



## Fitch Affirms Bogota at 'BBB'; Outlook Remains Negative; Multibank and MFG on Positive Watch

Fitch Ratings - New York - 08 November 2019:

Fitch Ratings has affirmed Banco de Bogota S.A. (Bogota) Viability Rating (VR) at 'bbb' and Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB' following the announcement of an agreement to acquire Multi Financial Group's (MFG) operations in Panama. The Rating Outlook for the Long-Term IDRs remains Negative, which is in line with Colombia's Sovereign Rating Outlook, reflecting the bank's sensitivity to a potential sovereign downgrade. In addition, Fitch has placed the National Long-Term Ratings of MFG and the IDRs and National Long-Term Ratings of Multibank Inc. on Rating Watch Positive.

On October 31, Bogota announced that it would acquire 100% of the common shares of MFG. The total assets to be acquired (after getting a controlling stake) amount to about \$5 billion. The financing alternatives of the transaction are still under review; however, Fitch does not expect a material negative effect on the bank's funding and liquidity profile from the alternatives under consideration. The transaction is subject to regulatory approvals and is expected to be completed on the second quarter of 2020.

Bogota's rating affirmation reflects Fitch's opinion that while the acquisition of Multibank and MFG will materially affect its core and tangible capital ratios, the effect will be temporary, and these metrics are likely to recover within the 12 months after the transaction is completed. Bogota's other related entities and subsidiaries international ratings (Grupo Aval Acciones y Valores S.A., Corporacion Financiera Colombiana S.A. Corficolombiana and Credomatic International Corporation - CIC.), were unaffected, and remain unchanged following the affirmation of Bogota's ratings and Outlook.

Following the acquisition announcement, the IDRs, SR and National Ratings of Multibank and the National Long-Term Ratings of MFG were placed on Positive Watch to reflect that once the transaction is approved and closed, the bank and its holding company's ratings could be upgraded and equalized with Banco de Bogota's ratings to reflect potential institutional support from a relatively higher rated parent.

MFG's and Multibank's National Short-Term ratings were affirmed, while Multibank's Viability Rating and the ratings for its Colombian subsidiary Banco Multibank, S.A. are unaffected at this point.

### Key Rating Drivers

#### VR, IDRs AND NATIONAL RATINGS

#### BOGOTA

Bogota's IDR's and VR were affirmed following the acquisition announcement, considering the strategic importance of this acquisition in the bank's and Grupo Aval's regional franchise and presence in Panama. According to Fitch's initial projections, the impact on Bogota's capital ratios, Fitch Core Capital -FCC to risk-weighted assets and tangible equity to tangible assets would be moderate (between 130 to 160 basis points). The entity would likely be able to restore its ratios to current level within 12 months after the transaction is

completed, under a scenario of moderate growth and conservative dividends payout. Capitalization remains the bank's main credit weakness relative to international peers (emerging market commercial banks in the 'bbb' category).

Nevertheless, the adoption of Basel III regulations in Colombia, which includes changes in the risk-weighted assets, partially compensates the effect of the acquisition in Bogota. Fitch isolated this regulatory change to assess the impact on tangible capital ratios, and the rating affirmation factors in the ability to restore capital metrics even if the current regulatory rules were remain.

Bogota's VR is highly influenced by the operating environment of the jurisdictions where Bogota operates. Additionally, the ratings consider the bank's consistent financial performance, reasonable credit and risk policies, ample and diversified funding base, and its leading franchise. However, execution risk or additional cost related to the acquisition, or any future mergers would put pressure on Bogota's profitability ratios.

Even with integration risk from the acquired entities -- as in any other M&A transaction -- a solid history of successful integration of prior acquired entities abroad, and the good financial profile of the acquired entity, suggests that these risks are manageable. Another mildly credit positive outcome of the planned transaction, is the relatively higher contribution to the consolidated group of Panamanian operations, a market with roughly similar operating environment to Colombia, but with a stable outlook.

#### MFG AND MULTIBANK

Multibank's ratings are driven by its intrinsic financial strength, as reflected by its 'bbb-' Viability Rating, which remains unchanged by the proposed transaction. Multibank's ratings consider its modest franchise, moderate capitalization levels, good asset quality, consistent profitability metrics and adequate liquidity profile. Fitch does not foresee immediate changes to Multibank's VR rating as the bank is expected to remain an independent operation, but the financial performance would benefit from the shared banking agreement over the rating horizon.

MFG's ratings are equalized to its main subsidiary due to low double-leverage, low regulatory restrictions to transfer liquidity and/or capital, and shared brand with Multibank.

Once the transaction finalizes, Fitch will evaluate the new shareholder's propensity and capacity to support its newly acquired subsidiaries; however, the relevance of the operations in Panama and the apparent strategic compatibilities with other existing Banco de Bogota operations in Panama validate the agency's initial view of potential support.

#### SUPPORT RATING AND SUPPORT RATING FLOOR

##### BOGOTA

Given its size and systemic importance, Bogota is likely to receive support from Colombia's government, if required. Colombia's ability to provide such support is reflected in the sovereign's Long-Term IDR (BBB/Negative) and drives Bogota's 'BBB-' support rating floor.

