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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	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

Support: -1	
ALAC support	0
GRE support	0
Group support	-1
Sovereign support	0

Additional factors: 0
Issuer credit rating
BB+/Watch Pos/B

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

Credit Highlights

Issuer Credit Rating
BB+/Watch Pos/B

Key strengths	Key risks
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 the bank is highly exposed;	Adverse economic environment, coupled with the region's political vulnerability represent a challenge for the bank's profitability and asset quality metrics.
A leading player in consumer lending and the largest financial conglomerate in Central America; and	
BAC International Bank Inc.'s (BIB) funding structure leans on a stable and fragmented deposit base with manageable short-term financial obligations.	

The CreditWatch positive listing reflects a one-in-two chance of an upgrade during the next 90 days, after BIB's spin-off is completed. After the spin-off transaction of BAC Holding International Corp. (BHI, formerly Leasing Bogotá Panamá S.A.) from Banco de Bogota S.A. y Subsidiarias (BBogota), we could raise the long-term issuer credit rating on BAC International Bank (BIB) to the level of its 'bbb-' stand-alone credit profile (SACP) because its creditworthiness will no longer be limited by that of BBogota.

We expect BIB to maintain its leading position in Central America, as well as its solid business diversification by geography, lending segment, and customer base. BIB's leading position in the region is thanks to a broad customer base and wide geographical footprint, which have allowed the bank to remain resilient to challenging economic and political conditions in Central America. We expect the bank's business stability to continue as a result of its prominent market position, loyal customer base, and strong management that has ample experience in the Central American banking industry.

We expect profitability to continue recovering and support internal capital generation during the next 12 months. During the first nine months of 2021, BIB's revenue has been rising, supporting profitability metrics and internal capital generation. Our risk-adjusted capital metric, estimated at 6.2% for the next 12-24 months, is thanks to robust earnings amid solid net interest margins and fee income, coupled with good efficiency and lower cost of risk.

CreditWatch

The CreditWatch positive listing reflects a one-in-two chance of an upgrade after BIB's spin-off is completed. The upgrade could reach the level of BIB's SACP, given that ratings on BBogota will no longer cap ratings on BIB. On the other hand, we could affirm the ratings on BIB if the transaction doesn't take place. We expect to resolve the CreditWatch placement once regulatory approval and the remaining legal and operational processes are finalized, particularly in Colombia, which we expect to occur during first quarter of 2022.

Key Metrics

BAC International Bank Inc.--Key Ratios and Forecasts

	--Fiscal year ended Dec. 31--					
(%)	**2018a**	**2019a**	**2020a**	**2021e**	**2022f**	**2023f**
Growth in operating revenues	8.7	2.7	(3.6)	3.3-4.0	5.8-7.1	6.0-7.3
Growth in customer loans	4.6	3.7	2.3	8.1-9.9	7.7-9.4	8.6-10.5
Growth in total assets	3.3	5.3	11.1	5.1-6.2	6.1-7.4	7.2-8.8
Net interest income/average earning assets (NIM)	7.0	7.0	6.4	5.6-6.2	5.6-6.2	5.7-6.2
Cost to income ratio	54.3	56.2	56.6	54.8-57.6	54.8-57.6	54.5-57.2
Return on assets	1.8	1.8	1.2	1.5-1.8	1.5-1.8	1.5-1.9
New loan loss provisions/average customer loans	2.4	2.3	2.7	1.6-1.8	1.5-1.7	1.4-1.6
Gross nonperforming assets/customer loans	1.4	1.7	1.9	1.5-1.7	1.6-1.7	1.6-1.7
Net charge-offs/average customer loans	2.0	2.2	1.7	1.5-1.5	1.4-1.4	1.4-1.4
Risk-adjusted capital ratio	6.4	6.6	6.5	6.2-6.6	6.1-6.4	6.0-6.3

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

Anchor: 'bb+' Stemming From Weighted Average Economic Risks And From 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 (27%), Panama (23%), Guatemala (20%), Honduras (13%), El Salvador (12%), and Nicaragua (5%) as of September 2021. As a result, the weighted economic risk is '7'. The common factor driving this economic risk score is low GDP per capita in the countries where the bank 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 financial system is stable. The latter reflects the regulator's measures to provide support to cushion the pandemic's impact, the Financial

