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INVESTORS SERVICE

CREDIT OPINION

21 April 2016

Update

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RATINGS

BAC International Bank, Inc

Domicile	PANAMA CITY, Panama
Long Term Rating	Baa3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information.The ratings and outlook shown reflect information as of the publication date.

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CLIENT SERVICES

BAC International Bank, Inc

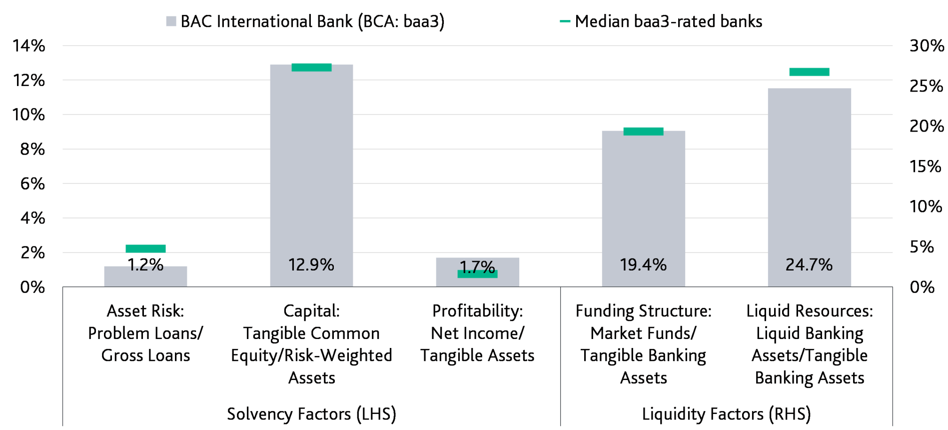
Ratings Remain Stable Despite Review on Parent Bank

Summary Rating Rationale

Moody's assigns a baa3 standalone baseline credit assessment (BCA) and adjusted BCA to BAC International Bank, Inc.'s (BAC). BAC's standlaone BCA reflects its franchise as a leading bank and credit card issuer in Central America that is well positioned to take advantage of the region's growth opportunities. The ratings are supported by the bank's strong profitability and earnings diversification as well as its stable asset quality and capital management.

Exhibit 1

Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

The BCA also reflects the bank's successful integration of its acquisitions of Guatemala's Grupo Reformador (Reformador) and BAC de Panamá (the former BBVA Panamá, acquired from its parent), while maintaining relatively stable capitalization and asset quality ratios. The bank's enhanced market positions in two of the region's most important growth markets will in turn strengthen its earnings potential though increased diversification and economies of scale.

BAC's "Weak+" macro profile nevertheless bears significant weight in our assessment of the bank's financial profile. It is a blended profile that derives from the geographic composition of its loan portfolio and captures the relatively weak environment in which BAC operates. While management has a strong track record of shielding the bank from economic and political risks, the bank may become vulnerable to these risks now that it has a larger presence in markets such as Guatemala, whose macro profile was recently lowered to “Weak” from “Weak+”.

BAC is a wholly-owned subsidiary of Colombia’s Banco de Bogotá (deposits Baa2, review for downgrade, BCA ba1). Although BAC is an strategic asset for Banco de Bogotá, BAC's ratings do not derive uplift from affiliate support because Banco de Bogota’s intrinsic strength of ba1 is weaker than BAC's and therefore no ratings uplift is incorporated. We do not consider government support in BAC's ratings either because it is a US dollar-based bank that operates in fully or highly dollarized countries with no true lenders of last resort. This is translated into a Baa3 deposit rating, which is at the same level than the bank's standalone BCA of baa3.

A key risk to BAC's performance is its acquisitive, high growth strategy particularly as the bank grows its consumer business in still developing Central American markets. The absence of a true lender of last resort in its markets is compensated in part by the bank's strong and growing core funding base and large holdings of high quality liquid assets. BAC also funds all of its loans through customer deposits derived from its regional branch network and point-of-sale relationships with merchants through its credit card acquisition business.

While the bank has a complex corporate structure comprised of intermediate holding and operating companies in multiple jurisdictions, the bank's centralized financial reporting and risk management structure and integrated systems for control, compliance, and audit help mitigate issues of transparency or control.

