Moody’s
INVESTORS SERVICE
Rating Action: Moody’s confirms Bancolombia’s ratings; changes outlook to negative

Global Credit Research - 01 Nov 2013

Mexico, November 01, 2013 -- Moody’s Investors Service has today confirmed all ratings for Bancolombia S.A. including its standalone bank financial strength rating (BFSR) of D+, which maps to an unsupported baseline credit assessment (BCA) of baa3; its global local currency long- and short-term deposit ratings of Baa2/Prime-3; foreign currency long- and short-term deposit ratings of Baa3/Prime-3; foreign currency senior debt rating of Baa2; and foreign currency subordinated debt rating of Ba1. The outlook on the ratings was changed to negative.

The rating action concludes the review for downgrade initiated on 22 February 2013 following Bancolombia’s announced intention to acquire HSBC Bank (Panamá), S.A. (now called Banistmo, S.A.). In December 2012, Bancolombia had announced its intention to acquire a minority stake in Grupo Financiero Agromercantil de Guatemala (GFAM), whose main asset is Banco Agromercantil de Guatemala, S.A.

RATINGS RATIONALE

In confirming Bancolombia’s ratings, Moody’s noted that the acquisitions will expand the bank’s earnings generation capacity in line with the sizable presence the bank will achieve in the fast-growing Panamanian market, as it incorporates and further leverages the local Banistmo operation. We expect Bancolombia to capture opportunities to also improve its overall funding mix, taking advantage of Banistmo’s large depositor base. The bank’s expansion into Guatemala, on the other hand, will allow it to more fully service its customer base, which it currently does via a representative office, now through the established business of Banco Agromercantil. Moody’s anticipates, however, that integration and operating costs associated with the acquisitions will limit the short-term revenue contribution that Bancolombia can achieve, particularly because it will need to introduce its own systems in Panama.

In that regard, Moody’s expects only mild deterioration in the bank’s asset quality because both acquisitions target credit segments familiar to Bancolombia, namely commercial and corporate lending, with Banistmo also adding diversification towards retail lending, which accounts for 49% of its loan book. Overall, the combined loan mix of Bancolombia is likely to remain essentially the same. According to our analysis of the pro forma financial statements, both the banks appear to have adequate asset quality with generally low levels of past due loans and a relatively high cushion of capital and loan loss reserves, in line with Bancolombia’s own risk profile.

Moody’s however, notes that the acquisitions materially weaken Bancolombia’s capital ratios, which we estimate will decline to 5.9% as measured by Tier 1 Capital as a percentage of risk-weighted assets from current 10.6%, after we deduct intangibles, according to new Colombian capitalization norms, and risk-weight government securities. At this level, Bancolombia’s capital ratio provides limited loss absorption capacity when compared to that of peers in Colombia and in the region. The negative outlook on the ratings, therefore, incorporates our view that capital ratios will remain low over the next six to 12 months, as the bank continues to replenish capital internally, and taking into account modest earnings contribution from the newly acquired banks over the short term. Any decision to raise additional capital would improve Bancolombia’s credit outlook. The bank’s shareholders gave approval last February for a capital injection of about $2.2 billion, which if carried out would improve Bancolombia’s loss absorption capacity.

Bancolombia’s local currency deposit rating of Baa2 incorporates one notch of uplift from its baa3 standalone BCA, based on our assessment that systemic support will be forthcoming in case of stress as a result of the bank’s importance to Colombia’s banking system. However, as , the bank continues to expand out of Colombia, the systemic support uplift could be reduced.

The principal methodology used in these ratings was Global Banks Methodology published in May 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

The date of the last Credit Rating Action was 22 February 2013 when Moody’s placed all of Bancolombia’s ratings on review for downgrade.
Bancolombia is headquartered in Medellín, Antioquia, Colombia and had USD56.6 billion in assets, USD39.4 billion in loans, USD36.4 billion in deposits, and net income of USD364 million as of June 2013. Banistmo is headquartered in Panama City, Panama and had USD9.1 billion in assets, USD5.1 billion in domestic loans, USD5.9 billion in deposits and net loss of USD6.1 million as of June 2013. GFAM is headquartered in Guatemala City, Guatemala and had USD2.4 billion in assets, USD1.6 billion in loans, USD2.0 billion in deposits and net income of USD33 million as of year-end 2012.

The following ratings assigned to Bancolombia were confirmed with a negative outlook:

- Bank Financial Strength Rating of D+
- Long term global local currency bank deposit ratings of Baa2
- Short term global local currency bank deposit ratings of Prime-3
- Long term foreign currency bank deposit ratings of Baa3
- Short term foreign currency bank deposit ratings of Prime-3
- Long term foreign currency senior unsecured debt ratings of Baa2
- Long term foreign currency subordinated debt ratings of Ba1

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