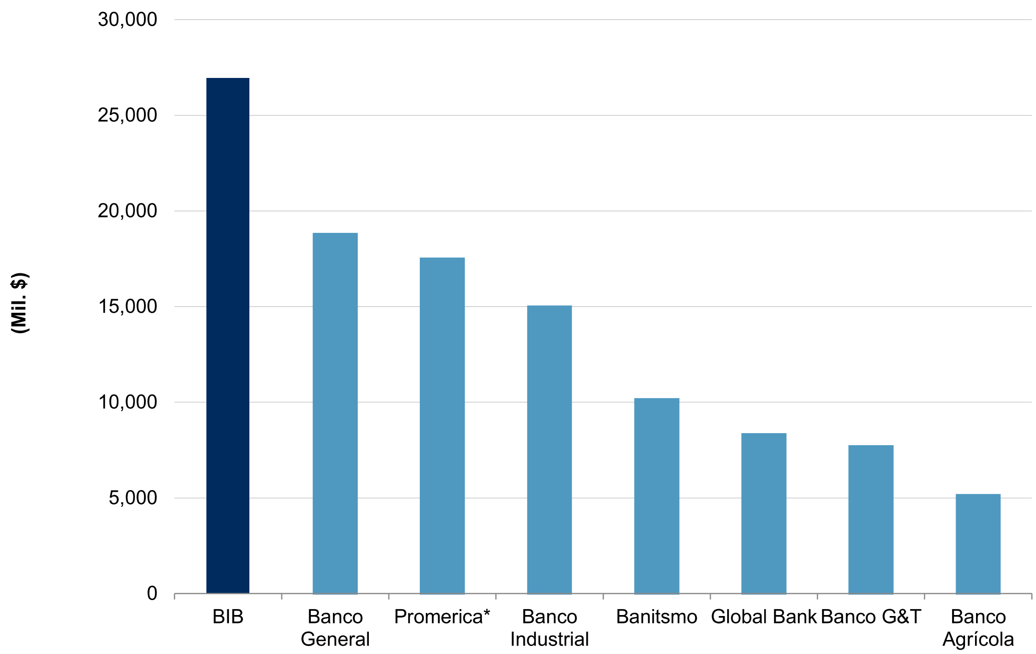
Action Task Force's (FATF's) placement of Panama on its "grey" list and EU's placement of the country on its blacklist, both of which haven't posed significant risks to Panama's financial system. The industry risk trend also reflects the absence of a formal lender of last resort. The regulator is allowing banks to renegotiate loans without marking them as nonperforming, enabling them to use their provisions, while requiring the creation of a provision for their modified loans. Moreover, the government has been successful in using Banconal in providing adequate liquidity to the banking system during the pandemic-induced economic crisis through short-term liquidity facilities. Finally, the FATF and EU's actions haven't damaged economic growth or investment in the country.

Business Position: Business And Geographic Diversification Will Continue Providing Cushion Against Adverse Economic And Political Conditions In 2022-2023

We believe BIB's diversified operations and position as the largest bank in Central America (about 11.2% and 10.7% of market share in terms of loans and deposits, respectively, as of September 2021) have mitigated the fallout from the pandemic-induced economic shock. While the latter caused the bank's operating revenues to shrink in 2020, we estimate they expanded about 4% during 2021 and we expect growth of about 6.5% in 2022. BIB's enhancement of its digital platforms provided a competitive advantage that contributed to its business stability, and we expect this to remain the case as digitalization remains a pillar for the overall strategy. As of September 2021, client engagement through digital channels represented 45% of its customer base and 92% of the bank's total transactions (monetary and nonmonetary) were performed through digital platforms, including mobile banking and web banking, among others. Finally, we project lending to increase about 9% in 2022-2023, mainly in 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 helped overcome economic woes in the past. Overall, we believe BIB is better positioned than smaller regional peers.

