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:	Weaknesses:
• Lead player in consumer lending and the largest financial institution in Central America. • 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. • Solid and stable asset quality metrics.	• Recent economic struggles and political volatility in the region could represent a challenge for the bank's profitability and asset quality metrics. The moderate risk-adjusted capital (RAC) ratio reflects the region's economic risks.

Outlook: Stable

The stable outlook on BAC International Bank Inc. (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 economic challenges in the region. 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

We will revise the outlook back to stable if we do so to the parent.

Rationale

Our ratings on BIB reflect its leading market position in Central America on a consolidated basis and its sound business stability, supported by a large and well-diversified customer base. The ratings also reflect our projected RAC ratio of 6.7%, on average, over the next two years, underpinned by solid internal capital generation and a conservative dividend payout policy. Moreover, its stable asset quality and highly diversified loan portfolio (by location and sector) support our risk position assessment. Finally, we take into account the bank's large retail deposit base, well-managed liquidity sources, and manageable short-term 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 (25%), Guatemala (18%), Honduras (11%), El Salvador (11%), and Nicaragua (7%), as of the end of 2018. 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. The Panamanian financial system's Industry risk trend reflects the expectation that the country's regulatory framework will continue improving over the next few years by reducing the gap with international regulatory standards. In addition, we recognize the adequate competitive dynamics in a system with a large number of players and small market distortions, and our expectation that Panama's debt capital markets will remain underdeveloped and narrow in the short term.

Table 1

BAC International Bank Inc. Key Figures					
	--Year-ended Dec. 31--				
(Mil. $)	2018	2017	2016	2015	2014
Adjusted assets	22,383.7	21,640.1	19,658.7	18,331.3	16,697.6
Customer loans (gross)	16,195.4	15,481.7	14,315.9	13,108.3	11,591.9
Adjusted common equity	2,323.7	2,250.4	1,984.5	1,848.7	1,575.9
Operating revenues	2,079.1	1,912.4	1,776.1	1,592.5	1,471.5
Noninterest expenses	1,128.0	1,058.1	1,019.8	953.0	864.2
Core earnings	405.3	376.0	360.2	319.9	323.1

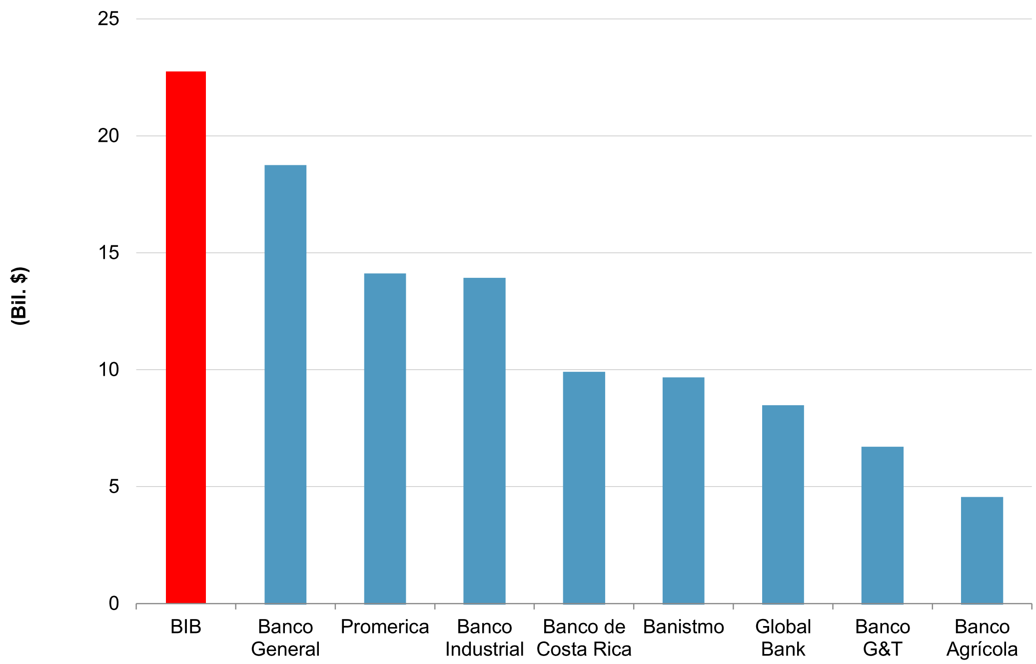
Business position: BIB maintains its leading position in Central America with stable operating revenues

