MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms BAC's ratings, outlook changed to negative

11 Dec 2018

New York, December 11, 2018 -- Moody's Investors Service ("Moody's") affirmed the Baa3 long-term local and foreign currency deposit ratings of Panama-domiciled BAC International Bank, Inc (BAC), and changed the outlook on the ratings to negative from stable. Moody's also affirmed the bank's baa3 standalone baseline credit assessment (BCA) and adjusted BCA.

BAC is domiciled in Panama and offers bank services across Central America through its subsidiaries. The bank is controlled by Colombia's Banco de Bogotá S.A. (deposit ratings of Baa2 negative outlook, BCA of ba1).

The following ratings were affirmed:

Issuer: BAC International Bank, Inc

Baseline credit assessment, baa3

Adjusted baseline credit assessment, baa3

Long term local and foreign currency deposit ratings, Baa3, outlook changed to negative from stable

Short term local and foreign currency deposit ratings, Prime-3

Long and short-term foreign currency counterparty risk ratings, Baa2 and Prime-2

Long and short-term counterparty risk assessments, Baa2(cr) and Prime-2(cr)

Outlook, Changed to negative from stable

RATINGS RATIONALE

Moody's said that the change in BAC's ratings outlook to negative reflects rising asset risks in parts of the loan book that are most exposed to weakening operating conditions, including Costa Rica and Nicaragua. These two countries respond for more than a third of BAC's loans. On the other hand, the ratings also incorporate BAC's steady profitability and the important buildup of reserves and capital buffers that help mitigate potential losses resulting from volatile economic growth and fiscal challenges in its core markets in Central America.

BAC's consolidated nonperforming loan (NPLs) ratio rose to a still low 1.4% as of September 2018, from 1.2% in September 2017. At the same time, the NPL ratio at BAC's Costa Rican subsidiary increased marginally to 1.7% from 1.6%. However, loan restructurings in that market doubled to 1.1% of loans from 0.5%, and non-annualized charge-offs rose to 2.9% of loans from 1.6%, indicating still seasoning asset risks. This is partly mitigated by a robust coverage of NPLs with reserves, at 2.3 times, above BAC's already high consolidated figure of 2.1 times.

In addition, asset risks will be higher in Nicaragua, where the economy will continue to contract in 2019 after the recent political turmoil. The NPL ratio there more than doubled to 2.6% as of September 2018 from 1.2% in September 2017, albeit the impact on BAC's consolidated figures is limited because loans to Nicaraguan borrowers represent a modest 7.5% of its loan portfolio. Loan exposures to El Salvador, Honduras and Guatemala appear to be stable supported by steady economic growth and financial variables.

While there has been a conservative deceleration in loan growth across some of BAC's core markets, higher NPL ratios overall will likely dent BAC's earnings, although Moody's expects profitability buffers to remain robust. During the first nine months of 2018, the bank's return on tangible banking assets stood at 1.9%, well above Latin America's average, supported by ample net interest margins and robust fee income. We anticipate the bank's return on tangible assets to converge towards 1.7%, in light with growing loan loss provisions, which inched higher to 39% of pre-provision income as of September 2018, from 37% as of September 2017.

The robust earnings stream will continue to support BAC's good capitalization. The bank's tangible common equity (TCE) ratio stood at about 13% as of September 2018, aided by contained dividend payouts and prudent credit expansion. Furthermore, all operating subsidiaries are subject to and do comply with higher minimum total capital requirements than the 8% minimum applied to BAC per Panamanian regulations, a credit positive. However, Moody's anticipates that regulators in each particular country would likely prevent capital transfers among subsidiaries to maintain stability within their respective banking systems.

BAC is funded by a broad base of customer deposits, consistent with its well-established banking franchise, which significantly reduces refinancing and repricing risks. Some 70% of the bank's assets are funded with deposits, with about 40% of that amount being sourced from individuals. As a result, market funding needs remain contained at around 15% of total assets. This, combined with ample liquidity buffers at a quarter of the balance sheet as of September 2018, further supports BAC's financial flexibility.

Moody's assumes a very high probability of affiliate support to BAC from Banco de Bogotá S.A. in the case of need. This assumption is based on BAC's relevance in Banco de Bogotá S.A.'s regional footprint and earnings generation, illustrated by the bank's significant contribution to the parent's profitability. However, BAC derives no rating uplift from affiliate support because Banco de Bogotá S.A.'s ba1 adjusted BCA is one notch below BAC's baa3 BCA.

WHAT COULD CHANGE THE RATINGS UP/DOWN

The ratings could be downgraded if asset risk weakens materially and on a sustainably basis, while profitability and capitalization decline amidst further deterioration of operating conditions. Upward rating pressure is limited at this juncture in light of the negative outlook. However, ratings could be stabilized if asset quality remains overall stable, coupled with continued robust profitability and good capital buffers.

The last rating action on BAC International Bank, Inc was on 21 June 2018.

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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