Chart 1

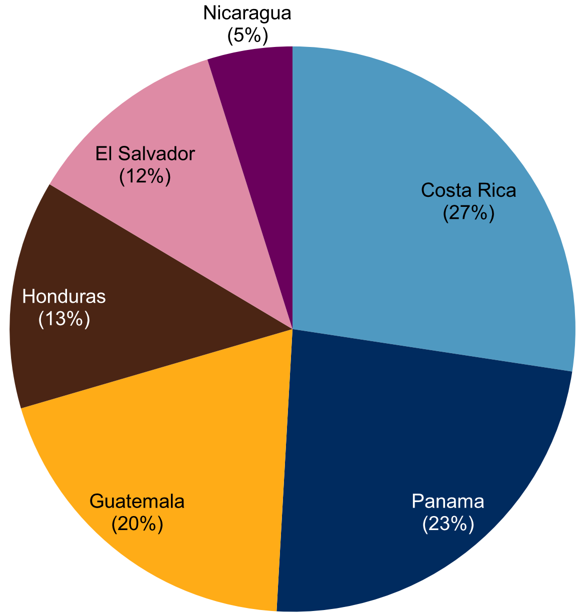
Assets Comparison
Data as of September 2021



Source: Banks' financial statements.

Chart 2

Loan Breakdown By Country



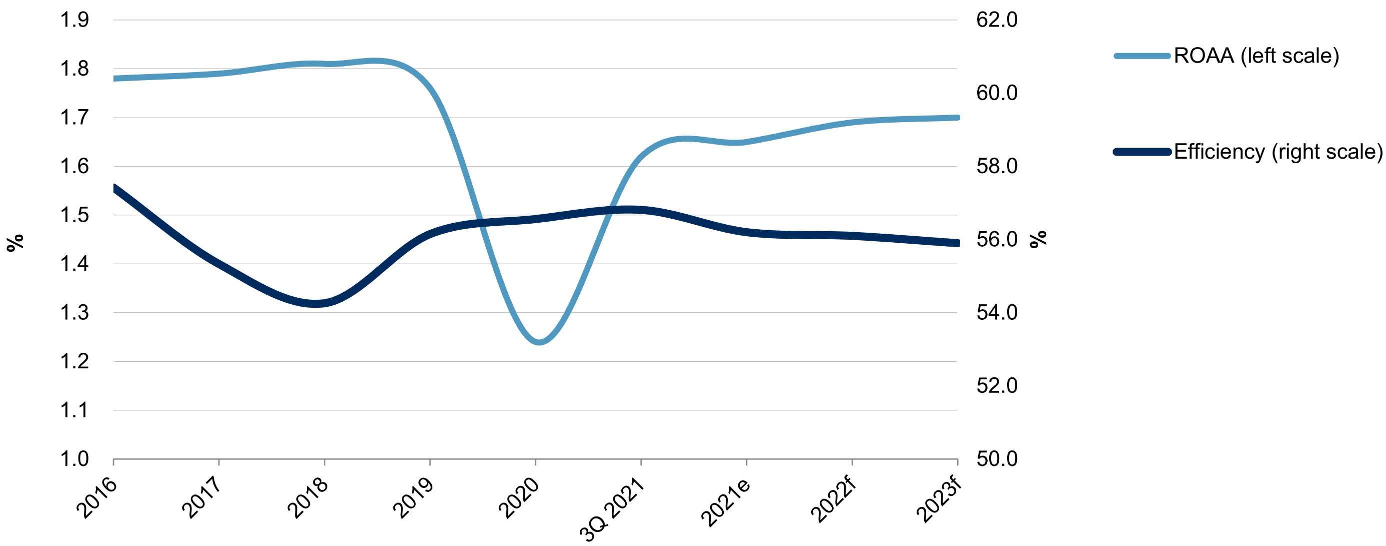
Source: BIB's Financial Statements.

Capital And Earnings: Capitalization Remain Stable Amid Rising Profitability For The Next 12-24 Months

Our forecasted risk-adjusted capital (RAC) ratio for 2022-2023 will average 6.2%, which is in line with our estimated RAC ratio of 6.4% at the end of 2021. The high quality of earnings based on stable income sources--such as interest and fee income that account for about 88% of total operating revenues—relatively modest growth prospects, and healthy reserve coverage ratios will prevent the bank's capital and earnings from weakening for at least the next two years. In this regard, we estimate net income to jump about 41%, reflecting higher business volumes and lower cost of risk as credit conditions improved for most of BIB's customers. Bottom-line results benefited from solid efficiency levels, at about 56% of operating revenue, reflecting an optimization in its branch network amid the expanding digital platform. We continue to see a high quality of capital for BIB. Although we consider perpetual subordinated bonds in BIB's capital base as Tier 1 due to their characteristics, they represent less than 20% of the total adjusted capital. The remainder continues to consist mainly of paid-in capital and retained earnings. Finally, for 2022-2023, we expect profitability to return to pre-pandemic levels, with a projected return on adjusted assets of about 1.7%.

