CREDIT OPINION

7 August 2024

Update

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RATINGS

BAC International Bank, Inc

Domicile	PANAMA CITY, Panama
Long Term CRR	Baa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Ba1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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BAC International Bank, Inc

Update following rating affirmation, outlook remains stable

Summary

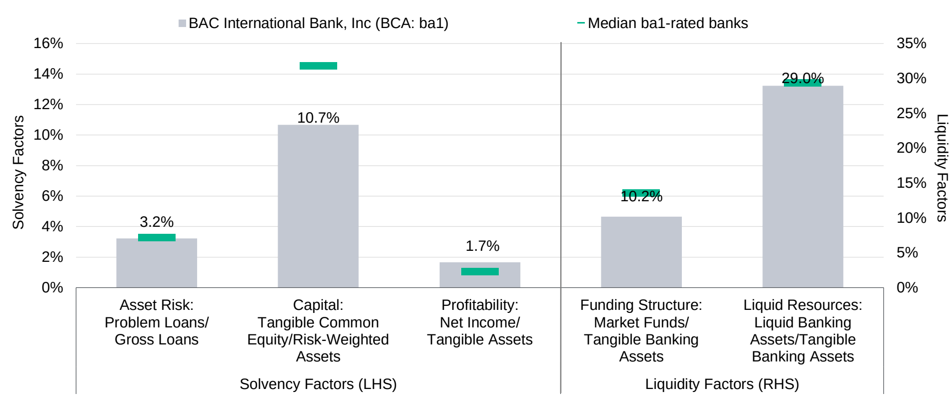
BAC International Bank, Inc's (BAC) Ba1 deposit rating incorporates the bank's standalone Baseline Credit Assessment (BCA) of ba1 that reflects its good track record of disciplined risk structure, geographic and business diversification, strong access to core deposits as well as adequate liquidity profile. BAC benefits from solid and recurring earnings, supported by ample interest margins, which lead to good capital replenishment capacity. These positive credit drivers are balanced out by the exposure to challenging operating conditions in Central American countries.

BAC is rated significantly above the sovereign rating of most of the countries in which it operates, reflecting its diversification and consistently strong financial performance over time. Of the bank's loan portfolio, 60% is located in countries that are rated B or lower, such as Costa Rica (B1 positive), Honduras (B1 stable), El Salvador (Caa1 stable) and Nicaragua (B2 stable), with the remaining exposures in Panama (Baa3 stable) and Guatemala (Ba1 stable).

Exhibit 1

Rating Scorecard - Key financial ratios

BAC's Scorecard Ratios as of March 2024



For the asset-risk and profitability ratios, we calculate the average of the three latest year-end numbers and the latest quarterly data if available, and the ratio used is the weaker of the average versus the latest period. For the capital ratio, we use the latest figure. For the funding structure and liquid resources ratio, we use the latest year-end figures.
Source: Moody's Financial Metrics

Credit strengths

» Robust profitability backed by ample net interest margins (NIMs) and solid fee income

» Favorable funding profile based on a granular and wide deposit base that supports good liquidity position

» Stable capitalization

Credit challenges

» High asset risks amid challenging macroeconomic conditions in Central America and tight financial conditions

» Weak operating conditions in most of the countries where the bank operates, as captured by the Weak+ weighted average Macro Profile, which constrains the bank's ratings

Outlook

The outlook on BAC's ratings is stable because we expect the bank to maintain its fundamental strengths despite the challenging operating conditions.

Factors that could lead to an upgrade

BAC's BCA and ratings could be upgraded if there was a significant and sustained improvement in the operating conditions of countries in Central America where the bank operates, while the bank maintains sound financial performance and capital position.

Factors that could lead to a downgrade

The bank's BCA could be downgraded if there was a substantial and long-lasting strain on asset quality, leading to a notable decrease in the bank's profitability and capitalization metrics.