Credit Strengths

» Growing credit exposures in developing markets are well managed and supported by good reserve coverage, and provide diversification

» Tangible capital remains resilient, following the absorption of BAC de Panama

» Strong core profitability will grow through enhanced presence in Panama and Guatemala

» Leading Central American bank with established regional footprint and local market expertise

Credit Challenges

» Stable funding and liquidity are key to compensate for lack of a lender of last resort

» BAC’s BCA is supported by Central America’s Weak+ Macro Profile

Rating Outlook

The outlook for all ratings is stable.

Factors that Could Lead to an Upgrade

Upward movement of the bank's BCA is limited by its "Weak +" macro profile and use of market funds.

Factors that Could Lead to a Downgrade

The BCA could face downward pressure to the extent that conditions in its regional markets deteriorate or if earnings and capitalization do not improve to support expansion and business seasoning in attended markets.

Key Indicators

Exhibit 2

BAC International Bank, Inc (Consolidated Financials) [1]

	9-15[2]	12-14[2]	12-13[2]	12-12[2]	12-11[2]	Avg.
Total Assets (USD million)	18,201.7	17,354.4	16,422.4	10,681.9	9,198.9	18.6[3]
Tangible Common Equity (USD million)	1,891.9	1,520.5	1,245.6	1,126.2	974.4	18[3]
Problem Loans / Gross Loans (%)	1.2	1.3	1	1.3	1.6	1.3[4]
Tangible Common Equity / Risk Weighted Assets (%)	12.9	11	11.6	12.5	12.8	12.1[5]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	7.3	8.7	7.6	7.6	8.9	8[4]
Net Interest Margin (%)	5.8	6.2	6.4	6.9	7.2	6.5[4]
PPI / Average RWA (%)	4.3	5.2	5.4	5.5	5.4	5.2[5]
Net Income / Tangible Assets (%)	1.7	1.9	1.9	2.5	2.4	2.1[4]
Cost / Income Ratio (%)	60.2	58.7	57.1	57.8	59.7	58.7[4]
Market Funds / Tangible Banking Assets (%)	19.4	19.2	19.1	16.4	16.5	18.1[4]
Liquid Banking Assets / Tangible Banking Assets (%)	24.7	27.1	28.9	29	29.9	27.9[4]
Gross loans / Due to customers (%)	107.4	101.6	97.3	97.6	95.4	99.9[4]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel I; US GAAP [3] Compound Annual Growth Rate based on US GAAP reporting periods [4] US GAAP reporting periods have been used for average calculation [5] Basel I & US GAAP reporting periods have been used for average calculation

Source: Moody's Financial Metrics

Detailed Rating Considerations

GROWING CREDIT EXPOSURES IN DEVELOPING MARKETS ARE WELL MANAGED AND SUPPORTED BY GOOD RESERVE COVERAGE, AND PROVIDE DIVERSIFICATION

BAC presents good product and geographic diversification and asset quality metrics, which reflect management's deep knowledge of its markets and proactive management of problem loans. Credit risk is managed centrally, with narrow latitude granted to local offices. The bank's Chief Risk Officer (CRO) reports directly to the CEO on credit risks, and each country has a local CRO. BAC has worked on continually improving the identification of operational risks and possesses the ISO 9000 certification for all bank and credit card processes since 2000.

BAC's problem loan ratios have declined in recent years, reflecting stricter underwriting policies and asset management. Problem loans remained contained at 1.2% as of September 2015, while charge-offs increased to 1.4% from 0.9% in 2013, mainly related to the acquisition of BAC de Panama. We expect these levels to be sustainable as loans related to the new acquisitions have been vetted for the past two years and extraordinary provisions and charge-offs are largely behind them.

Loan growth is directed towards high quality growth markets such as Costa Rica (Ba1, negative), with 28% of total loans, Panama (Baa2, stable) comprising 25%, and Guatemala (Ba1, negative), with 18%. The loan book in Honduras (B3, positive) contributes 11%, El Salvador (Ba3, negative) contributes 10%, lastly Nicaragua (B2, stable) contributes 8%. The bank maintains a highly diversified portfolio in all countries by product and customer segment, and focuses on high quality names and segments they know well in riskier markets.

