Research Update:

Banco de Bogota S.A. y Subsidiarias 'BB+/B' Ratings Affirmed Following Spin-Off Of Main Subsidiary; Outlook Stable

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PRIMARY CREDIT ANALYST

Alejandro Peniche
Mexico City
+ 52 55 5081 2874
alejandro.peniche
@spglobal.com

SECONDARY CONTACT

Ricardo Grisi
Mexico City
+ 52 55 5081 4494
ricardo.grisi
@spglobal.com

Overview

- As of March 31, 2022, Banco de Bogota S.A. (BBogota) had completed the spin-off of 75% of BAC Holding International Corp. (BHI, formerly Leasing Bogota Panama S.A.; not rated), which fully owns BAC International Bank Inc. (BIB; BBB-/Stable/A-3). Despite losing close to 50% of its total assets with the spin-off, BBogota remains one of the largest banks in the Colombian banking sector, with large brand recognition and a solid geographic footprint stemming from Multifinancial Group (MFG) in Panama and the minority equity holding it kept in BHI (25%).
- Although BBogota lost a significant amount of goodwill and risk-weighted assets (RWAs) in the transaction, this was outweighed by the loss of capital and minority equity investment adjustments. As a result, BBogota's risk-adjusted capital (RAC) ratio decreased nearly 60 basis points from the end of 2021.
- BHI's spin-off affected BBogota's asset quality metrics, which now more closely resemble those of its Colombian operations. Additionally, the phasing out of the remaining support programs and restructures it granted could result in BBogota's asset quality worsening this year and then gradually recovering for the next couple of years.
- We affirmed our 'BB+/B' ratings on BBogota. The outlook remains stable.

Rating Action

On May 27, 2022, S&P Global Ratings affirmed its global scale 'BB+/B' long- and short-term issuer credit ratings on Banco de Bogota S.A. At the same time, we affirmed our 'BB+' issue-level rating on BBogota's $600 million senior unsecured notes. The outlook remains stable.

Rationale

With the spin-off, BBogota now aims to focus its efforts on the Colombian market and fully integrating Multifinancial Group. BBogota remains the third largest bank in Colombia, with market shares of 13.5% of assets and 11.7% of loans. Additionally, it maintains strong brand recognition in Colombia. We think that the bank will continue growing its loan portfolio by 9%-10%, driven by its digitalization strategy that allows it to target a broader client base. We don't expect the spin-off to jeopardize the bank's business stability or revenue-generating capabilities. BBogota's Colombian operations remain adequately diversified in terms of product offering, with commercial loans representing the bulk of the portfolio (67%), followed by consumer loans (22%) and mortgages (11%). Additionally, because of its 25% stake in BHI and full ownership of MFG, the bank continues to have a diversified geographic footprint in Central America.

Capitalization suffered from the BHI spin-off, but remains in line with the rating level. BBogota's capital assessment continues to be a major weakness for the bank. However, in 2021, the bank's earnings increased, supported by lower new loan loss provisions stemming from the economic recovery in Colombia and in the region, and by its extraordinary income from the Porvenir deconsolidation. This resulted in a RAC ratio of 4.8% as of December 2021.

However, in the first quarter of this year, BBogota's capital structure changed after it spun off the majority of BHI. Its RWAs decreased nearly 50%, partially outweighed by a decrease in its common shareholder's equity of nearly 60%. Additionally, BBogota lost its AT1 subordinated notes because BIB had issued them. Finally, the minority equity participations that the bank has been accumulating throughout the years (mainly in Porvenir, Corficolombiana, and BHI) also pressure its capital ratios. All of the above factors result in a RAC ratio of 4.2% as of March 2022. We expect that internal capital generation with similar payout ratios (close to 50%) will gradually increase its RAC ratio to an average near 4.4% for the next 24 months.

Asset quality will remain higher than historical levels because of the new corporate structure after BHI's spin-off, but will remain manageable. After the spin-off, the bank's NPAs increased with the new corporate structure, and now more closely resemble the asset quality of its Colombian portfolio. NPAs increased to 3.8% as of March 2022 from 2.8% as of December 2021. We forecast NPAs will stay high because of the new portfolio composition and, to a lesser extent, due to the phasing out of the remaining support programs and restructures granted that could also hurt BBogota's asset quality this year. As of March 2022, relief programs only represent about 1% of total consolidated loans, and all of them from Panama. However, the bank opted to extend additional restructures to some clients that the pandemic is still affecting, and these still represent about 8.9% of the total loan portfolio. In addition, we forecast net charge-offs (NCOs) will also increase as the bank cleans the loan portfolio from this deterioration. We expect that NPAs plus NCOs for 2022 will hover around 7%, in line with our expectations for the rest of the Colombian banking system. Finally, for 2023, we forecast that asset quality will gradually improve to near 6.5% as economic conditions recover.

A stable deposit base will keep supporting BBogota's funding and liquidity. BBogota's deposit base proved to be very stable among challenging economic conditions during the pandemic. Furthermore, the bank's funding profile didn't suffer any major changes from the BHI spin-off because the funding mix profile stayed relatively similar--it just decreased in volume. Deposits now account for 74% of its total funding from 82% before the transaction. The overall Colombian banking system's deposits are around 78%; in line with BBogota's current metrics. The rest of the funding profile is now composed of credit lines (12.0%), market debt (10.3%), and repos (3.7%). BBogota's stable funding ratio (SFR) decreased to 100% from 113% and its loans-to-deposits (LTD) ratio is now 101% from 90% as of December 2021. In our view, deposits will keep growing because of the bank's digital strategy and an expected increase in interest rates following the high inflation in the region, which will gradually improve funding metrics toward previous levels.

The bank's liquidity position was also affected by BHI's deconsolidation, but remains sound. BBogota's broad liquid assets to short-term wholesale funding declined to 1.2x as of March 2022 from 2.9x in December. The bank has maintained prudent management and a proactive stance toward its liquidity during stress periods and has adequate management of market debt gaps. We expect liquidity to remain solid as its deposit base grows and the bank starts leveraging its digital strategy in the Colombian market.

Outlook

The stable outlook on BBogota for the next 12 months reflect our expectation that the bank will maintain its solid brand and market position in Colombia and its geographic diversification through MFG group and its minority equity investment in BHI. Additionally, it reflects that BBogota's projected RAC ratio will be comfortably within our current rating level. The outlook also considers the bank's high but still manageable NPAs, mainly a product of the new corporate structure after BHI's spin-off. We expect asset quality to recover to near the Colombian system's average. Finally, we anticipate that the bank will keep its funding and liquidity in line with the system, supported by its stable deposit base.

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 compare with its domestic and regional peers. This could happen if the bank's NPAs plus NCOs rise above 8%.

Upside scenario

We could raise the ratings on BBogota in the next 12 months if the bank's RAC ratio improves to consistently above 5% and we also upgrade Colombia (foreign currency: BB+/Stable/B), because the sovereign rating caps those on BBogota. 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)

Issuer Credit Rating	BB+/Stable/B
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 | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, 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
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- 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

Ratings Affirmed	
Banco de Bogota S.A. y Subsidiarias	
Senior Unsecured	BB+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.