Key indicators

Exhibit 2

BAC International Bank, Inc (Consolidated Financials) [1]

	03-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (USD Million)	35,350.9	34,502.7	31,049.9	28,065.5	26,623.9	9.1[4]
Tangible Common Equity (USD Million)	3,150.5	3,041.0	2,765.6	2,287.7	2,065.2	13.9[4]
Problem Loans / Gross Loans (%)	2.8	3.0	3.1	4.0	4.2	3.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	10.7	10.6	11.0	10.0	10.1	10.4[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	17.6	19.0	18.5	25.2	26.5	21.4[5]
Net Interest Margin (%)	5.6	5.6	5.2	4.8	5.1	5.3[5]
PPI / Average RWA (%)	4.3	4.3	4.2	4.3	4.6	4.4[6]
Net Income / Tangible Assets (%)	1.8	1.7	1.5	1.6	1.2	1.6[5]
Cost / Income Ratio (%)	55.7	57.1	56.9	56.2	56.1	56.4[5]
Market Funds / Tangible Banking Assets (%)	10.3	10.2	10.2	7.7	9.6	9.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	28.6	29.0	30.5	31.5	33.5	30.6[5]
Gross Loans / Due to Customers (%)	91.2	90.5	89.5	85.2	84.6	88.2[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

Profile

BAC International Bank, Inc (BAC) is the largest bank in Central America. It serves the retail and corporate segments in Costa Rica (29% of total loans), Panama (22%), Guatemala (18%), Honduras (15%), El Salvador (10%) and Nicaragua (6%). Retail banking represents 54% of its portfolio, with consumer loans accounting for 38% of gross loans and residential mortgages for 16% as of March 2024. Corporate exposures account for 46% of the total. BAC reported total assets of around $35.4 billion as of March 2024.

Detailed credit considerations

High asset risks are supported by geographic diversification, prudent risk management and strong reserve coverage

Historically, BAC has been able to maintain low delinquencies despite the diverse and challenging economic environment in the countries where it operates and its relatively high risk appetite given its substantial retail loan book. As of March 2024, retail loans represented about 54% of total loans. At the same time, BAC's good asset-quality track record reflects management's deep knowledge of the bank's markets and the proactive treatment of problem loans.

The consolidated problem loans, measured as loans classified as Stage 3 under IFRS, decreased to 2.8% as of March 2024 from 3.0% in March 2023, supported by resilient economic conditions in the region. The trend has been similar among BAC's main lines of business, with Stage 3 loans decreasing to 1.9% from 2.5% one year earlier in the commercial segment and to 3.2% from 3.3% of gross loans in consumer lending.

The 90-day past due loans remained stable at 1.2% in March compared to one year earlier, but also considers the effect of a high 14% loan expansion over the last twelve months, distributed on the corporate and consumer sector. The biggest expansion occurred in the riskier SME and credit card segments with annual growth rates of 28% and 23% respectively.

Problem loans are expected to stabilize around 3% as economic dynamism in the region moderates in 2024, and loan loss reserves to remain adequate above 100% of problem loans (stage 3 assets per IFRS accounting standards). In March 2024, reserve coverage stood at 108% of problem loans and 250% of 90-day past due loans.

Robust profitability on the back of ample margins and solid fee income

BAC's profitability is strong, benefiting from the bank's array of retail and corporate products that result in ample margins combined with robust fee income. Although lending margins in the commercial business are strained by increasing competition in the region, the bank is well positioned to face this risk, given the breadth of its customer base, continued innovation in payments technologies and funding access. Bottom-line profitability levels are above pre-pandemic levels, supported by its low funding costs and lower loss provisioning levels. During the first quarter of 2024, BAC's net income stood at an annualized 1.8% of tangible assets from 1.3% in the same period a year earlier.

As of March 2024, loan loss provisions increased to 1.8% of gross loans from 1.5% one year earlier, and stood below the average of 2.2% in 2017-19. We expect credit costs to return progressively to pre-pandemic levels, as asset quality deteriorates moderately amid slower economic growth and tighter for longer financial conditions.

Interest income increased 20% year-over-year in March 2024 and interest expense increased 31%, highlighting customers shift towards investment alternatives with high return than savings accounts. Still, BAC's net interest income led to a strong 15% growth, driving an improvement in the NIM to 5.6% in March 2024, its highest level in four years. Sound profitability is explained by the bank's ability to maintain an adequate cost of funding, primarily based on deposits and low reliance on market funds, while, at the same time, the loans repricing respond to the higher interest rate environment in the region. Moreover, fee income contributed with a solid 33% of the bank's net revenue.