Our business position assessment on BIB reflects its leading position in Central America, as well as its solid business diversification by segment and geography. BIB is the largest financial institution in Central America, operating in almost all countries in the region. The bank has regional market shares of 9.2% in total assets, 10.1% in loans, and 9.4% in deposits, and is one of the five largest banks in each country it operates in as of year-end 2018. Additionally, the bank has kept its leading position in credit card issuances with a large consumer client base..

In terms of revenue stability, total operating revenues had a compound annual growth rate of 10.3% in the last three fiscal years. Despite its focus on credit cards, BIB's business lines are well-diversified by segment and geography. Its loan portfolio, as of December 2018, consisted of 41% in the commercial segment, 20% in residential commercial mortgage loans, and 39% in consumer loans (of which 20% is credit cards, 11% personal loans, 6% auto loans, and 2% leasing). In terms of geography diversification, 28% of its loan portfolio is located in Costa Rica, 25% in Panama, 18% in Guatemala, 11% in Honduras, 11% in El Salvador, and 7% in Nicaragua as of the end of last year. BIB's exposure to Nicaragua has been decreasing gradually, and we expect this to continue due to recent deterioration in Nicaragua's fiscal and debt profiles and in its banking system due to persistent economic contraction and greater difficulties in obtaining foreign exchange financing. The Nicaraguan banking industry had a 15.1% reduction in total loans last year, while BIB's operations there decreased about 18.4%. Despite the political conflicts that have hurt the Nicaraguan economy, BIB's overall performance remained stable and in line with our expectations thanks to its large and well-diversified business operations. Lastly, BIB benefits from a strong management team that has ample experience and has been very successful with the group's acquiring business strategy, which has enhanced its regional presence and consolidated its geographic diversification.

Chart 1

Total Assets of BIB And Peers



Data as of December 2018, except for Banco G&T and Banco Industrial with data as of September 2018.
Source: S&P Global Ratings.

Table 2

BAC International Bank Inc. Business Position

	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Total revenues from business line (currency in millions)	2,082.6	1,907.0	1,755.3	1,592.5	1,471.5
Trading and sales income/total revenues from business line	7.9	6.2	6.4	5.5	7.5
Other revenues/total revenues from business line	2.5	2.0	1.1	2.1	2.4
Investment banking/total revenues from business line	7.9	6.2	6.4	5.5	7.5
Return on average common equity	15.2	15.0	15.0	15.2	19.0

Capital and earnings: Average RAC ratio of 6.7% over the next 18 to 24 months

Our capital and earnings assessment is primarily based on our forecasted RAC ratio, which we estimate will be around 6.7% over the next 24 months. As of December 2018, our RAC ratio was 6.4%, supported by a solid internal capital generation and manageable loan portfolio growth. Our forecast RAC ratio for the next two years takes into account the following base-case scenario assumptions:

- Central American economies expand as follows this year: Costa Rica by about 3.0%, Guatemala 3.0%, Honduras 3.7%, El Salvador 2.4%, and Panama 5.5%.

