

**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.moody.com](http://www.moody.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.moody.com](http://www.moody.com).

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see [www.moody.com](http://www.moody.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moody.com](http://www.moody.com) for additional regulatory disclosures for each credit rating.

Georges Hatcherian  
Asst Vice President - Analyst

Financial Institutions Group  
Moody's de Mexico S.A. de C.V  
Ave. Paseo de las Palmas  
No. 405 - 502  
Col. Lomas de Chapultepec  
Mexico, DF 11000  
Mexico  
JOURNALISTS: 1 888 779 5833  
Client Service: 1 212 553 1653

M. Celina Vansetti-Hutchins  
MD - Banking  
Financial Institutions Group  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653



© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO,

COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors

to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.