The bank has historically maintained strict cost controls and has constantly sought optimization of business processes to help improve operating efficiency and, ultimately, the bottom-line results. However, BAC's operating expenses increased by 10% in March 2024, compared to the same period of 2023, with personnel expenses being the primary cause of this increase.

Overall, we expect BAC's profitability to remain strong, supported by a scenario of higher rates for longer. Moreover, the favorable economic environment in most Central American countries will support solid fee income that will likely help to compensate for higher provisions for loan losses as the bank continues rapidly expanding its credit card and SME lending.

Improved capitalization supported by earnings retention

By Moody's-defined Tangible Common Equity (TCE) to consolidated Risk Weighted Assets (RWA), BAC's capitalization stood at 10.7% as of March 2024, compared with 11.6% a year earlier. Our assessment for capital incorporates the bank's ability to internally generate capital even during times of stress. Our assessment of capital adequacy takes into consideration that over 50% of BAC's cash and reserves requirements at Central Banks outside Panama have a stricter regulatory framework for Risk-Weighted Assets (RWAs) under the Panamanian authority.

All of BAC's operating subsidiaries must comply with higher minimum total capital requirements than the 8% minimum applied to BAC by the Panamanian regulator where the bank is originally located.

Despite the 15% RWA growth in 12 months ended in March 2024, largely related to lending risk, tangible common equity increased 6% supported by strong earnings generation in the period, which partially offset the effect of higher dividends payout.

Stable funding structure and good liquidity buffers

BAC continues to benefit from a sound funding profile, supported by its broad and steady base of customer deposits, consistent with its well-established banking franchise in the region, which significantly reduces refinancing and repricing risks arising from tighter market conditions and high costs. As a result, its reliance on market funds, which were 10.3% of tangible banking assets as of March 2024, will likely remain low. The bank's deposit base kept expanding at an annual rate of 12%, and by March 2024, representing 75% of total assets. Corporate clients accounted for 59% of deposits.

The bank's large and stable customer deposit base benefits from its well-established and large retail franchise in Central America. Largely funded by core deposits, that accounted for 84% of total liabilities in March 2024, the bank's growing deposits mitigate risks associated with the global financial market volatility that will prevail in 2024.

This strong funding profile, combined with adequate liquidity buffers, which account for nearly a third of the balance sheet, further support BAC's financial flexibility. The bank's ample liquidity buffers reflect high liquidity reserve requirements in the countries where it operates, given the absence of a lender of last resort in some of its main markets. Liquid resources comprise cash, dues from banks, government debt, corporate debt and equity securities.

BAC's ratings are constrained by its Weak+ weighted average Macro Profile

BAC's Macro Profile is derived from a blended score, reflecting the composition of its loan portfolio as a bank operating in countries with Moderate to Very Weak+ Macro Profile scores: Panama (Moderate), Costa Rica (Moderate-), Guatemala (Weak+), Honduras, El Salvador (Very Weak+) and Nicaragua. The overall Weak+ Macro Profile reflects the relatively small economies in the region, with low GDP per capita, developing institutions and lack of true lenders of last resort in some cases, which increase the bank's susceptibility to event risks. The bank's Macro Profile is balanced by positive economic and institutional trends during the past decade, and strengthening of bank regulatory frameworks.

ESG considerations

BAC International Bank, Inc's ESG credit impact score is CIS-2

Exhibit 3
ESG credit impact score

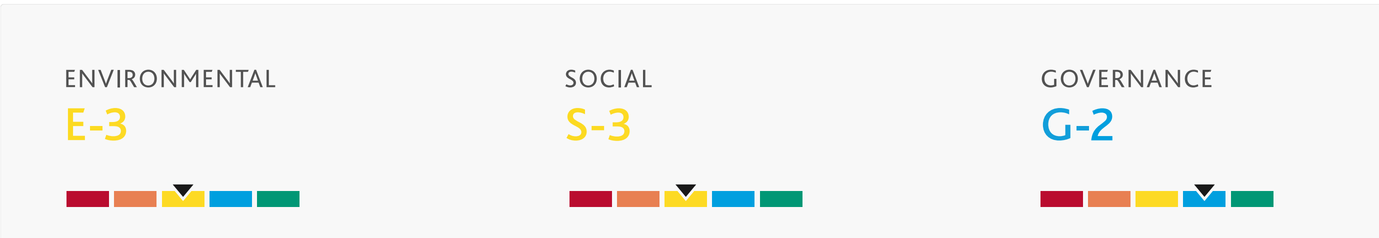
CIS-2

ESG considerations do not have a material impact on the current rating.

