MOODY'S
INVESTORS SERVICE

Credit Opinion: BAC International Bank, Inc

Global Credit Research - 24 Mar 2015

Panama City, Panama

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Baa3/P-3
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Ult Parent: Grupo Aval Acciones y Valores S.A.	
Outlook	Rating(s) Under Review
Issuer Rating	*Baa3
ST Issuer Rating	*P-3
Parent: Banco de Bogota S.A.	
Outlook	Rating(s) Under Review
Bank Deposits -Fgn Curr	Baa2/P-2
Bank Deposits -Dom Curr	**Baa1/P-2
Baseline Credit Assessment	*baa2
Adjusted Baseline Credit Assessment	*baa2
Senior Unsecured	*Baa1
Subordinate	*Baa3

* Placed under review for possible downgrade on March 17, 2015
** Rating(s) within this class was/were placed on review on March 17, 2015

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Key Indicators

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

	[2]6-14	[2]12-13	[2]12-12	[2]12-11	[2]12-10	Avg.
Total Assets (USD million)	14,663.2	14,208.8	10,681.9	9,198.9	8,408.7	[3]14.9
Tangible Common Equity (USD million)	1,336.2	1,075.0	1,126.2	974.4	843.8	[3]12.2
Problem Loans / Gross Loans (%)	1.4	1.1	1.3	1.6	2.3	[4]1.5
Tangible Common Equity / Risk Weighted Assets (%)	12.3	10.0	12.5	12.8	12.4	[5]12.0
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	8.6	8.7	7.6	8.9	13.2	[4]9.4
Net Interest Margin (%)	6.0	6.6	6.9	7.2	7.1	[4]6.7
PPI / Average RWA (%)	5.7	5.4	5.5	5.4	4.7	[5]5.3

Net Income / Tangible Assets (%)	**2.4**	**2.2**	**2.5**	**2.4**	**1.8**	[4]**2.2**
Cost / Income Ratio (%)	**56.6**	**57.1**	**57.8**	**59.7**	**64.2**	[4]**59.1**
Market Funds / Tangible Banking Assets (%)	**20.2**	**21.2**	**16.4**	**16.5**	**13.5**	[4]**17.6**
Liquid Banking Assets / Tangible Banking Assets (%)	**30.8**	**29.8**	**29.0**	**29.9**	**31.5**	[4]**30.2**
Gross Loans / Total Deposits (%)	**96.8**	**98.3**	**97.6**	**95.4**	**88.1**	[4]**95.3**

Source: Moody's

[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

Opinion

SUMMARY RATING RATIONALE

BAC International Bank, Inc.'s (BAC) standalone baseline credit assessment (BCA) is baa3. The bank's local and foreign currency deposit ratings are in line with the BCA. BAC is a wholly-owned subsidiary of Banco de Bogotá (deposits Baa2 review for downgrade, BCA baa2). BAC's ratings do not however derive further uplift from affiliate support at this time because of the parent's current levels. We do not consider government support in BAC's ratings as it is a US dollar-based bank that operates in fully or highly dollarized countries with no true lenders of last resort.

BAC's 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 bank's recent acquisitions of Guatemala's Grupo Reformador (Reformador) and of BBVA Panamá have boosted its regional presence, while adding market share and earnings capacity to its existing operations in two major growth markets. The BCA is also supported by the bank's strong profitability and earnings diversification, as well as stable asset quality and capital management. Market funds comprise a relatively high proportion of total funding, however, these are mainly medium to long term in nature. 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.

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. 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.

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

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+ by proxy), 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, Costa Rica, and Guatemala).

Rating Drivers

- "Weak+" macro profile balanced by BAC's expertise in Central America as well as its track record of earnings and asset quality

- Growing credit exposures in developing markets are well managed and supported by good reserve coverage

- Strong core profitability should be enhanced by business expansion in Panama and Guatemala

- Stable funding, liquidity and capital are key to compensate for lack of lender of last resort

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

Rating Outlook

The outlook for all ratings is stable.

What Could Change the Rating - Up

Upward movement of the bank's ratings is limited by high growth and acquisition strategy and "Weak +" macro profile.

What Could Change the Rating - Down

Ratings could come under downward pressure if financial fundamentals, particularly capital, funding, or liquidity. Failure to receive capital to support the absorption of BBVA Panamá, expected to occur in 2015, could also prompt a negative rating action.

DETAILED RATING CONSIDERATIONS

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

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, market, and operational 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 1.4% as of June 2014, while reserve coverage was stable at 110% and reserves to total loans at 1.5%. The loan portfolio is skewed towards high quality growth markets such as Panama (Baa2, stable), comprising 27% of total loans (including BBVA Panama), Costa Rica (Ba1, stable), with 25%, and Guatemala (Ba1, stable), with 19%. The loan book in Honduras (B3, stable) contributes 11%, El Salvador (Ba3, stable) 10%, and Nicaragua (B3, stable) 8%.

