IDR, National Ratings and SR could be driven by positive rating actions on Banco de Bogota's IDR.

Ratings

Foreign Currency

Long-Term IDR	BB+
Short-Term IDR	B

Viability Rating	bb
Support Rating	3

National

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

Sovereign Risk

Long-Term	
Foreign-Currency IDR	BBB-
Long-Term Local-Currency IDR	BBB-
Country Ceiling	A-

Outlooks

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

Applicable Criteria

[Bank Rating Criteria \(February 2020\)](#)

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

Related Research

[Panamanian Banks Credit Tracker \(Operating Environment Strongly Influences Credit Profiles\) \(March 2021\)](#)

[Fitch Takes Actions on Colombian and Central American FIs Following Colombia's Sovereign Downgrade \(July 2021\)](#)

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Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Any negative rating action on Banco de Bogota's IDRs would lead to a similar rating action on BIB's IDRs and SR. Additionally, BIB's IDR could also change if Fitch's assessment of its parent's willingness to support its subsidiary changes.
- A downgrade of BIB's SR could result from a multi-notch downgrade of Banco de Bogota's IDR or from a reduced propensity of Banco de Bogota to support its subsidiary, both of which are unlikely at present

Debt Issuances

BIB's perpetual subordinated bonds program's National Long-term Rating is four notches below its anchor rating, BIB's Long-Term National Ratings ('AA(pan)'). According to Fitch's criteria, a two-notch downgrade is applied to reflect the loss severity arising from the bonds' deep subordination, as they will only have payment preference over BIB's common equity. An additional two-notch downgrade is applied to reflect incremental non-performance risk relative to its anchor given the bonds' non-cumulative coupon omission capability.

Debt Rating Classes

Rating Level	Rating
Junior subordinated: National Long-Term	A-(pan)

Source: Fitch Ratings.

Significant Changes

Financial Institutions Ratings Following Colombia's Sovereign Downgrade

Fitch conducted a portfolio review of Colombian and Central American Financial Institutions (FI) following Colombia's sovereign downgrade to 'BB+' from 'BBB-'. The review also followed Fitch's adjustment of its OE assessment for Colombian FIs to 'bb'/Stable from 'bb+/-Negative'. The stabilization of the operating environment trend indicates that Fitch expects any additional fallout from the pandemic to be manageable for Colombian FIs at their current rating levels (see "Fitch Downgrades Colombia's Ratings to 'BB+' from 'BBB-'; Outlook Revised to Stable" at www.fitchratings.com).

This portfolio review included Banco de Bogota, whose VR and IDR are rated at the same level of the Colombian sovereign. Fitch believes its ratings are more sensitive to OE deterioration, or further actions on the sovereign rating. Furthermore, the agency will not rate Colombian FIs higher than the sovereign rating, based on their current intrinsic credit profiles. These rating actions were reflected in the Colombian FI's Central American subsidiaries, which include BIB.

BIB's Ratings Movement Reflect Banco de Bogota's IDRs Changes

BIB's IDRs are support driven and equalized with those of its parent, mirroring any change in Banco de Bogota's IDRs and Rating Outlook. The National Ratings were also downgraded to reflect changes in Banco de Bogota's creditworthiness relative to other rated issuers in Panama. The Stable Rating Outlooks on the LT IDR and LT National Rating are aligned with Banco de Bogota's Stable Rating Outlook. BIB's Support Rating (SR) was downgraded to '3' from '2'

Institutional Support Assessment

Highly Probable Support

BIB's SR of '3' reflects Fitch's view of the moderate probability of extraordinary support from Banco de Bogota given the latter's rating, coupled with Fitch's assessment of a moderate propensity to support BIB, if required. Fitch's support assessment considers the substantial importance of BIB's role in Banco de Bogota's international strategy. The existence of cross-default clauses also highly influences the agency's view that Banco de Bogota has a strong incentive to provide timely support to BIB. Banco de Bogota is the second-largest Colombian bank in terms of consolidated assets and deposits.