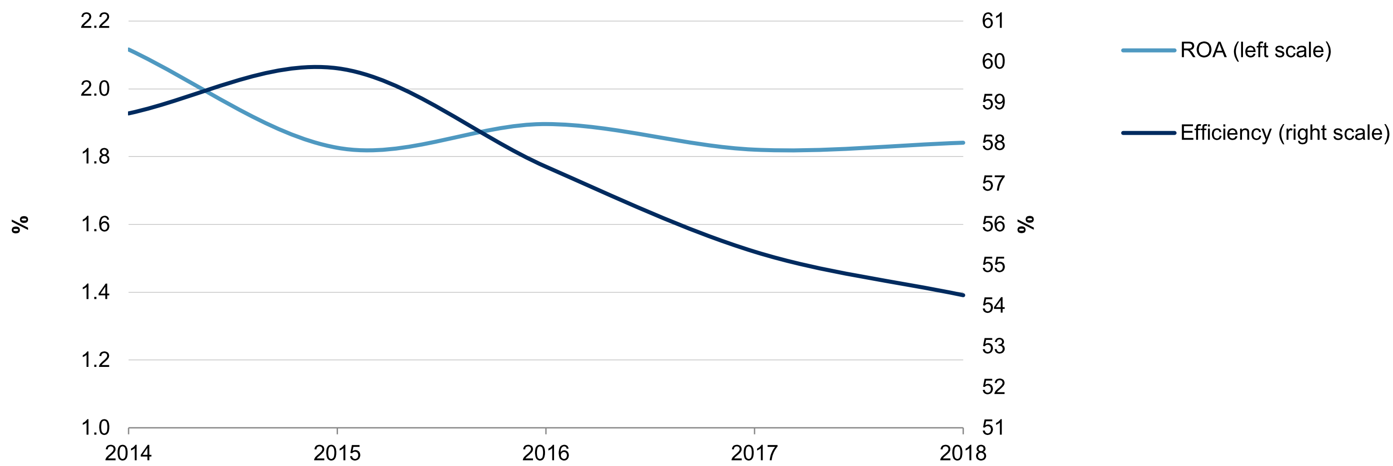
- Loan portfolio growth of 6.5% and 7.0% for 2019 and 2020, respectively.
- Net interest margins (NIMs) in 2019 at about 6.9%, reflecting that the high competition in the region will continue pressuring lending prices and increasing funding costs.
- Dividend pay-out ratio of 30% for 2019 and 2020.
- Efficiency ratio at about 55% over the next two years, in line with historical levels.
- Return on assets (ROA) at about 1.8%.
- Nonperforming assets (NPAs) and credit losses will remain stable at 1.5% and 1.9%, respectively, over the next two years.
- No acquisitions in the next 12 months.

We continue to see high quality of capital based on BIB's lack of hybrid capital instruments, but most importantly due to the sound and resilient quality of earnings that provides sufficient financial stability to pass sovereign stress test for Costa Rica with no major pressures. Moreover, given the current difficult economic and political conditions in Nicaragua (B-/Negative/B), we ran a sovereign stress test for that country in order to analyze the potential negative impact on BIB from that exposure. We conclude that the exposure would have a non-material impact to our RAC ratio calculation and regulatory capital ratio.

BIB's profitability metrics continue to compare well with other large regional players. As of Dec. 31, 2018, core earnings to average adjusted assets was about 1.84% and has hovered between 1.82% and 1.90% over the past three years. Moreover, the bank's adequate cost-income ratio supports its quality of earnings. This ratio was 54.3% as of year-end 2018, somewhat improved from previous years. Furthermore, net interest income accounts for around 59% of total revenues, fees 31%, and trading 8%. We expect this mix to remain the same over the next two years, with no major disruptions in any of BIB's business lines or income sources. We forecast that quality of capital and earnings will remain strong in the foreseeable future because of our expected growth for BIB and its adequate underwriting and cost policies.

Chart 2

BIB's Profitability
Data as of December 2018



ROA--Return on assets.

Table 3

BAC International Bank Inc. Capital And Earnings

	--Year-ended Dec. 31--				
(%)	2018	2017	2016	2015	2014
Tier 1 capital ratio	11.8	11.8	11.0	13.5	12.9
S&P Global Ratings' RAC ratio before diversification	6.4	6.5	6.2	N/A	N/A
S&P Global Ratings' RAC ratio after diversification	5.4	5.4	5.3	N/A	N/A
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	58.5	60.0	60.2	61.6	61.2
Fee income/operating revenues	31.2	31.5	31.2	30.8	29.0
Market-sensitive income/operating revenues	8.0	6.2	6.4	5.5	7.5
Noninterest expenses/operating revenues	54.3	55.3	57.4	59.8	58.7
Preprovision operating income/average assets	4.2	4.1	3.9	3.6	3.9
Core earnings/average managed assets	1.8	1.8	1.9	1.8	2.1

N/A--Not applicable.