Source: Moody's Ratings

BAC International bank's **CIS-2** indicates that ESG considerations are not material to the rating to date. The bank's track record of sound risk management practices and strong financial performance mitigate its exposure to social and governance risks, in particular those arising from customer relations, concentrated ownership structure and relatively complex corporate structure with important multi-country operations that expose the bank to additional regulatory risks.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

BAC faces moderate environmental risks, primarily because of its portfolio exposure to carbon transition risk as a diversified and the largest bank in Central America. The bank has a broadly diversified loan portfolio, across various industries and geographies, which mitigates some of the environmental risks from carbon transition. In line with peers, it is facing mounting business risks and stakeholder pressure to meet more demanding carbon transition targets.

Social

BAC faces moderate social risks related to customer relations. The bank's developed policies and procedures mitigate risk associated with the distribution of financial products such as conduct, regulatory and reputational risks, as well as exposure to litigation. BAC is the largest lender in Central America, a region which has imposed only moderate penalties in relation to consumer protection. Continued investments in technology and the bank's long track record of handling sensitive customer data, as well as appropriate culture and governance that ensure adherence to regulatory standards, help to manage high cyber and personal data risks. Opportunities from financial inclusion are reflected in a better than industrywide exposure to demographic and societal trends.

Governance

BAC has low governance risks reflecting the bank's good internal controls and seasoned senior management team with track record in delivering its strategic goals; policies and procedures are in line with industry best practices and suitable for its risk appetite. This largely mitigates the bank's concentrated ownership structure which limits board independence, and a rather complex group structure stemming from its multi-country operations.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Government support

We do not incorporate government support uplift into BAC's deposit ratings because of the lack of a true lender of last resort in its home market of Panama, which is fully and legally dollarized, and in its other main markets, most of which are either fully or highly dollarized.

Counterparty Risk Ratings (CRRs)

BAC's CRRs are Baa3/Prime-3

BAC's CRRs, before government support, are positioned one notch above the Adjusted BCA of ba1 and, therefore, above deposit ratings. This reflects our view that BAC's CRR liabilities have a lower probability of default than the bank's deposits, as they will more likely be preserved to minimize banking system contagion and losses, and avoid disruption of critical functions.

The CRRs do not incorporate government support uplift, in line with our support assumptions on deposits.

Counterparty Risk (CR) Assessment

BAC's CR Assessment is Baa3(cr)/Prime-3(cr)

BAC's CR Assessment, before government support, is positioned one notch above the bank's Adjusted BCA of ba1 and, therefore, above the deposit ratings. This reflects our view that the probability of default is lower than that of deposits. Senior obligations represented by the CR Assessment will be more likely preserved to limit contagion, minimize losses and avoid disruption of critical functions.

We do not assign any government support uplift to the CR Assessment, in line with the deposit rating.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our rating committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 5
Rating Factors

Macro Factors		
Weighted Macro Profile	**Weak +**	**100%**

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	3.2%	ba2	↔	ba1	Expected trend	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	10.7%	b1	↔	ba2	Access to capital	
Profitability						
Net Income / Tangible Assets	1.7%	ba1	↔	ba1		
Combined Solvency Score		ba3		ba1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	10.2%	ba2	↔	ba1	Expected trend	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	29.0%	ba2	↔	ba2		
Combined Liquidity Score		ba2		ba1		
Financial Profile				ba1		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Baa3		
BCA Scorecard-indicated Outcome - Range				baa3 - ba2		
Assigned BCA				ba1		
Affiliate Support notching				0		
Adjusted BCA				ba1		

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	1	0	baa3	-		Baa3
Counterparty Risk Assessment	1	0	baa3 (cr)	-	Baa3(cr)	
Deposits	0	0	ba1	-	Ba1	Ba1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
BAC INTERNATIONAL BANK, INC	
Outlook	Stable
Counterparty Risk Rating	Baa3/P-3
Bank Deposits	Ba1/NP
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)

Source: Moody's Ratings

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