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Research Update:

BAC International Bank Inc. 'BB+/B' Ratings Affirmed; Outlook Still Stable

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Overview

- BAC International Bank (BIB) remains the largest Central America´s bank in terms of loans and deposits on a consolidated basis, with a leading position in almost every line in which it operates.
- The bank continues to have a stable forecasted risk adjusted capital (RAC) ratio, reflecting its sound internal capital generation, coupled with healthy asset quality indicators.
- We´re affirming our 'BB+' long term and 'B' short term global issuer credit ratings on BIB and its core subsidiary Credomatic International Corp. (CIC). BIB's SACP is still 'bbb-'.
- The stable outlook reflects that on its parent Banco de Bogota (BdeB; BB+/Stable/B), given the core status of both entities. In that sense, our ratings on both entities will move in tandem with those on BdeB.

Rating Action

On May 16, 2018, S&P Global Ratings affirmed its 'BB+' long-term and 'B' short-term issuer credit ratings on BAC International Bank Inc. (BIB) and its core subsidiary Credomatic International Corp. (CIC). The stable outlook reflects that on its parent Banco de Bogota, given BIB and CIC's core status to the parent. BIB's SACP remained 'bbb-'.

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 6.5%, 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 (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.

The 'bb+' anchor draws on our Banking Industry Country Risk Assessment (BICRA) methodology and our view of our expected weighted average economic risk in the countries in which BIB will has loan book exposure over the 12 to 18 --Panama (25%), Costa Rica (27%), Guatemala (18%), El Salvador (10%), Honduras (11%),

and Nicaragua (9%) at year-end 2017. As a result, the weighted economic risk is about '7'. A BICRA is scored on a scale from 1 to 10, ranging from the lowest-risk banking systems (group '1') to the highest-risk (group '10'). The common factor driving this economic risk score is low income in the countries where the bank operates, which affects the country's vulnerability to external shocks, and debt and payment capacity in countries with weak rule of law.

BIB continues to be the largest bank in Central America (CA), with operations in almost all countries in the region. On a consolidated basis, BIB is the largest financial institution in CA, with around $22.0 billion of total assets, $15.4 billion of total loans, and $14.9 billion of total deposits as of December 2017. BIB accounts for 10.1% and 9.0% market share in terms of total loans and deposits in the region, respectively. Additionally, the bank has maintained its leading position in credit card issuances with a large consumer client base. The sheer progression of credit card issuing volume in the past three years has allowed the bank to achieve a profitable scale while maintaining strong business stability and a clearly positive earnings trend. Its total loan portfolio has grown at a compound annual rate (CAGR) of 10.1% over the past three years. In terms of revenue stability, total operating revenues had a CAGR of 9.1% in the last three fiscal years. Recently the bank consolidated its card brand (CIC) and its bank brand (BAC) to create a unified brand strategy that further underpinned its revenue generation. Despite its focus on credit cards, BIB's business lines are well-diversified by segment and by geography. Its loan portfolio, as of December 2017, 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, as we already said, 28% of its loan portfolio is located in Costa Rica, 25% in Panama, 18% in Guatemala, 11% in Honduras, 10% in El Salvador and 8% in Nicaragua in the same timeframe. We expect Costa Rica's exposure to continue to be one of its two largest exposures; however, we believe that its Panamanian and Guatemalan operations will slightly increase, considering its main strategy of expanding into those markets because of their growth potential. In that way, Panama has higher growth rates and reaps the benefits of stronger global trade flows, while Guatemala is the largest economy within the region. We don't believe its business mix will change significantly since it will continue to follow the same primary business strategy, and to find synergies with Banco de Bogota's clients that operate in Central America.

Our assessment of BIB's capital and earnings remains unchanged. The latter continues to reflect our forecasted RAC ratio, which will hover around 6.5%, on average, over the next 18 to 24 months. Our forecast RAC ratio for the next two years takes into account the following base-case scenario assumptions:

- Central American economies expand during 2018: Costa Rica by 3.2%; Guatemala by 3.3%; Honduras by 3.7%; El Salvador by 1.4% and Panama by 5.9%.
- Net interest margins (NIMs) will slightly decrease in 2018 as we expect

the highly competitive environment in the region will continue to pressure lending prices and increase funding costs.

- We expect dividend payments similar to 2017 over the next two years;
- Efficiency ratio of about 55% over the next two years, in line with its historical levels;
- Return on assets (ROA) will stand around 1.50%;
- Non-performing assets (NPAs) and credit losses will remain stable at 1.40% and 1.70%, respectively, over the next two years; and
- No acquisitions over the next 12 months.

We continue to see a high quality of capital and earning, based on the absence of hybrid capital instruments, but most importantly due to the sound and resilient quality of earnings that provides sufficient financial stability with no major pressures under our sovereign stress test for 28% exposure in Costa Rica (BB-/Negative/B). The main metrics continue to compare well with other large regional players with the same industry risk score. As of Dec. 31, 2017, core earnings to average adjusted assets stood around 1.74% and hovered between 1.70% and 1.90% over the past three years. On the other hand, the new accounting standards (IFRS 9) will require all banks legally based in Panama to generate reserves through expected losses, and not by incurred losses as in the past. This will generate about $200 million reserves during the current year, affecting the bank's capital base , since these reserves will be taken from retained earnings and not from its income statement. However, we believe that BIB is fully capable of absorbing this impact and maintaining its capital metrics at the same levels for the next two years.

