



Fitch Affirms Banco Agromercantil's Ratings Following Peer Review

Fitch Ratings-Monterrey-09 May 2017: Fitch Ratings has affirmed Banco Agromercantil de Guatemala's (BAM) Long-Term Issuer Default Rating (IDR) at 'BB+' following a peer review of Guatemala's largest banks. The Rating Outlook is Stable. See the full list of rating actions at the end of this release.

KEY RATING DRIVERS

BAM - IDRS, VR, NATIONAL RATINGS AND SUPPORT RATINGS

BAM's IDRs and national ratings reflect Fitch's opinion that the support from its ultimate shareholder, Bancolombia ('BBB'/ Outlook Negative) 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, 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 4.7% 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 prospects. The VR also considers the bank's pressured capital position, good asset quality, diversified and stable funding, as well as its moderate profitability.

BAM's capital position is adequate but has been pressured recently. The bank's capital buffers have declined to the lowest point in the last four years as credit growth has outpaced internal capital generation. As of December 2016, the Fitch Core Capital ratio was 10.9%.

BAM's asset quality is still good despite some moderate deterioration in 2016. Loans past due more than 90 days reached 1.8% of gross loans (2015: 1.4%), the highest point in the last four years, but still in line with the bank's current ratings. The deterioration was mainly from retail loans. Credit cards were hit due to temporary regulation changes that disrupted the credit card portfolio performance across the

system. The deterioration also reflected the bank's increased risk appetite given its higher proportion of retail loans in recent years, though management expects this deteriorating trend to improve in the short term due to the implementation of tighter controls and underwriting standards for this segment..

Modest profitability is prevalent in the largest Guatemalan banks with no significant retail portfolio. BAM's modest profitability is the product of a continuously constrained margin due to competition. The net interest margin (NIM) continues to be pressured by the increased funding costs and heightened competition, leading to lower profitability.

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 YE16, the 20 largest depositors represented 8.1% of total deposits, comparing favorably to local peers. The bank's funding is complemented by an ample and diversified number of wholesale sources. The bank has 23 open credit lines (14 of them in use) from international financial institutions.

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 - NATIONAL RATINGS

Mercom's national ratings are based on the support it would receive from its ultimate shareholder, Bancolombia, if needed. Mercom is an important subsidiary 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

BAM

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 10%.

AST

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

MERCOM

A downgrade in Mercom'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)';
- National scale short-term rating at 'F1+(gtm)'.

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Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016)

(<https://www.fitchratings.com/site/re/891051>)

National Scale Ratings Criteria (pub. 07 Mar 2017)

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

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