The bank has gradually reduced its concentration in credit cards, which now represent 21% of total loans, while commercial lending and residential mortgages comprise 40% and 24%, respectively, and other consumer loans (installment and auto), comprise 15%. This conservative asset mix helps keep delinquencies and charge-offs in check. Commercial loans are diversified by economic sector, with the largest concentrations in the broad categories of commerce (34%), services (17%), and industry (13%). Exposures to SMEs are very modest, equaling about 5% of total loans.

STRONG CORE PROFITABILITY SHOULD BE ENHANCED BY BUSINESS EXPANSION IN PANAMA AND GUATEMALA

BAC's strong profitability benefits from a diversified mix of retail and commercial banking revenues, a stable customer funding base, 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. 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, particularly in light of its expanded business capacity in Panama and Guatemala, to face this risk. For these reasons, we adjust the profitability score upward by one notch.

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

BAC's balance sheet liquidity is supported by a diverse and stable funding base and prudent capital management. Nevertheless, funding and liquidity produce the lowest scores in the new scorecard, and remain key risk factors for the bank. The bank derives the majority of its funding (77%) from its customers, split about evenly between companies (including established merchant credit card relationships) and individuals. BAC increased its use of long term debt to support its acquisition of Grupo Reformador, financed in part through a $282 million seven-year securitization of American Express merchant voucher receivables. The bank also took on an eight year subordinated loan in the amount of $180 million from Grupo Aval to complete the acquisition financing. For these reasons, we have made a positive adjustment to the bank's funding score.

BAC's liquid asset holdings and tangible capitalization also support liquidity, which is necessary given the absence of a lender of last resort. High regulatory requirements and the bank's internal requirements support its 30% liquid banking asset ratio which is of high quality, comprised of cash and due from banks and securities of highly rated international banks and investment grade Central American governments. 55% of the bank's loan book is short term and relatively granular providing the bank with an alternate source of liquidity. Proactive management of asset/liability gaps and use of stress testing based on historic experience has limited earnings volatility from market movements. For these reasons, we make a positive adjustment to the liquidity score. The bank's tangible capital ratio is adequate at 12.3%, due to high earnings retention, and also supports the bank's liquidity. A capital transfer is forthcoming from its parent upon the accounting merger of BAC Panama and BBVA Panama to support the acquisition-related goodwill and other costs.

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

BAC is the leading regional bank, credit card issuer and merchant acquirer in Central America. BAC is present in all Central American countries, except Belize. The bank holds loan market shares of 10.3% and 7.5%, respectively, in its expansion markets of Guatemala and Panama, and maintains critical market shares in its traditional markets of Costa Rica (11.8%), El Salvador (11%), Honduras (12.8%), and Nicaragua (27.2%). Costa Rica (35%) and Guatemala (20%) contribute the lion's share to net income, followed by Honduras and Nicaragua, each contributing 13%, El Salvador 10%, and Panama 9%.

BAC competes effectively against both international banks such as Scotiabank and Citibank as well as Latin American institutions such as Bancolombia, Banco General, Banco Industrial, and Banco de Costa Rica, 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% of all credit card authorizations are processed electronically and 88% of its processing volume is credited to merchant bank accounts with BAC. Through this payment chain, the bank processes over $20 billion in payment flows from merchant deposits and internal supplier payments that generate over $10 billion in payroll and Ameritransfer payments, which earn processing fees for the bank. 93% of its merchant clients keep accounts with BAC, providing the bank with an additional core funding source.

Issuer Profile

Incorporated as BAC International Bank, Inc. in 1995 in Panama, BAC holds leading loan and deposit market shares of 9% and 8%, 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 1,541 ATMs, and 626 branches, three million clients, and 20,477 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.

Notching Considerations

AFFILIATE SUPPORT

We assess a moderate probability of parental support because of the bank's dollarized balance sheet and cross border domiciles, which does not result in any rating uplift for BAC at current rating levels.

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.

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 Factors

BAC International Bank, Inc

Macro Factors	
Weighted Macro Profile	**Weak +**

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	1.4%	baa3	←→	baa3	Geographical diversification	Long-run loss performance
Capital						
TCE / RWA	12.3%	ba2	←→	ba2	Capital retention	Expected trend
Profitability						
Net Income / Tangible Assets	2.3%	baa2	↑	baa1	Earnings quality	Expected trend
Combined Solvency Score		ba1		baa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	21.2%	ba3	←→	ba1	Deposit quality	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	29.8%	ba2	←→	ba2	Quality of liquid assets	
Combined Liquidity Score		ba3		ba1		

Financial Profile	**baa3**

Qualitative Adjustments	**Adjustment**
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	**0**
Adjusted BCA	**baa3**

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency rating**	**Foreign Currency rating**
Deposits	0	0	baa3	0	Baa3	Baa3

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

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