Chart 3

BIB's Profitability Metrics



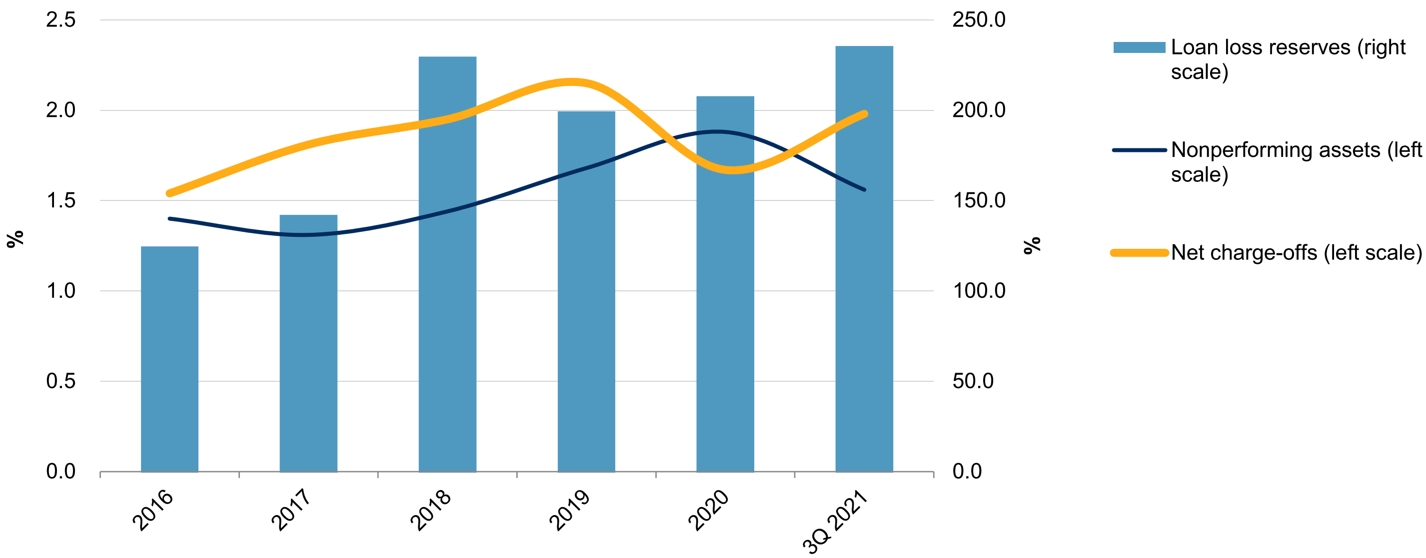
ROAA--Return on average assets. e--Estimate. f--Forecast. Q--Quarter. Source: S&P Global Ratings.

Risk Position: Manageable Asset Quality And Credit Losses Despite Depressed Economy

In our view, BIB will maintain manageable asset quality metrics in the next few years due to its adequate underwriting standards and conservative risk appetite, despite the region's weak economy. The bank's COVID-19 borrower relief program covered 51% of its total loans at its peak in June 2020. Nevertheless, as of September 2021, the vast majority of borrowers under this program have resumed payments and just 3% of the total loan book remains under forbearance programs. As of September 2021, the bank's nonperforming assets (NPAs) were 1.6%, with a reserve coverage of 235%, and net charge-offs of about 2.0% of the total portfolio. In line with BIB's conservative lending standards amid the economic slump, we expect NPAs to be about 1.7% in the next two years, fully covered by reserves. In our view, these indicators are still manageable and better than those of its peers in Central America. Additionally, the bank's well-diversified risk portfolio in terms of clients and economic sectors could help limit future losses and help it navigate difficult conditions during 2022. In this regard, as of September 2021, BIB's top 20 largest loans represented 7.2% of its total loan portfolio and 47% of its total adjusted capital. The latter reflects the bank's focus on retail lending, keeping its loan portfolio relatively fragmented. Finally, the portfolio consisted of commercial loans (45%), consumer loans (35%), and residential and commercial mortgages (20%). Despite the absence of meaningful economic sector concentration, we note that the bank lends to sectors that are vulnerable to the impact of mobility restrictions such as tourism, restaurants, entertainment, construction, and transportation. Nevertheless, loans to these sectors account for only 6.5% of the bank's total portfolio.

