FitchRatings

Banks
Universal Commercial Banks
Colombia

Banco de Bogota, S.A.

Update

Key Rating Drivers

Viability Rating Drives Bank Ratings: Banco de Bogota, S.A.'s (Bogota) Viability Rating (VR) is influenced by its business profile, which is underpinned by its leading franchise. The bank's ratings also consider its consistent financial performance, reasonable credit and risk policies and ample and diversified funding base.

Challenging Operating Environment: Fitch Ratings expects the operating environment (OE) for Colombian banks to remain stable in 2024 due to higher GDP growth, inflation that is declining but still above the central bank's 3+/−1% target, a slow decrease in funding costs and gradual asset quality improvement after peaking in 2H23. Furthermore, exposure to global markets and political uncertainty will likely continue to pose challenges and headwinds to economic growth. Fitch believes sustained capitalization, resilient profitability and adequate reserves provide sufficient resilience for banks to face stress.

Leading Franchise: Bogota is Colombia's third largest bank by assets and deposits, with a 12.2% and 11.8% market share respectively as of YE23. It is also the second largest bank by net income and the third largest by loans (12.4% and 12.3%, respectively). Given its size, the bank is a systemically important financial institution in Colombia. Bogota also consolidates Multibank, a Panamanian subsidiary acquired in 2020, with market shares by assets, loans and deposits of 3.8%, 4.4% and 3.6%, respectively, as of December 2023.

As of YE23, corporate lending reached 64.1% of gross loans, similar to the ratio as of YE22, with a slight increase in consumer loans from payrolls. An 84% portion of consolidated loans is booked in Colombia, with the remainder mainly booked through Multibank.

Operating Environment Weighs on Asset Quality: Bogota's loan portfolio quality deteriorated in 2023 due to the unstable OE and a decrease in the loan portfolio, and it's mainly focused on unsecured retail loans. The 90-day nonperforming loans (NPL) ratio reached 4.2% at YE23, with 1.35x consolidated loan loss reserve coverage, slightly below pre-pandemic levels. Fitch believes deterioration should have peaked at the end of 2023, with asset quality improving in 2024 due to a strengthening OE and macroeconomic conditions, along with lower interest rates.

Profitability Impacted by Cost of Risk: Bogota's 2023 performance was affected by a higher cost of risk due to deterioration in retail loans and lower equity method income from Corficolombiana. The bank's operating profit-to-risk-weighted assets (RWA) ratio was 1.2% at YE23, mainly due to a sustained net interest margin (NIM) and higher impairment charges. Fitch expects this ratio to stabilize near the 2.0%–2.5% range in the short-to-medium term amid a stable OE, increasing loan growth, stable margins and lower loan impairment charges.

Higher Capital Ratios: Bogota's capitalization improved as expected by Fitch, after the shareholder's agreement to change Corficolombiana's controlling company to Banco Popular from their holding company Grupo Aval Acciones Y Valores S.A. (Grupo Aval). This is a result of Bogota no longer being obliged to discount Corficolombiana book value investment from its CET1 capital, in accordance with the Colombian regulation. Consequently, Bogota's CET1 ratio improved to 12.9% at YE23, from 10.1% at 3Q23.

Bogota's capital is supported through sustained profitability and moderate dividend policies, coupled with moderate growth. Bogota's capital ratios are likely to remain stable or slightly decrease after the peak from 2023 due to expected profitability improvement, coupled with current effects of the available-for-sale portfolio on capital from other comprehensive income (OCI) amid higher RWA from loans. Additionally, diversification and improving income from the equity method originating from Corficolombiana and Porvenir should sustain the bank's profitability and, hence, capitalization in 2024.