Commercial lending and residential mortgages comprise 42% and 21%, respectively, while consumer lending comprises 37%

TANGIBLE CAPITAL REMAINS RESILIENT, FOLLOWING THE ABSORPTION OF BAC DE PANAMA

BAC's tangible capital has remained resilient throughout its recent acquisitions. BAC's tangible common equity to risk-weighted assets ratio has increased to 12.9% as of September 2015, up from the three-year average of 12.0%. This ratio takes into account the absorption of BAC de Panama, as a share issuance coupled with a capital transfer from the parent totaling about $511 million covered the related goodwill and intangibles which rose to $684 million as of September 2015, from $88 million in 2012. The increase in the capitalization is explained by the bank's earnings retention capacity and limited dividend payout policy.

STRONG CORE PROFITABILITY WILL GROW THROUGH ENHANCED PRESENCE IN PANAMA AND GUATEMALA

Profitability is also a strength of BAC, and benefits from a diversified mix of retail and commercial banking revenues, stable customer funding, and good control of credit and operating costs. Its primary lending focus on credit cards and other consumer credit results in ample margins and fee income, the latter contributing around 30% of total operating revenues as of September 2015. Although lending margins in the commercial sphere are pressured by increasing competition in the region, the bank is well positioned to face this risk given the breadth of its customer base and funding access.

Net income was however pressured during the third quarter of 2015, as the bank took extraordinary charges and provisions related to its absorption of BAC de Panama, reflected by a 26% of increase in this line as of September 2015 vis-à-vis the same period last year. We expect the need for further charges of this kind to diminish substantially in 2016 and the bank to return to prior levels as it reaps profit gains, taking advantage of increased market shares and economies of scale.

STABLE FUNDING AND LIQUIDITY ARE KEY TO COMPENSATE FOR LACK OF LENDER OF LAST RESORT

BAC's liquidity is supported by a diverse and stable core funding base, a large store of high quality liquid assets, and prudent asset/liability management. For these reasons, we have made a positive adjustment to the bank's funding score. Nevertheless, funding and liquidity produce the lowest scores in the new scorecard, and therefore may constrain the BCA.

The bank derives the majority of its funding (78%) from its customers, split about evenly between companies (including established merchant credit card relationships) and individuals. On the corporate side, most deposits are related to payment flows based on employee payroll and payments to suppliers, which represent a relative steady source of funding. The bank continues to diversify its funding by issuing debt in regional markets. Institutional funding of $3.5 billion helps to fund the bank's $2.7 billion mortgage portfolio. The bank has also securitized American Express merchant voucher receivables, a seven-year financing which was used to finance the acquisition of Grupo Reformador. The bank completed the financing with an eight year subordinated loan in the amount of $180 million from its parent holding, Grupo Aval.

BAC's liquid resources are substantial reflecting high liquidity reserve requirements in the countries where it operates and the bank's conservative liquidity management, given the absence of a lender of last resort in its main markets. Liquid resources are comprised of cash and due from banks and securities of highly rated international banks and investment grade Central American governments.

LEADING CENTRAL AMERICAN BANK WITH ESTABLISHED REGIONAL FOOTPRINT AND LOCAL MARKET EXPERTISE

BAC competes effectively against international and regional banks through an integrated multi-country online banking platform. BAC has established premier alliances with all major credit card networks and has an exclusive arrangement with American Express. The bank also has the only network in the region that processes all major credit card brands, including Visa, Master Card, and Diners Club and has co-branding relationships with major airlines and retailers.

BAC owns its merchant point-of-sale (POS) network which enhances its efficiency and supports fee generation. 98.5% of all credit card authorizations are processed electronically and 91% of its processing volume is credited to merchant bank accounts with BAC.

BAC'S BCA IS SUPPORTED BY CENTRAL AMERICA'S "WEAK+" MACRO PROFILE

BAC's macro profile is derived from a blended score reflecting the composition of its loan portfolio as a bank operating in countries with Moderate to Very Weak macro profile scores: Panama (Moderate), Costa Rica (Moderate-), Guatemala (Weak), El Salvador (Weak), Honduras and Nicaragua (Very Weak by proxy). The overall Weak + macro profile reflects in large part the region's relatively small economies, with low GDP per capita, developing institutions, and the lack of true lenders of last resort, which adds to their susceptibility to event risks. The macro profile is balanced by positive economic and institutional trends during the past decade, as well as strengthening bank regulatory frameworks (see published macro profiles for Panama and Costa Rica,).