Risk position: Asset quality and credit losses at stable and healthy levels despite Nicaragua's risky economic situation

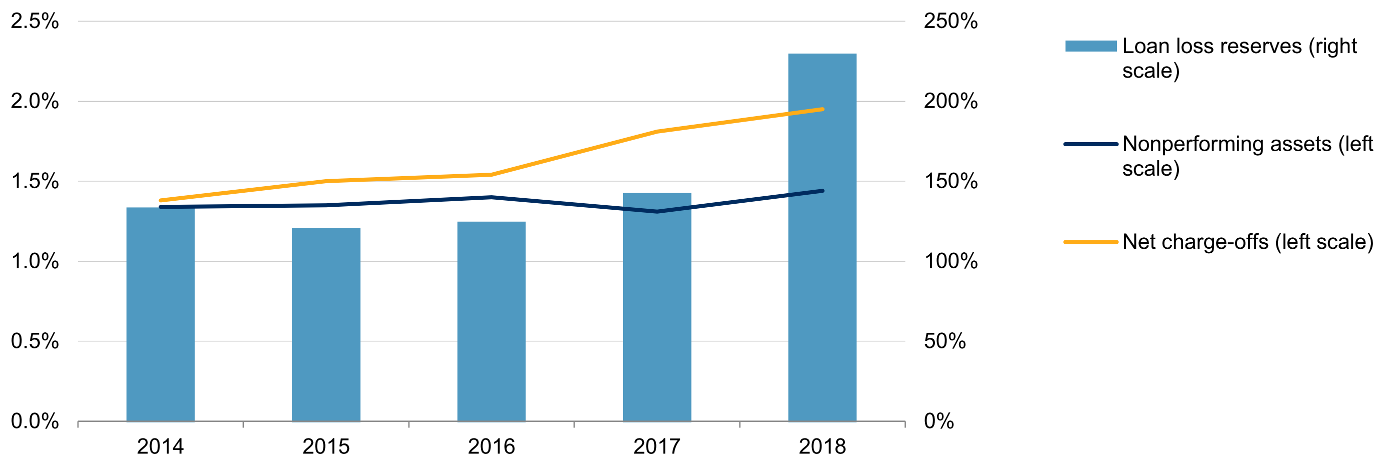
Despite economic challenges in the region, BIB has been able to grow while keeping asset quality and credit losses in line with historical levels. BIB's risk diversification is solid relative to its regional peers because it's adequately diversified by geography, economic sector, and client. The bank's portfolio as of December 2018 was composed of commercial (41%), consumer (39%), and mortgage loans (20%), and we do not expect this composition to change significantly in the next two years. Moreover, in terms of single exposures, BIB's top 20 largest loans represented only

8% of its total loan portfolio and 56% 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 1.44% and 1.95%, respectively, as of Dec. 31, 2018. Nicaragua's NPAs as a percentage of total loans was 2.1%, which has doubled in comparison to December 2017. However, on a consolidated basis, BIB still has manageable asset quality metrics and we expect that to continue over the next 12 months, with NPAs at around 1.50% and credit losses of about 1.90% . Finally, nonperforming loans are covered 2.3x by provisions as of year-end 2018. The important increase of provisions is mainly due to the IFRS 9 implementation in Panama last year.

Chart 3

BIB's Asset Quality
Data as of December 2018



Source: S&P Global Ratings.

Table 4

BAC International Bank Inc. Risk Position

	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Growth in customer loans	4.6	8.1	9.2	13.1	25.9
Total diversification adjustment/S&P Global Ratings' RWA before diversification	18.5	19.0	16.5	N/A	N/A
Total managed assets/adjusted common equity (x)	9.8	9.8	10.1	10.1	10.8
New loan loss provisions/average customer loans	2.4	2.1	1.9	1.6	1.6
Net charge-offs/average customer loans	2.0	1.8	1.5	1.5	1.4
Gross nonperforming assets/customer loans + other real estate owned	1.4	1.3	1.4	1.3	1.3
Loan loss reserves/gross nonperforming assets	229.2	141.4	124.1	120.8	133.4

N/A--Not applicable.