Ratings

Foreign Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Local Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Viability Rating	bb+
Government Support Rating	bb
Sovereign Risk	
Long-Term Foreign-Currency IDR	BB+
Long-Term Local-Currency IDR	BB+
Country Ceiling	BBB−

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Dashboard YE 2023 - Colombian Banks (April 2024)

Colombian Banks Datawatch 4Q23 (April 2024)

Colombia (December 2023)

Analysts

Aguilar, Ricardo
+52 81 4161 7086
ricardo.aguilar@fitchratings.com

Marquez, Andres
+57 601 241 3254
andres.marquez@fitchratings.com

Wide, Stable Funding: Bogota boasts an ample, well diversified and low cost depositor base that funds all of its lending activities. Its loans-to-customer deposits ratio compares favorably with local peers, even after the spinoff in 2022, which resulted in a ratio closer to that of its Colombian operations. In Fitch's opinion, Bogota's liquidity and liquidity management are appropriate for the risks the bank faces. Deposits grew 3.5% during 2023, predominantly supported by time deposits. This is partially explained by the new net stable funding ratio (NSFR) regulation in Colombia, although the impact on Banco de Bogota has been lower compared to local peers.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- Bogota's VRs and Issuer Default Ratings (IDRs) are sensitive to material deterioration in the local OE or a negative sovereign rating action.
- The ratings could be downgraded from an extended period of OE deterioration that leads to significant weakening of asset quality and/or profitability (operating profit to RWA consistently below 1.5%), in turn resulting in an erosion of capital cushions if the CET1 falls consistently below 10%.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- Given the limitations of the OE, a ratings upgrade is unlikely in the medium term.
- Over the longer term, an improving OE coupled with improvement in capital metrics and profitability could be positive for creditworthiness.

Issuer Ratings (Including Main Issuing Entities)

Rating Level	Rating
Long-Term Foreign-Currency IDR	BB+
Short-Term Foreign-Currency IDR	B
Long-Term Local-Currency IDR	BB+
Short-Term Local-Currency IDR	B
Viability Rating	bb+
Government Support Rating	bb
Outlook	Stable