Chart 4

BIB's Asset Quality



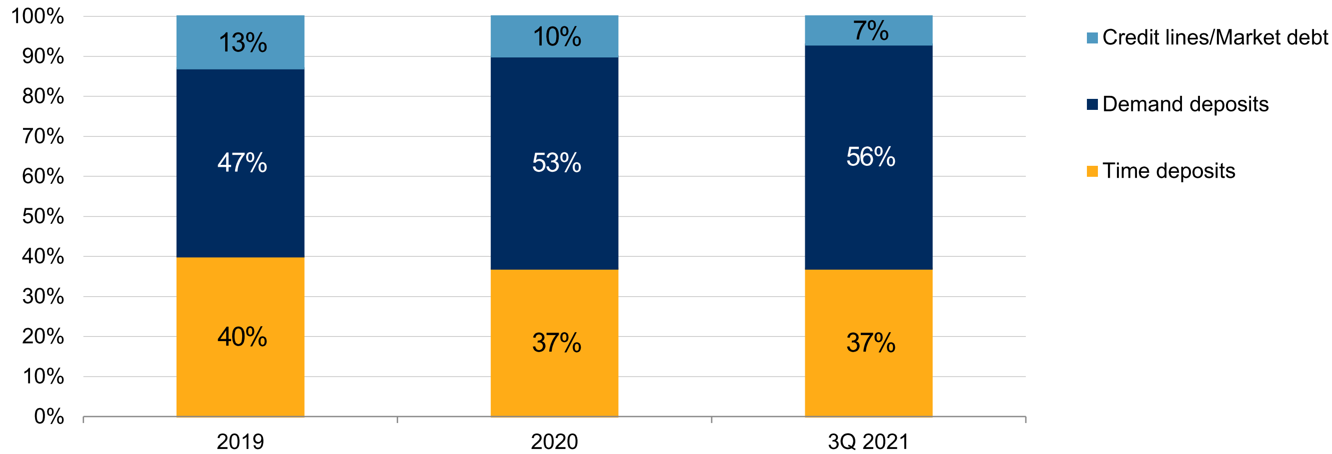
Q--Quarter. Source: S&P Global Ratings.

Funding And Liquidity: A Stable Funding Base Provides Financial Flexibility Under Stressful Conditions, Low Refinancing Risk In The Next 12 Months

BIB's funding structure remains resilient to adverse conditions, given that customer deposits make up about 93% of the total funding base as of September 2021, followed by interbank credit facilities (7%). Additionally, although access to funding could narrow and liquidity needs could increase during adverse economic and market conditions, we expect BIB deposit base to remain stable given that it's the largest financial institution in Panama, bolstering client loyalty under the "flight-to-quality" conditions. In this regard, we expect our stable funding ratio to remain above 100% during 2022 because we don't forecast significant changes in the funding mix. BIB's liquidity is more than sufficient to cover its operations. As of September 2021, its liquidity ratio was 6.7x with a three-year average of 8.5x. Its liquidity coverage ratio is significantly higher than the average of banking systems in Central America and banks across Latin America. However, we believe this is a prudent approach, mainly because some of BIB's security holdings are instruments that trade in the local capital market, which lacks a deep and developed secondary market that could otherwise provide liquidity under adverse conditions.

Chart 5

BIB's Funding Mix



Source: S&P Global Ratings.

Support: A Core Subsidiary Until Spin-Off Is Completed

We continue to view BIB as a core entity for BBogota until the spin-off is completed. In this regard, the ratings on BBogota continue to limit the ratings on BIB. Nevertheless, if regulators approve the spin-off, we'll no longer consider BIB as a core subsidiary, eliminating its rating cap.

Environmental, Social, And Governance Factors (ESG)

ESG Credit Indicators

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.

ESG factors have no material influence on our credit rating analysis of BIB. Like other banks in Central America, BIB is also on the path of improving its sustainable objective and policies, with an environmental and social loan book that has been increasing in recent years. The bank is in the process of measuring its direct footprint in the different 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 for its peers.