Funding and liquidity: Highly stable funding base primarily composed of customer deposits

Our funding assessment takes into account that the bank's funding base is primarily composed of customer deposits, similar to regional peers. As of Dec. 31, 2018, deposits accounted for 81.5% of BIB's funding base, and retail deposits accounted for a large proportion of all customer deposits, making the funding base stable. Deposits from the Nicaraguan financial system dropped 22.1% last year. BIB's Nicaraguan subsidiary's deposit base also had a 25.3% reduction in the same timeframe. However, most of these deposits remained in the group, as customers changed their deposits to another subsidiary in BIB's network. In this sense, we haven't seen any negative effects in BIB's consolidated deposit base--BIB's core costumer deposits increased 5% last year. The rest of BIB's funding base is made up of credit lines from local and international commercial banks.

In terms of liquidity, BIB's liquidity levels are more than enough to cover its operations. As of the end of 2018, its liquidity ratio was 7.57x with a three-year average of 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 still view the bank's liquidity as adequate, mainly because most 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.

Chart 4

BIB's Funding Mix

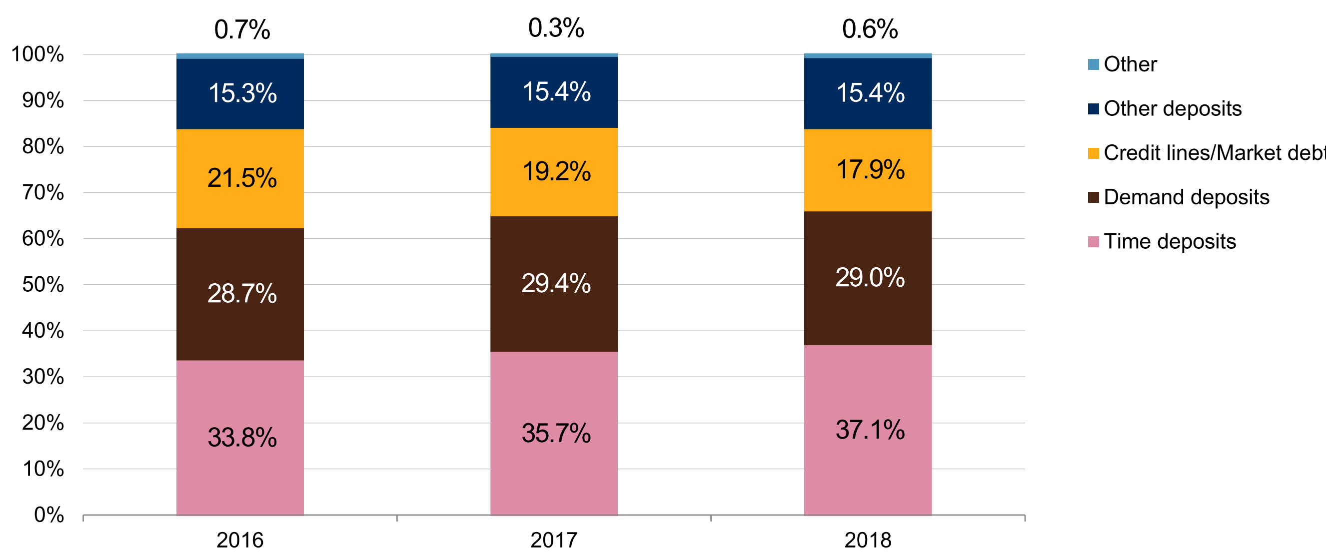


Table 5

BAC International Bank Inc. Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Core deposits/funding base	81.5	80.4	77.8	77.6	78.2
Customer loans (net)/customer deposits	99.8	101.7	106.7	104.9	100.1

Table 5

BAC International Bank Inc. Funding And Liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	2018	2017	2016	2015	2014
Long-term funding ratio	97.0	97.0	96.8	97.4	97.2
Stable funding ratio	119.1	117.9	115.1	116.4	119.3
Short-term wholesale funding/funding base	3.3	3.3	3.5	2.9	3.1
Broad liquid assets/short-term wholesale funding (x)	7.6	7.3	6.3	7.8	7.9
Short-term wholesale funding/total wholesale funding	18.0	17.0	15.9	12.9	14.2

Support:Core entity to its 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 2018, BIB (on a consolidated basis, including CIC) accounted for 44% of BdeB's total reported equity, 45% of total assets, and 48% of total operating revenues.. 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 use of capital. Therefore, the ratings on BdeB will continue to limit the ratings on BIB and consequently on CIC.

Related Criteria

- 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 6, 2019)*

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+/Stable/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.