Source: Fitch Ratings

Debt Rating Classes

Rating Level	Rating
Senior unsecured: Long-Term	BB+
Subordinated: Long-Term	BB-

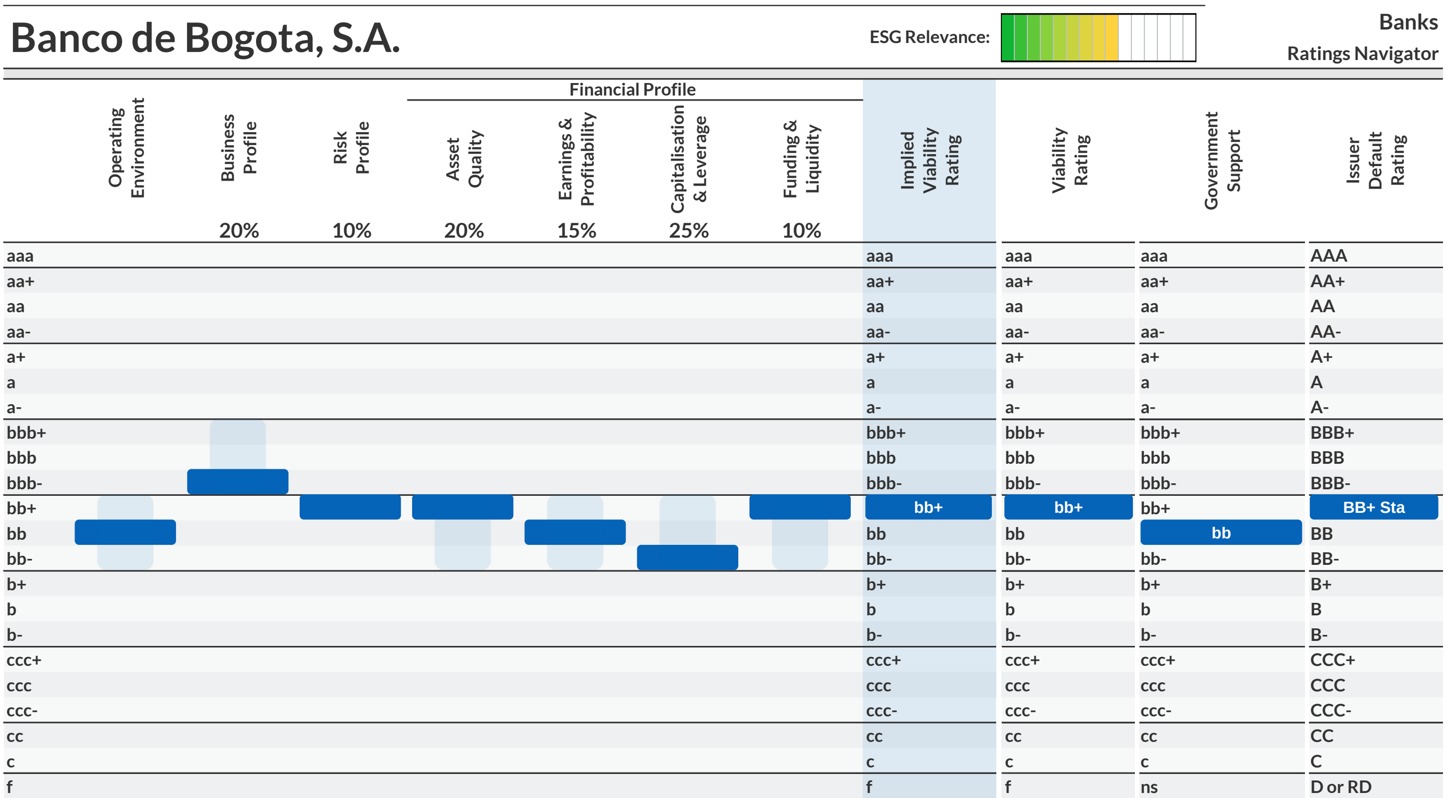
Source: Fitch Ratings

Senior and Subordinated Debt

Bogota's senior unsecured obligations are rated at the same level as the bank's IDR. Its subordinated debt is rated two notches below the bank's VR.

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

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

Significant Changes

Bogota's capitalization improved as expected by Fitch, after the shareholder's agreement to change Corficolombiana's controlling company to Banco Popular from their holding company Grupo Aval Acciones Y Valores S.A. (Grupo Aval). This is a result of Bogota no longer being obliged to discount Corficolombiana's book value investment from its CET1 capital, in accordance with Colombian regulation. In consequence, Bogota's CET1 ratio improved to 12.9% at YE23, from 10.1% at 3Q23.

In 2023, the financial performance of the Colombian banking sector weakened due to several factors, including lower household spending, high inflation, rising interest rates, and market volatility, exacerbated by reforms initiated by the new government. Financial ratios declined, mainly due to deteriorating asset quality and rising funding costs in a challenging operating environment. Fitch expects that the sector could see moderate growth in 2024, but will continue to be constrained by tight monetary policy and limited economic growth. However, the agency believes that sustainable capitalization, resilient profitability and adequate reserves provide banks with sufficient resilience to weather further stress.

Summary Financials and Key Ratios

	December 31, 2023		December 31, 2022	December 31, 2021	December 31, 2020
	Year end	Year end	Year end	Year end	Year end
	(USD Mil.)	(COP Bil.)	(COP Bil.)	(COP Bil.)	(COP Bil.)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	1,323	5,056.9	4,720.0	8,646.6	8,276.3
Net fees and commissions	385	1,471.6	1,245.1	3,654.7	4,254.2
Other operating income	206	785.5	613.0	1,849.6	2,542.8
Total operating income	1,914	7,314.0	6,578.1	14,150.9	15,073.3
Operating costs	974	3,721.4	3,257.4	7,499.0	7,513.2
Pre-impairment operating profit	940	3,592.6	3,320.7	6,651.9	7,560.1
Loan and other impairment charges	601	2,296.0	1,362.4	2,993.7	4,307.8
Operating profit	339	1,296.6	1,958.3	3,658.2	3,252.3
Other non-operating items (net)	0	0.0	1,138.2	1,671.8	n.a.
Tax	86	327.7	290.2	781.0	747.7
Net income	254	968.9	2,806.3	4,549.0	2,504.6
Other comprehensive income	30	114.6	-2,623.8	1,047.9	-404.0
Fitch comprehensive income	283	1,083.5	182.5	5,596.9	2,100.6
Summary balance sheet					
Assets					
Gross loans	25,892	98,959.4	96,078.0	156,219.1	135,845.5
- Of which impaired	1,086	4,150.4	3,381.9	4,200.6	4,479.0
Loan loss allowances	1,468	5,610.7	5,293.3	7,637.1	7,345.0
Net loan	24,424	93,348.7	90,784.7	148,582.0	128,500.5
Interbank	n.a.	n.a.	n.a.	n.a.	n.a.
Derivatives	172	656.5	786.3	408.5	604.8
Other securities and earning assets	7,046	26,931.2	30,137.3	39,745.8	37,120.8
Total earning assets	31,642	120,936.4	121,708.3	188,736.3	166,226.1
Cash and due from banks	2,128	8,133.3	7,274.1	26,997.9	27,497.6
Other assets	2,199	8,404.3	8,891.4	16,600.7	14,544.7
Total assets	35,969	137,474.0	137,873.8	232,334.9	208,268.4
Liabilities					
Customer deposits	23,831	91,083.8	88,027.5	163,733.6	147,287.5
Interbank and other short-term funding	3,367	12,870.6	16,093.1	19,950.2	16,535.7
Other long-term funding	3,137	11,991.6	13,587.7	15,913.0	15,886.8
Trading liabilities and derivatives	271	1,033.9	633.9	447.4	628.5
Total funding and derivatives	30,607	116,979.9	118,342.2	200,044.2	180,338.5
Other liabilities	1,236	4,725.1	3,721.0	6,951.7	5,431.3
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	4,126	15,769.0	15,810.6	25,339.0	22,498.6
Total liabilities and equity	35,969	137,474.0	137,873.8	232,334.9	208,268.4
Exchange rate		USD1 = COP3822.05	USD1 = COP4810.2	USD1 = COP3997.71	USD1 = COP3444.9