##### MULTIBANK

Multibank's Support Rating of '5' and Support Rating Floor (SRF) of 'NF' reflect Fitch's expectation of no support. As a longstanding dollarized economy, Panama lacks a lender of last resort; however, Banco Nacional de Panama, the largest state controlled bank, could provide temporary liquidity loans.

Multibank's Support rating of '5' has also been placed on Rating Watch Positive to reflect that after the acquisition this rating would be upgraded by more than one category and driven by institutional support.

## SENIOR AND SUBORDINATED DEBT

### BOGOTA

Bogota's senior unsecured obligations are rated at the same level as the bank's IDR. In turn, Bogota's subordinated debt is rated one notch below the bank's VR. The notching reflects higher expected losses in case of liquidation but no additional notching for non-performance given its gone concern-only characteristics (plain-vanilla subordinated debt).

## RATING SENSITIVITIES

### VR, IDRs, NATIONAL RATINGS, SENIOR AND SUBORDINATED DEBT

#### BOGOTA

There is limited upside potential for Bogota's ratings given the sovereign's current rating and Outlook. However, any negative rating action on the sovereign would also lead to a similar action on Bogota's IDRs, VR and debt ratings.

Furthermore, Bogota's ratings could also be negatively affected if the bank fails to restore its core and tangible capital ratios according to Fitch's expected projections during the 12 months after completion of the acquisition (tangible capital to tangible asset ratio consistently above 8.5%). A further downside could occur if the bank's impaired loan ratio deteriorates to a level consistently above 4%, or its financial performance weakens (operating profit relative to risk-weighted assets consistently below 1.5%).

Alternatively, a failure to duly integrate the acquired business may trigger a negative rating action on Bogota's VR and IDRs, which in turn could trigger negative actions for the entities that benefit from Bogota's credit profile.

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

#### MFG AND MULTIBANK

The Positive Watch would be resolved once the transaction is approved and closed. Multibank's and MFG's ratings could be upgraded once Fitch evaluates the new shareholder's propensity and capacity to support the acquired subsidiaries. The ratings of both entities would return to a Stable Outlook based on Fitch's evaluation on support or if Banco de Bogota's ratings are downgraded. Subsequently, the SRF would be withdrawn, as it would no longer apply under an instructional support evaluation.

The resolution of the Positive Watch on Multibank's Short-Term rating or any rating upgrade would reflect the agency's evaluation on Bogota's funding and liquidity assessment and its capacity to provide support to Multibank. If Fitch eventually believes that the Short-Term ratings should instead reflect Multibank's intrinsic credit profile, then the Short-Term ratings could be affirmed and the Watch removed.

Multibank's VR could be upgraded over the medium term if the bank further strengthens and consolidates its franchise, while also improving its Fitch core capital ratio to above 13% on a consistent basis. In turn, a downgrade could result from added pressure on its capital that drives the FCC ratio to consistently below 10%.

The ratings of Multibank's debt would move in line with the bank's IDRs.

## SUPPORT RATING AND SUPPORT 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.



## ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

### RATING ACTIONS

| ENTITY/DEBT                 | RATING  | PRIOR   |
|-----------------------------|---|---|
| Multi Financial Group, Inc. | Natl LT<br>AA(pan) <br>Rating Watch On   | AA(pan)    |
|                             | Natl ST<br>F1+(pan)<br>Affirmed   | F1+(pan)  |
| Multibank, Inc.             | LT IDR<br>BBB- <br>Rating Watch On      | BBB-      |
|                             | ST IDR<br>F3 <br>Rating Watch On       | F3  |
|                             | Natl LT<br>AA(pan) <br>Rating Watch On | AA(pan)  |
|                             | Natl ST<br>F1+(pan)<br>Affirmed   | F1+(pan)  |
|                             | Support<br>5 <br>Rating Watch On       | 5   |
|                             | Support Floor<br>NF<br>Affirmed   | NF  |
| senior unsecured            | LT<br>BBB- <br>Rating Watch On         | BBB-  |
| senior unsecured            | Natl LT<br>AA(pan) <br>Rating Watch On | AA(pan)   |
| senior unsecured            | Natl ST<br>F1+(pan)<br>Affirmed   | F1+(pan)  |
| Banco de Bogota, S.A.       | LT IDR<br>BBB <br>Affirmed             | BBB      |

|                  |  |  |
|------------------|--|--|
|                  | ST IDR<br>F2<br>Affirmed   | F2   |
|                  | LC LT IDR<br>BBB <br>Affirmed | BBB  |
|                  | LC ST IDR<br>F2<br>Affirmed  | F2   |
|                  | Viability<br>bbb<br>Affirmed   | bbb  |
|                  | Support<br>2<br>Affirmed   | 2  |
|                  | Support Floor<br>BBB-<br>Affirmed  | BBB-   |
| subordinated     | LT<br>BBB-<br>Affirmed   | BBB-   |
| senior unsecured | LT<br>BBB<br>Affirmed  | BBB  |

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## **Applicable Criteria**

Metodología de Calificaciones en Escala Nacional (pub. 02 Aug 2018)  
Bank Rating Criteria (pub. 12 Oct 2018)  
Short-Term Ratings Criteria (pub. 02 May 2019)  
Metodología de Calificación de Bancos (pub. 18 Sep 2019)

## **Additional Disclosures**

Dodd-Frank Rating Information Disclosure Form  
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