Supporting the bank´s quality of earnings is the adequate cost-income ratio, which stood at 55% as of year-end 2017, showing some improvements with respect to previous years. Furthermore, net interest income has accounted for around 60% of total revenues, fees for 32%, and trading for 6.2%. In that sense, we expect this mix to remain the same over the next two years with no major disruption in any of its business lines or income sources. We also expect a low share of both trading gains and other revenues in the mix--historically around 5%. We forecast that quality of capital and earnings will remain strong in the foreseeable future as a result of our expected growth and strict underwriting and cost policies.

Despite economic challenges in the region, the bank has been able to continue growing in its targeted markets without major disruptions. Management has been able to achieve its growth and risk exposures, keeping asset quality and credit losses at stable and healthy levels compared to its more direct peers. Risk diversification is sound relative to other rated banks with same risk position or economic risk. It commercial and corporate portfolio does not show concentration in terms of single exposures or economic segment. As of Dec. 31, 2017, its loan portfolio was composed of commercial (43%), mortgages (20%), credit cards (20%), auto (6%), and personal and other consumer loans (11%). We are not expecting the breakdown of its loan portfolio to change significantly

during the next two years. In terms of loan portfolio concentration, its top 20 largest exposures represented only 8.2% of the total loan portfolio and only 56% of its total adjusted capital. The latter reflects a high focus on retail in its credit operations, keeping its loan portfolio relatively pulverized. We believe that despite our view of the highly diversity in its loan portfolio, its exposure to higher risk economies confine this score to the adequate level. Credit loss experience has remained stable due to the bank's stringent originations policies and its adequate expansion strategy in segments where the bank has operated historically. Despite economic challenges in the region, non-performing assets (NPAs) and credit losses stood at 1.31% and 1.81%, respectively, as of Dec. 31, 2017. We estimate NPAs to remain between 1.30% and 1.50%, and credit losses to remain between 1.70% and 1.80%, fully covered by reserves, over the next 12 months.

Our funding assessment reflects the bank's funding base, which is primarily comprised by customer deposits, similar to the industry norm. As of Dec. 31, 2017, deposits accounted for 79.5% of which around 40%-45% is composed of retail deposits, which are more stable than other funding sources and compare adequately with other banks in the region. The remaining funding base is primarily composed of repossessions and credit lines from local and external commercial banks. Furthermore, BIB's stable funding ratio (SFR) stood at 117.9% during the same timeframe, and had averaged 116.5% over the past three fiscal years. In terms of funding concentration, as of Decr 31, 2017, its top 20 deposits represented 5.7% of its total deposit base. The bank has been able to fully match its various currency exposures because it has a large deposit base that's denominated in local currency. We anticipate no changes in BIB's funding structure since its deposit base will, in our view, continue supporting its projected credit growth. Finally, we believe that refinancing risk is manageable because of its historically adequate maturity profile and its large deposit base.

In our view, liquidity levels are more than enough to cover its operations. As of Dec. 31, 2017, its liquidity ratio stood at 7.31x with a three-year average of 7.12x. 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.

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 keeps its performance in line with the group's expectations. As of year-end 2017, BIB (on a consolidated basis, including CIC) accounted for 45% of BdeB's total reported equity, 41% of total assets, and 49% of total operating revenues. We believe that any potential financial stress at the parent level will likely affect BIB's SACP. The relatively weaker parent could potentially divert assets from the subsidiary or burden it with liabilities during financial stress that could drive much less debt and capital raising flexibility. In that sense, the ratings on BIB

and in consequence on CICwill continue to be limited by its parent.

Outlook

The stable outlook on BIB and its subsidiary CIC mirrors that on the parent Banco de Bogota. The outlook also reflects, over the next 12 months, our expectation that BIB will maintain its strong presence and leadership in Central America in terms of loans and deposits. Additionally, we believe that its profitable operations and its heavy geographic diversification strategy will help it to maintain its business stability, despite economic challenges in the region. We expect BIB and CIC to maintain their core status to BdeB in the future. BIB, on a consolidated basis, continues to account for a great portion of its parent's earnings and capital, and the group continues to view it as a fundamental subsidiary for its future strategy. In that regard, the ratings on BIB and CIC will move in tandem with those on the parent.

Downside scenario

We could lower the ratings on BIB and CIC over the next 12 months if we were to downgrade the parent.

Upside scenario

The rating on BdeB constrains the ratings on BIB and its subsidiary CIC, and the ratings on the bank 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.

Ratings Score Snapshot

Issuer Credit Rating	BB+/Stable/B
SACP	bbb-
Anchor	bb+
Business Position	Strong (+1)
Capital and Earnings	Moderate (0)
Risk Position	Adequate (0)
Funding and Liquidity	Average and Adequate (0)
Support	0
GRE Support	0
Group Support	0
Government Support	0

Additional Factors	-1

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

Ratings List

Ratings Affirmed

BAC International Bank Inc.
Credomatic International Corp.

Counterparty Credit Rating	BB+/Stable/B

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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