

Rating Action: Moody's downgrades BAC International Bank, Inc, outlook stable

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New York, March 04, 2020 -- Moody's Investors Service ("Moody's") has today downgraded the long-term local and foreign currency deposit ratings of Panama-domiciled BAC International Bank, Inc (BAC) to Ba1 from Baa3, and changed the outlook on the ratings to stable from negative. Moody's also downgraded the bank's standalone baseline credit assessment (BCA) and adjusted BCA to ba1 and baa3.

The following ratings and assessments were downgraded:

Issuer: BAC International Bank, Inc

Baseline credit assessment and adjusted baseline credit assessment, to ba1 from baa3

Long term local and foreign currency deposit ratings, to Ba1 from Baa3, outlook changed to stable from negative

Short term local and foreign currency deposit ratings, to Not Prime from Prime-3

Long-term foreign currency counterparty risk rating, to Baa3 from Baa2

Short-term foreign currency counterparty risk rating, to Prime-3 from Prime-2

Long-term counterparty risk assessment, to Baa3(cr) from Baa2(cr)

Short-term counterparty risk assessment, to Prime-3(cr) from Prime-2(cr)

Outlook, Changed to stable from negative

RATINGS RATIONALE

The downgrade of BAC's ratings reflects the relatively weak operating conditions in the countries where it operates, which lead to the bank's ratings to be more appropriately positioned at the Ba1 level, despite its still strong financial fundamentals. The main challenges have arisen in BAC's operations in Costa Rica (B2 stable), its largest subsidiary with 28% of the loan book, and Nicaragua (B3 stable), which nevertheless represent just 5% of the bank's loan exposure. The sovereign ratings on these two countries were recently downgraded by Moody's, due to the weakening fiscal position in Costa Rica and due to weaker economic strength and reduced access to funding in the case of Nicaragua, coupled with still subdued economic growth, all of which leads to our assessment of weaker operating conditions for BAC.

After this rating action, BAC continues to be rated significantly above most of the sovereign ratings of the countries where it operates, because nearly 56% of the bank's loan portfolio is located at B-rated countries (Costa Rica, Honduras, El Salvador and Nicaragua). BAC's sizeable exposure to Panama (Baa1 stable, 24% of the loan portfolio) and to a lesser extent Guatemala (Ba1 stable, 20%), the benefits from its geographical and business diversification, and its continued strong financial performance despite recent deterioration continues to support the bank's ratings.

BAC's consolidated nonperforming loan (NPLs) ratio rose to a still low 1.5% as of December 2019, from 1.3% as of year-end 2018 and 1.2% in 2017. At the same time, the NPL ratio at BAC's Costa Rican subsidiary increased to 2.3%, from 1.5% in 2018 and 1.3% in 2017. Consolidated loan restructurings also spiked to 2.7% of gross loans in December 2019 from 2.4% in 2018 and 1.4% in 2017, indicating still seasoning asset risks. This is partly mitigated by a strong consolidated coverage of NPLs with reserves, at 2.0 times.

Higher credit costs driven by the deterioration in asset risk have affected BAC's profitability, but it has continued to report robust earnings, with a return on tangible assets of 1.7% as of December 2019, slightly lower than the 1.8% of 2018. We expect ample net interest margins and robust fee income to continue to support the bank's profitability.

BAC is funded by a broad base of customer deposits, consistent with its well-established banking franchise in the region, which significantly reduces refinancing and repricing risks. As a result, market funding needs remain contained at around 14% of total assets. This, combined with adequate liquidity buffers at a quarter of the balance sheet as of December 2019, 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 already at the level of BAC's BCA.

Moody's does not have any particular concerns with BAC's governance, and therefore does not apply any corporate behavior adjustment to the bank's ratings. The company shows an appropriate risk management framework commensurate with its risk appetite.

WHAT COULD CAUSE THE RATINGS TO MOVE UP OR DOWN

The rating could be upgraded if there were a material and sustained improvement in the operating conditions of BAC's main countries of operation, provided that the bank sustains its solid financial performance.

The ratings could be downgraded if there were a deterioration in the bank's operating environment, especially in Costa Rica, leading the bank's asset quality to sustained deterioration and if its profitability and capitalization declined significantly.

The principal methodology used in these ratings was Banks Methodology published in November 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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