Summary Financials and Key Ratios

(USD Mil., Year End as of Dec. 31)	3/31/21 3 Months - 1st Quarter	2020	2019	2018	2017
Summary Income Statement					
Net interest and dividend income	293.2	1,254.8	1,293.9	1,217.1	1,148.0
Net fees and commissions	150.6	566.4	687.9	648.2	598.6
Other operating income	60.3	249.7	147.8	210.4	157.6
Total operating income	504.1	2,070.9	2,129.6	2,075.7	1,904.2
Operating costs	288.3	1,164.8	1,199.1	1,128.1	1,052.0
Pre-impairment operating profit	215.8	906.1	930.5	947.6	852.2
Loan and other impairment charges	88.2	465.6	382.9	376.6	309.2
Operating profit	127.6	440.5	547.6	571.0	543.0
Other non-operating items (net)	N.A.	4.3	6.9	(0.5)	(12.0)
Tax	23.6	130.2	144.0	165.2	155.0
Net income	104.0	314.6	410.5	405.3	376.0
Other comprehensive income	21.3	(106.4)	108.9	(113.6)	(37.1)
Fitch comprehensive income	125.3	208.2	519.4	291.7	338.9
Summary Balance Sheet					
Assets					
Gross loans	17,293.8	17,174.6	16,736.4	16,142.8	15,428.9
- of which impaired	284.8	294.2	257.2	216.2	183.2
Loan loss allowances	660.8	669.7	511.3	483.8	234.7
Net loans	16,633.0	16,504.9	16,225.1	15,659.0	15,194.2
Interbank	4,534.7	5,152.0	3,244.1	3,466.1	3,280.3
Derivatives	N.A.	0.8	N.A.	0.5	0.5
Other securities and earning assets	3,653.4	2,919.7	2,242.2	1,704.3	1,649.8
Total earning assets	24,821.1	24,577.4	21,711.4	20,829.9	20,124.8
Cash and due from banks	654.8	708.7	727.1	704.2	659.1
Other assets	1,302.0	1,337.8	1,526.6	1,217.6	1,234.2
Total assets	26,777.9	26,623.9	23,965.1	22,751.7	22,018.1
Liabilities					
Customer deposits	21,117.5	20,310.7	17,149.2	15,686.9	14,941.7
Interbank and other short-term funding	299.2	25.9	297.1	340.8	62.0
Other long-term funding	2,145.5	2,997.6	2,608.4	3,209.3	3,569.6
Trading liabilities and derivatives	N.A.	N.A.	N.A.	1.8	0.6
Total funding	23,562.2	23,334.2	20,054.7	19,238.8	18,573.9
Other liabilities	645.2	780.5	989.2	821.1	815.8
Preference shares and hybrid capital	N.A.	N.A.	N.A.	N.A.	N.A.
Total equity	2,570.5	2,509.2	2,921.2	2,691.8	2,628.4
Total liabilities and equity	26,777.9	26,623.9	23,965.1	22,751.7	22,018.1

Note: 1Q21 and YE20 loans and securities balances include accrued interest receivable and unearned fees. 1Q21 and YE20 funding balances also include accrued interest payable.

N.A. - Not applicable.

Source: Fitch Ratings, Fitch Solutions, BIB..

Summary Financials and Key Ratios

Ratios (annualized as appropriate)	3/31/21	12/31/20	12/31/19	12/31/18	12/31/17
Profitability					
Operating profit/risk-weighted assets	2.5	2.2	2.8	3.2	3.2
Net interest income/average earning assets	4.8	5.4	6.1	6.0	6.0
Non-interest expense/gross revenue	57.2	56.3	56.3	54.4	55.3
Net income/average equity	16.6	11.7	14.2	15.3	14.9
Asset quality					
Impaired loans ratio	1.7	1.7	1.5	1.3	1.2
Growth in gross loans	0.7	2.6	3.7	4.6	8.5
Loan loss allowances/impaired loans	232.0	227.6	198.8	223.8	128.1
Loan impairment charges/average gross loans	2.0	2.7	2.3	2.4	2.1
Capitalization					
Common equity Tier 1 ratio	9.1	9.1	11.5	11.8	11.8
Fully loaded common equity Tier 1 ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital ratio	10.3	10.3	12.7	13.1	13.1
Tangible common equity/tangible assets	8.3	8.0	10.7	10.4	10.4
Basel leverage ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Net impaired loans/common equity Tier 1	(19.6)	(20.2)	N.A.	N.A.	N.A.
Net impaired loans/Fitch Core Capital	(17.3)	(17.8)	(10.1)	(11.5)	(2.3)
Funding and liquidity					
Loans/customer deposits	81.9	84.6	97.6	102.9	103.3
Liquidity coverage ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Customer deposits/funding	89.6	87.0	85.5	81.6	80.5
Net stable funding ratio	N.A.	N.A.	N.A.	N.A.	N.A.

Note: 1Q21 and YE20 loans and securities balances include accrued interest receivable and unearned fees. 1Q21 and YE20 funding balances also include accrued interest payable.

N.A. – Not applicable.

Source: Fitch Ratings, Fitch Solutions, BIB.

Environmental, Social and Governance Considerations

FitchRatings **BAC International Bank, Inc.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

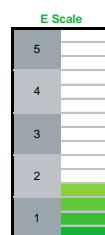
BAC International Bank, Inc. has 5 ESG potential rating drivers

- 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.

			Overall ESG Scale	
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	Company Profile; Management & Strategy; Risk Appetite; Asset Quality



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.

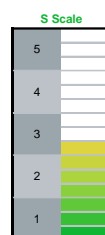
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far 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.

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.

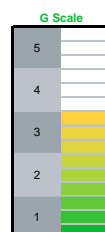
Social (S)

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	Company Profile; Management & Strategy; Risk Appetite
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; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
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	Company Profile; Financial Profile



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
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	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



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, due to either their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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