Fitch Upgrades Banco de Bogota to 'BBB+'; Outlook Stable Ratings Endorsement Policy
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Fitch Ratings-New York-21 July 2014: Fitch Ratings has today upgraded Banco de Bogota's (Bogota) Viability Rating (VR) to 'bbb+' from 'bbb' and its Issuer Default Rating (IDR) to 'BBB+' from 'BBB'. The Rating Outlook is Stable. A complete list of rating actions is provided at the end of this release.

KEY RATING DRIVERS

VR, IDR AND SENIOR DEBT

Fitch has upgraded Bogota's VR and IDRs as the bank has maintained a sound performance and its solid balance sheet while strengthening its franchise in Central America through well though-out acquisitions that complement its subsidiary's (BAC's) operations in Guatemala and Panama. The improvement of the operating environment in Colombia was also considered.

Bogota's ratings reflect its strong franchise, sound asset quality and reserves, consistent and improving performance, conservative credit/risk policies, ample, diversified funding, adequate capital and systemic importance. Fitch's view of Bogota's creditworthiness is tempered by its heightened competitive environment and the risk arising from its on-going diversification abroad and into retail.

In about four years, Bogota has acquired a sizable franchise in Central America that was seamlessly integrated, thoughtfully strengthened and adroitly managed. Hence the bank has consolidated as a top player in Colombia - where its market share is about 15% by assets - and a leading regional player in Central America (market share about 9% by assets); by the same token it has diversified its revenues, better balanced its portfolio and acquired critical credit card and retail know-how.

Bogota's conservative credit and risk management policies and positive economic environment in Colombia (as well as stability in Central America) resulted in very good asset quality (90-day PDL's stood at 1.5% at March 2014) that has remained fairly stable in the past few years and is complemented by sufficient loan loss reserves (1.9 times [x] its PDL portfolio).

Bogota's performance metrics were temporarily affected by its growth but operating revenues are now better diversified and show a positive trend while operating expenses have increased after the integration of BAC, a bank oriented mostly to the retail segment. On the bright side, credit cost declined in relative terms thus underpinning profitability which has remained in the 1.6%-2% range (ROAA for the past five years).

Bogota enjoys a wide customer base and relatively lower funding costs compared to its peers; customer deposits fund Bogota's loan portfolio in its entirety and the bank has ample access to Colombia's and international capital markets. Furthermore, it enjoys the full support of its shareholders as illustrated during the acquisition of BAC and the subsequent purchase of Grupo Reformador and BBVA Panama; which prompted timely capital injections.

While capital metrics have declined due to the bank's expansion and the goodwill it created, the basic measure of capital - Fitch Core Capital (FCC) - stood at 10.6% at March 2014 while the tangible equity to assets stood at 9.4% at the same date. These levels compare well to those of similarly rated banks and are underpinned by the bank's profitability which is expected to gradually improve as synergies are achieved. Bogota's capital must be seen in line with its loan loss reserves, asset quality, earnings generation, and generally positive economic background.

SUPPORT RATING AND SUPPPORT RATING FLOOR

Given its size and systemic importance, Bogota is likely to receive support from Colombia's government, should it be required. Colombia's ability to provide such support is reflected in Colombia's sovereign rating ('BBB'/ROS') and drives Bogota's support floor of 'BBB-'. The upgrade on the Support Rating Floor is explained by the recent upgrade on Colombia's Sovereign Rating in December 2013.

SUBORDINATED DEBT

Bogota's subordinated debt is rated one notch below the bank's VR. These bonds lack equity-like features that would earn it equity credit following Fitch's criteria. The notching reflects one notch for higher expected losses in case of liquidation but no additional notching for non-performance, given its gone concern characteristics.

RATING SENSITIVITIES

VR, IDR AND SENIOR DEBT

While there is limited upside potential given the current level of the bank and the Sovereign's ratings, Bogota's ratings would be underpinned if the bank sustains its performance while adequately consolidating its recent acquisitions and gradually improving its profitability (ROAA around 2%) and strengthening its capital (FCC above 11%) under an scenario of a sovereign rating upgrade.

On the other hand, a dismal performance (operating ROAA below 2%) and/or severely weaker asset quality that would pressure loan loss provisions and erode the bank's capital/reserves cushion (FCC consistently below 9.5%) would pressure its VR and IDRs.

SUPPORT RATING AND SUPPPORT RATING FLOOR

Bogota's SR and SRF would be affected if Fitch changes its assessment of the government's ability and/or willingness to support the bank.

SUBORDINATED DEBT

The ratings of Bogota's subordinated debt would move in line with the bank's VR.

Fitch has taken the following rating actions on Bogota:

--Long-term foreign currency Issuer Default Rating (IDR) upgraded to 'BBB+' from 'BBB'; Outlook Stable;
--Short-term foreign currency IDR affirmed at 'F2';
--Long-term local currency IDR upgraded to 'BBB+' from 'BBB'; Outlook Stable;
--Short-term local currency IDR affirmed at 'F2';
--Viability rating upgraded to 'bbb+' from 'bbb';
--Support rating upgraded to '2' from '3';
--Support rating floor revised to 'BBB-' from 'BB+';
--Senior unsecured debt upgraded to 'BBB+' from 'BBB';
--Subordinated debt upgraded to 'BBB' from 'BBB-'.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Global Financial Institutions Rating Criteria' (Jan. 31, 2014).

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Global Financial Institutions Rating Criteria

Additional Disclosure
Solicitation Status