Moreover, 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 that the premise of 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 to face a wider range of legal and nonfinancial risks. At the same time, we think 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)	**2021***	**2020**	**2019**	**2018**	**2017**
Adjusted assets	26,537.8	26,228.8	23,575.3	22,383.7	21,640.1
Customer loans (gross)	18,024.4	17,174.6	16,788.0	16,195.4	15,481.7
Adjusted common equity	2,245.2	2,065.4	2,467.6	2,329.9	2,255.5
Operating revenues	1,551.1	2,059.5	2,135.6	2,079.1	1,912.4
Noninterest expenses	881.1	1,164.8	1,199.1	1,128.0	1,058.1
Core earnings	325.3	314.6	410.5	405.3	376.0

*Data as of Sept. 30. PAB--Balboa.

Table 2

BAC International Bank Inc.--Business Position					
	--Year-ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Total revenues from business line (currency in millions)	1,551.1	2,059.5	2,135.6	2,082.6	1,907.0
Commercial banking/total revenues from business line	86.9	88.4	92.8	89.6	91.8
Trading and sales income/total revenues from business line	10.2	10.1	4.6	7.9	6.2
Other revenues/total revenues from business line	2.9	1.5	2.6	2.5	2.0
Return on average common equity	16.7	11.6	14.6	15.2	15.0

*Data as of Sept. 30.

Table 3

BAC International Bank Inc.--Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Tier 1 capital ratio	11.6	11.6	11.5	11.8	11.8
S&P Global Ratings’ RAC ratio before diversification	N/A	6.5	6.6	6.4	6.5
S&P Global Ratings’ RAC ratio after diversification	N/A	5.4	5.7	5.4	5.5
Adjusted common equity/total adjusted capital	81.2	79.9	100.0	100.0	100.0
Net interest income/operating revenues	59.0	60.9	60.6	58.5	60.0
Fee income/operating revenues	27.9	27.5	32.2	31.2	31.5

Table 3

BAC International Bank Inc.--Capital And Earnings (cont.)					
	--Year-ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Market-sensitive income/operating revenues	10.2	10.1	4.6	8.0	6.2
Cost to income ratio	56.8	56.6	56.1	54.3	55.3
Preprovision operating income/average assets	3.3	3.5	4.0	4.2	4.1
Core earnings/average managed assets	1.6	1.2	1.8	1.8	1.8

*Data as of Sept. 30. N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

BAC International Bank Inc.--Risk Position					
	--Year-ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Growth in customer loans§	6.6	2.3	3.7	4.6	8.1
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	20.5	15.5	18.2	18.8
Total managed assets/adjusted common equity (x)	12.0	12.9	9.7	9.8	9.8
New loan loss provisions/average customer loans	2.0	2.6	2.3	2.4	2.1
Net charge-offs/average customer loans	2.0	1.7	2.2	2.0	1.8
Gross nonperforming assets/customer loans + other real estate owned	1.6	1.9	1.7	1.4	1.3
Loan loss reserves/gross nonperforming assets	235.0	207.2	198.9	229.2	141.4

Data as of Sept. 30. §Growth in customer loans for 2021 is calculated year-on-year. N/A--Not applicable. RWA--Risk-weighted assets.

Table 5

BAC International Bank Inc.--Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Core deposits/funding base	92.7	89.8	86.5	81.5	80.4
Customer loans (net)/customer deposits	82.1	81.3	94.6	99.8	101.7
Long-term funding ratio	96.0	96.9	97.2	97.0	97.0
Stable funding ratio	124.9	130.2	117.5	119.1	117.9
Short-term wholesale funding/funding base	4.5	3.4	3.1	3.3	3.3
Broad liquid assets/short-term wholesale funding (x)	6.7	9.6	8.3	7.6	7.3
Broad liquid assets/total assets	25.4	28.0	21.3	21.3	20.6
Broad liquid assets/customer deposits	32.4	36.7	29.7	30.8	30.3
Short-term wholesale funding/total wholesale funding	46.4	27.5	23.0	18.0	17.0

*Data as of Sept. 30.

Related Criteria

- 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
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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

Ratings Detail (As Of March 3, 2022)*	
BAC International Bank Inc.	
Issuer Credit Rating	BB+/Watch Pos/B
Issuer Credit Ratings History	
20-Sep-2021	BB+/Watch Pos/B
12-Dec-2017	BB+/Stable/B
28-Jul-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+
Multibank Inc. y Subsidiarias	
Issuer Credit Rating	BB+/Stable/B
Senior Unsecured	BB+

*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.