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Ratings

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Research Update:

Banco de Bogota S.A. y Subsidiarias 'BB+/B' Ratings Affirmed, Outlook Remains Stable

June 21, 2023

Overview

- In our opinion, after the spin-off and full sale of BAC Holding International Corp., an entity that owns BAC International Bank Inc. (BIB), Banco de Bogota S.A. y Subsidiarias' (BBogota's) business diversification decreased. However, its business profile remains robust, given that the bank still holds about 23% of its total assets in Panama and remains a key player in the Colombian banking industry.
- Additionally, BBogota's asset quality will weaken during 2023, mainly because of the deterioration of its Colombian consumer lending portfolio. However, we consider these metrics as manageable and in line with the rating category.
- We're affirming our 'BB+/B' issuer credit rating (ICR) on the bank and our 'BB+' issue-level rating on its senior unsecured debt.
- The stable outlook on BBogota reflects our expectation that it will maintain its solid brand in Colombia, along with its geographic diversification through its Panamanian subsidiary, Multibank Inc. y Subsidiarias. Additionally, the outlook reflects that BBogota's projected risk-adjusted capital (RAC) ratio will remain stable with manageable asset quality metrics.

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Rating Action

On June 21, 2023, S&P Global Ratings affirmed its 'BB+/B' ICR on BBogota and its 'BB+' issue-level rating on the senior unsecured debt.

Rationale

BBogota's business diversification diminished after BIB's spin-off, but its Colombian operations and Multibank's brand in Panama will continue to support revenue stability. Between the end of 2022 and first-quarter 2023, BBogota sold its remaining equity in BIB following the 75% spin-off in early 2022. In our view, this has reduced the bank's geographical diversification. Nonetheless, the bank still holds about 23% of its total assets in Panama through

Multibank, and remains a key player in the Colombian banking industry with a market share of nearly 11% in terms of loans as of March 2023. Additionally, BIB's spin-off will decrease the bank's foreign-exchange fluctuations steadying interest income generation. In this sense, the bank will continue to maintain its sound business stability and increase its operating revenue by about 17% for 2023.

BBogota's RAC level will remain slightly below 5% thanks to internal capital generation. BBogota's capital base has remained relatively stable during the past five years, mainly owing to its internal capital generation, which has been sufficient to fund its credit growth, even during periods of profitability stress. In this sense, we expect that BBogota's loan portfolio will increase 9% and that profitability will continue improving, keeping the bank's RAC ratio close to 4.7% for the next 24 months. In addition, we forecast that the bank's expanding digital offerings, coupled with controlled expenses, will improve the efficiency ratio and profitability. As a result, we expect core earnings to average assets to continue improving, closer to 1.35% in 2023, but remain slightly below pre-pandemic levels.

Asset quality will weaken during the next 12 months, but remain manageable. BBogota's asset quality metrics will slip this year mainly because of the deterioration of its Colombian consumer loan portfolio. This is because high inflation and interest rates have taken a toll on the disposable income of Colombian households, raising the bank's nonperforming assets (NPAs). We forecast the latter to edge up to about 3.8%, fully covered by reserves, and net charge-offs (NCOs) to rise to 2.0% from 3.6% and 1.2%, respectively, in 2022. Despite BBogota's slightly weaker-than-expected metrics than the banking system average, we consider them manageable and in line with the bank's risk appetite. For 2024, we expect asset quality to gradually improve and trend towards the average of the Colombian banking system and main peers.

On the other hand, the bank continues benefitting from a well-diversified loan portfolio, which consist of consumer services (about 37%), commercial (23%), construction (10%), food and beverage (6%), transport and communications (4%) loans, among others. Additionally, BBogota doesn't have client concentrations, as its top 20 clients represent about 8.6% of its gross loan portfolio and approximately 0.8x of its total adjusted capital. For the next two years, we don't expect a significant shift in the bank's lending sector or client mix, as BBogota will maintain its origination standards and focus on existing sectors.

A stable deposit base will continue to support BBogota's funding and liquidity profiles. Historically, BBogota's stable deposit base has been its main funding source for business growth. In this sense, its deposit base represented 76% of its total funding base as of March 2023, while the rest consists of banking lines (14.4%), market debt (9.4%), and the rest in repos. Additionally, the bank's deposit base comprises nearly 10.8% of the system's total deposits, highlighting the bank's importance in the Colombian financial system. On the other hand, 79% of its deposits come from wholesale clients--which we consider to be more volatile than retail ones--but this metric is in line with the banking system average. However, we expect retail deposits to increase, thanks to BBogota's expanding digital operations, but not enough to change its deposit mix.

The bank maintains its very conservative liquidity management. BBogota's broad liquid assets were nearly 2x its short-term wholesale funding needs as of March 2023. Additionally, the bank doesn't have sizable market debt maturities in the next 12 months that could pose a refinancing risk for the bank. We expect that liquidity will slightly rise as BBogota will continue to fund the bulk of its operations with deposits.

Outlook

The stable outlook on BBogota reflect our expectation that it will maintain its solid brand in Colombia along with its geographic diversification through Multibank. Additionally, the outlook reflects that BBogota's projected RAC ratio will remain stable with manageable asset quality metrics.

Downside scenario

We could lower the ratings in the next 12 months if BBogota's asset quality metrics worsen beyond our expectations and no longer compares with those of its domestic and regional peers. This could happen if the bank's NPAs plus NCOs rise above 8%. Additionally, we could lower the ratings if the bank's geographic diversification narrows, jeopardizing its operating revenue, and consequently, eroding its business stability. Finally, if we take a negative rating action on Colombia, we will take the same action on BBogota, given that the sovereign ratings will cap those on the bank.

Upside scenario

We could raise the ratings on BBogota in the next 12 months if its RAC ratio improves to above 5% and we also upgrade Colombia, given the sovereign rating cap. This is because we rarely rate financial institutions above the long-term sovereign rating since during sovereign stress, the latter's regulatory and supervisory powers may restrict a bank's or financial system's flexibility. In our view, banks are affected by many of the same economic factors that cause sovereign stress.

Ratings Score Snapshot

Issuer Credit Rating BB+/Stable/B

SACP bb+

Anchor bb+

Business position Strong (+1)

Capital and earnings Constrained (-1)

Risk position Adequate (0)

Funding Adequate (0)

Liquidity Adequate (0)

Comparable ratings analysis 0

Support 0

ALAC support 0

GRE support 0

Group support 0

Sovereign support 0

Additional factors 0

SACP--Stand-alone credit profile.

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions , March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions , Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology , Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology , July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Ratings List

Ratings Affirmed	
Banco de Bogota S.A. y Subsidiarias	
Issuer Credit Rating	BB+/Stable/B
Banco de Bogota S.A. y Subsidiarias	
Senior Unsecured	BB+