Notching Considerations

Affiliate Support

We assess a high probability of parental support to BAC because the subsidiary is a key asset for Banco de Bogota. However, this does not result in any ratings uplift for BAC because the parent's intrinsic financial strength is weaker. Affiliate support does not result in uplift also because of the bank's dollarized balance sheet and cross border domiciles, which limits the parent's ability to provide support.

Government Support

We do not incorporate government support in BAC's deposit ratings given the lack of a true lender of last resort in its home market of Panama, which is fully and legally dollarized, as well as in its other main markets, most of which are either fully or highly dollarized.

Counterparty Risk Assessment

Moody's has assigned a Counterparty Risk Assessment (CR Assessment) to BAC of Baa2(cr) for the long-term and Prime-2 (cr) for the short-term. The CR Assessment, prior to government support, is positioned one notch above the Adjusted BCA of baa3 and therefore above senior unsecured and deposit ratings, reflecting our view that its probability of default is lower than that of senior unsecured debt and deposits. We believe senior obligations represented by the CRA will be more likely preserved in order to limit contagion, minimize losses and avoid disruption of critical functions.

BAC's CR assessment does not benefit from uplift due to government support, in line with our support assumptions on deposits and senior unsecured debt. Our view is that any support provided by governmental authorities to a bank which benefits senior unsecured debt or deposits is very likely to benefit operating activities and obligations reflected by the CR Assessment as well, consistent with our belief that governments are likely to maintain such operations as a going-concern in order to reduce contagion and preserve a bank's critical functions.

About Moody's Bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Methodology and Scorecard Factors

Exhibit 3

BAC International Bank, Inc

Macro Factors						
Weighted Macro Profile	**Weak +**	**100%**				
Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.2%	baa3	←→	baa3	Geographical diversification	Long-run loss performance
Capital						
TCE / RWA	12.9%	ba2	←→	ba2	Capital retention	Expected trend
Profitability						
Net Income / Tangible Assets	1.7%	ba1	↑↑	baa1	Earnings quality	Expected trend
Combined Solvency Score		ba1		baa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	19.2%	ba2	←→	ba1	Deposit quality	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	27.1%	ba2	←→	ba2	Quality of liquid assets	
Combined Liquidity Score		ba2		ba1		
Financial Profile				baa3		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Baa2		
Scorecard Calculated BCA range				baa2-ba1		
Assigned BCA				baa3		
Affiliate Support notching				--		
Adjusted BCA				baa3		

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency rating	Foreign Currency rating
Counterparty Risk Assessment	1	0	baa2 (cr)	0	Baa2 (cr)	--
Deposits	0	0	baa3	0	Baa3	Baa3

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
BAC INTERNATIONAL BANK, INC	
Outlook	Stable
Bank Deposits	Baa3/P-3
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
ULT PARENT: GRUPO AVAL ACCIONES Y VALORES S.A.	
Outlook	Rating(s) Under Review
Issuer Rating	Ba2
ST Issuer Rating	NP
PARENT: BANCO DE BOGOTA S.A.	
Outlook	Rating(s) Under Review
Bank Deposits	Baa2/P-2
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)
Senior Unsecured	Baa2
Subordinate	Ba2

Source: Moody's Investors Service

Profile

Incorporated as BAC International Bank, Inc. in 1995 in Panama, BAC holds leading loan and deposit market shares of 9.4% and 8.1%, respectively, in the region. It is also the largest credit card issuer and merchant acquirer in the region. BAC also maintains the largest ATM network in Central America, with 1,815 ATMs, and 672 branches, 3.4 million clients, and 22,827 employees. BAC is both the holding for the group's banking and credit card businesses in the region as well as being an operating bank in Panama. Its main regulator is the Panamanian Superintendency of Banks, and the bank's various subsidiaries are also subject to regulations of their respective countries. BAC is also subject to Colombian regulations as a subsidiary of Banco de Bogotá.

Since 2010, BAC's 100% holding, BAC Credomatic, Inc., is controlled by Colombia's Grupo Aval, in turn the 67.6% owner of Banco de Bogotá. The bank was founded in Nicaragua in 1972 under the name of Banco de América, Credomatic and pioneered the card business as a regional strategy. As democracy and financial stability returned to the region in the 1990s, the bank established banks and credit card companies in Costa Rica (where senior management resides), Panama, Honduras, Guatemala, El Salvador, Nicaragua, and Mexico.

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