

FITCH AFFIRMS BANCO AGROMERCANTIL'S L-T FC IDR AT 'BB+'; OUTLOOK STABLE

Fitch Ratings-Monterrey-04 May 2018: Fitch Ratings has affirmed Banco Agromercantil de Guatemala's (BAM) Long-Term Foreign Currency Issuer Default Rating (IDR) at 'BB+'. The Rating Outlook is Stable. A full list of rating actions follows at the end of this release.

KEY RATING DRIVERS

BAM

IDRs, VR AND NATIONAL RATINGS

BAM's IDRs and national ratings reflect Fitch's opinion that the support from its ultimate shareholder, Bancolombia (BBB/Stable) will be timely and sufficient if needed. In Fitch's opinion, Bancolombia's capacity and propensity to support BAM considers that any required support would be manageable relative to the ability of the parent to provide it, the important role of the subsidiary in Bancolombia's strategy in the region, and the high reputational risks to the parent in the event of subsidiary default. Fitch's view factors in the low cost of potential support, as BAM accounts for 5% of the group's assets.

BAM's standalone creditworthiness, as indicated by its Viability Rating (VR), is driven by its company profile based on its moderate franchise in Guatemala combined with its consistent and proven business model that allows the bank to maintain a stable performance and favorable prospects once the strategy defined by Bancolombia is in full deployment. The VR also considers with a moderate importance the bank's adequate capital position, good asset quality, diversified and stable funding, as well as its modest profitability.

As of December 2017, BAM was the fourth largest bank in Guatemala with a market share of 8%. By deposits, the bank has a 7.4% of market share (sixth place) and 10.6% by loans (fourth place) of the local system. The competitive position of the bank is good in the local financial system with the second place in the segments of agriculture (25.8%), mining (27.7%) and the third place in commerce (16.5%) and transport (12.7%).

BAM's capital position is adequate with a FCC of 11.2% but is considered the weakest link of the financial profile, though Guatemala's system lacks robust indicators of solvency. The bank showed a declining trend in previous years but due to the material moderation of credit growth, this trend stop remaining slightly above the 2016 ratio. Also, a lowest ratio of dividend payout contributed to the stabilization of the FCC ratio.

BAM's asset quality is good although showing more deterioration compared with 2016, a trend also visible in the local industry. 90 days past due reached 2.0% at YE17, still comparing below the system's average (2.3%). The growing expansion of the bank's retail portfolio, the aggressive growth of previous years and the delinquency of some big ticket loans have influenced the deterioration trend. In Fitch's view, the asset quality of the bank should remain similar and further material deterioration is not expected considering the increasing reinforcement of the control risk framework and the expected moderate growth.

BAM's profitability is modest and one of the lowest of the big corporate banks in Guatemala. Operating profit to risk weighted assets is 1.5% as of December 2017. The bank compares below peers in terms of operating efficiency and credit costs. The administration is in a continuous process to reinforce the efficiency but material advances are still not visible. Also, the spike in deterioration is forcing the credit cost compare with the rest of corporate banks. The bank's profitability should remain modest in the short and medium term.

BAM's funding structure is deposit-based and has a good track record of stability. Despite not having a comparable franchise in the deposit sector relative to larger banks, BAM's deposits are well diversified, in Fitch's view. As of YE17, the 20 largest depositors represented 8% of total deposits, comparing favorably to local peers. The bank's funding is complemented by an ample and diversified number of wholesale sources.

SUPPORT RATING

The bank's Support Rating reflects Fitch's opinion on Bancolombia's ability and propensity to provide assistance to BAM, should the need arise. As per Fitch's criteria, BAM's IDR of 'BB+' maps to a support rating of '3'.

AGROMERCANTIL SENIOR TRUST (AST)

Agromercantil Senior Trust's (AST) rating is in line with BAM's IDR reflecting that the senior unsecured obligations rank equally with the bank's unsecured and unsubordinated obligations.

MERCOM and FINANCIERA AGROMERCANTIL - NATIONAL RATINGS

Mercom and Financiera Agromercantil's national ratings are based on the support it would receive from its ultimate shareholder, Bancolombia, if needed. Both companies are important subsidiaries for the group in Guatemala given that it operates in complementary market segments - enhancing BAM's business model - and reflects a high degree of integration.

RATING SENSITIVITIES

IDRS, VR, NATIONAL RATINGS AND SUPPORT RATINGS

BAM's Foreign Currency IDR is capped by Guatemala's country ceiling. The bank's Long-Term Local Currency IDR is above the sovereign's Local Currency IDR and as such would be sensitive to any sovereign rating action.

Downward risk for the bank's IDRs, national ratings and support rating is limited given its parent support but the ratings could be downgraded if Fitch's assessment of Bancolombia's ability or willingness to support its subsidiaries changes. Currently, there is no upside potential for the bank's IDRs as these are above the sovereign's IDRs, which have a Stable Outlook.

The VR could be downgraded if the Fitch Core Capital ratio consistently falls below 9% and/or the profitability metrics weakens materially below the 1% ratio of operating profit to risk weighted assets.

AST

Changes in the notes' rating would derive from changes in BAM's IDR.

MERCOM and FINANCIERA AGROMERCANTIL

A downgrade in Mercom and Financiera Agromercantil's ratings is contingent on Bancolombia's ability and propensity to support its operations if needed.

Fitch has affirmed the following ratings:

Banco Agromercantil de Guatemala, S.A.

--Long-Term Foreign Currency IDR at 'BB+'; Outlook Stable;

--Short-Term Foreign Currency IDR at 'B';

--Long-Term Local Currency IDR at 'BBB-'; Outlook Stable;

--Short-Term Local Currency IDR at 'F3';

--Viability Rating at 'bb';

--Support at '3';
--National scale long-term rating at 'AAA(gtm)';
--National scale short-term rating at 'F1+(gtm)'.

Agromercantil Senior Trust

--Long-term foreign currency loan participation notes at 'BB+'.

Mercom Bank Limited

--National scale long-term rating at 'AAA(gtm)'; Outlook Stable;
--National scale short-term rating at 'F1+(gtm)'.

Fitch has assigned the following ratings:

Financiera Agromercantil, S.A.

--National scale long-term rating at 'AAA(gtm)'; Outlook Stable;
--National scale short-term rating at 'F1+(gtm)'.

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Adjustment to Financial Statements:

Expenses prepaid in advanced were reclassified as other intangible and deducted from Fitch Core Capital due to their low capacity to absorb losses.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria - Effective from 23 March 2018 to 22 June 2018 (pub. 23 Mar 2018)

<https://www.fitchratings.com/site/re/10023430>

Metodología Global de Calificación de Instituciones Financieras no Bancarias (pub. 21 Oct 2016)

<https://www.fitchratings.com/site/re/889541>

Metodología de Calificaciones en Escala Nacional (pub. 27 Mar 2017)

<https://www.fitchratings.com/site/re/896229>

Metodología de Calificación Global de Bancos (pub. 09 Jan 2017)

<https://www.fitchratings.com/site/re/892947>

National Scale Ratings Criteria (pub. 07 Mar 2017)

<https://www.fitchratings.com/site/re/895106>

Non-Bank Financial Institutions Rating Criteria - Effective March 22, 2018 to June 22, 2018 (pub. 22 Mar 2018)

<https://www.fitchratings.com/site/re/10023420>

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