Source: Fitch Ratings, Fitch Solution.

Summary Financials and Key Ratios

	December 31, 2023	December 31, 2022	December 31, 2021	December 31, 2020
Ratios (annualized as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.2	1.9	2.2	2.0
Net interest income/average earning assets	4.2	3.7	4.9	5.2
Non-interest expense/gross revenue	55.1	55.1	55.1	51.8
Net income/average equity	6.2	15.8	19.2	11.2
Asset quality				
Impaired loans ratio	4.2	3.5	2.7	3.3
Growth in gross loans	3.0	-38.5	15.0	16.6
Loan loss allowances/impaired loans	135.2	156.5	181.8	164.0
Loan impairment charges/average gross loans	2.4	1.3	2.0	3.2
Capitalization				
Common equity Tier 1 ratio	12.9	10.1	10.2	7.8
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch core capital ratio	n.a.	n.a.	n.a.	9.8
Tangible common equity/tangible assets	10.5	10.6	7.8	7.6
Basel leverage ratio	9.6	7.7	8.1	n.a.
Net impaired loans/common equity tier 1	-10.7	-18.3	-20.5	-22.3
Net impaired loans/fitch core capital	n.a.	n.a.	n.a.	-18.8
Funding and liquidity				
Gross loans/customer deposits	108.7	109.2	95.4	92.2
Gross loans/customer deposits + covered bonds	n.a.	n.a.	n.a.	n.a.
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/total non-equity funding	78.6	74.8	82.0	82.0
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solution.

Government Support

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	bb+ or bb
Actual jurisdiction D-SIB GSR	bb
Government Support Rating	bb
Government ability to support D-SIBs	
Sovereign Rating	BB+/ Stable
Size of banking system	Neutral
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Positive
Liability structure	Positive
Ownership	Positive

The colors indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

Government Support Rating

Bogota's Government Support Rating (GSR) of 'bb' reflects Fitch's estimation of a moderate probability of sovereign support, if required, given the bank's systemic importance. The sovereign's ability to provide support is based on its 'BB+'/Stable rating.

Given its size and systemic importance, Bogota is likely to receive support from the Colombian government, should it be required, thereby underpinning its GSR. Colombia's ability to provide such support is reflected in its sovereign rating (BB+/Stable) and drives Bogota's GSR of 'bb'.

The government has provided support to banks in the past and, despite a lack of statements of support, the banks tend to wield significant political influence.

Bogota's GSRs would be affected if Fitch were to change its assessment of the government's ability and/or willingness to support the bank.

Environmental, Social and Governance Considerations

FitchRatings **Banco de Bogota, S.A.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

ESG Relevance to Credit Rating

Banco de Bogota, S.A. has 5 ESG potential rating drivers

- Banco de Bogota, S.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, due to either their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.