FitchRatings

Banks
Universal Commercial Banks
Colombia

Banco de Bogota, S.A.

Key Rating Drivers

Viability Rating Drives Ratings: Banco de Bogota S.A.'s Viability Rating (VR) is highly influenced by its business profile, which is underpinned by its leading franchise. The bank's ratings also reflect its consistent financial performance, reasonable credit and risk policies and ample and diversified funding base. Capitalization remains the bank's main credit weakness relative to international peers, although it has improved in 2021.

Leading Franchise: Bogota is Colombia's second-largest bank by assets and third-largest by deposits, with 14.7% and 13.3% market shares, respectively, at Sept. 30, 2021; the largest by net income with a 31.1% market share; and third-largest by loans at 12.6%. It is the largest bank by assets, with an 11.5% share; net loans with 12.7%; and deposits at 12% in Central America, as well as the second-largest bank by net income with a 15.5% share. Given its size, the bank is a systemically important financial institution in Colombia.

Good Asset Quality: Bogota's loan portfolio quality remained sound in 2021, despite relief programs after the coronavirus outbreak. The 90-day NPLs improved to 2.93% as of Sept. 30, 2021, compared with 3.30% at YE 2020, thanks to better than expected performance in consumer loans after finalizing the relief period in Panama and Colombia and especially from the improvement in corporate and commercial loans, thanks of the normalization of Avianca Holdings S.A.'s loan.

Fitch Ratings expects the ratio to remain stable or slightly improve during the short to medium term due to low loans under relief, at 2% at the consolidated level, and expected 8%–10% loan growth for 2021–2022.

Asset Quality After Spin-Off: Colombian operations have a higher NPL ratio compared with that of Central America. After the proposed BAC Holding International Corp (formerly Leasing Bogota S.A. Panama - LBP) spin-off, loan quality ratios will move closer to those of the Colombian operations. Fitch notes that Bogota's asset quality is in line with its local peers' and includes controlled charge-off ratios. The loan loss reserve coverage ratio was 1.7x at Sept. 30, 2021, higher than its 1.6x historical level.

Improving Capital Metrics: Bogota's capital has been sustained through sustained profitability and moderate dividend policies. Common equity tier 1 (CET1) improved to 11.10% as of Sept. 30, 2021 from 10.25% on June 30, 2021. This was due to higher profitability in 2021 and a change in risk-weighted assets (RWA) calculation after Basel III implementation, as RWA/total assets declined to 70.1% from an 81.0% average in 2017–2020.

These changes were the result of Porvenir's (the group's pension fund) deconsolidation process, which resulted in COP1.302 trillion in income from investment revaluation to update its fair value, and to lower RWA, especially in market risk. In September 2021, Bogota's fixed-charge coverage (FCC) and tangible equity ratios were 11.4% and 7.9%, respectively.

Resilient Profitability: Bogota's performance in 2021 improved due to decreasing loan impairment charges from the coronavirus pandemic, along with lower, yet improving, net interest margin (NIM), with operating profit/RWA of 3.74% at 3Q21, above the 1.99% at YE 2020 and the 2.69% average for 2017–2019. This result is better than local peers', but it is influenced by decreasing RWA density. Fitch expects this ratio to remain stable in 2022 amid a stable operating environment, higher loan growth and margins, lower loan impairment charges and the expected spin-off of BAC.

Wide, Stable Funding: Bogota boasts an ample, well-diversified and low-cost depositor base that funds all of its lending activities. As of Sept. 30, 2021, deposits grew 4.3% yoy, supported

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 (November 2021)

Related Research

Fitch Affirms Banco De Bogota and Related Entities; Outlook Stable (December 2021)

Fitch Ratings 2022 Outlook: Latin American Banks (December 2021)

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by saving and current accounts. Bogota's loan to customer deposits ratio compares favorably with local and regional peers, due to about 84% of customer deposit in its funding mix. In Fitch's opinion, Bogota's liquidity and liquidity management are appropriate for the risks the bank faces, and are better than its 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 a material deterioration in the local operating environment or a negative sovereign rating action;
- Continued deterioration of the operating environment due to an extended economic disruption from the pandemic that leads to a significant deterioration of asset quality or profitability, with operating profit to RWA consistently below 1.5%, resulting in an erosion of capital cushions if the CET1 ratio falls consistently below 10%;
- After the announcement to spin off BAC, Fitch expects Bogota's financial ratios to remain commensurate with its current rating, taking into consideration potential changes, especially in the bank's capitalization and asset quality levels after BAC's spin-off. Potential financial ratios variations will be monitored by Fitch and could take several months to become clear. However, if a material change occurs in Fitch's assessment of the capital adequacy or double leverage of Bogota or Grupo Aval Acciones y Valores S.A. during or after the completion of the corporate reorganization, this could potentially trigger a negative rating action, although this is not the baseline scenario.
- Bogota's government support ratio (GSR) of 'bb' reflects Fitch's estimates of a moderate probability of sovereign support, if required, given the bank's systemic importance. The ability of the sovereign to provide support is based on its 'BB+'/Stable rating.
- Bogota's senior unsecured obligations are rated the same as the bank's IDR. Its subordinated debt is rated two notches below the bank's VR.

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

- Given the limitations of the operating environment, an upgrade is unlikely in the medium term;
- Over the longer term, an improvement in the operating environment along with improvement in capital metrics and profitability after the BAC spin-off could be positive;
- Bogota's GSR would be affected if Fitch changes its assessment of the government's ability or willingness to support the bank;
- The ratings of Bogota's debt would move in line with the bank's IDRs and VR.

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

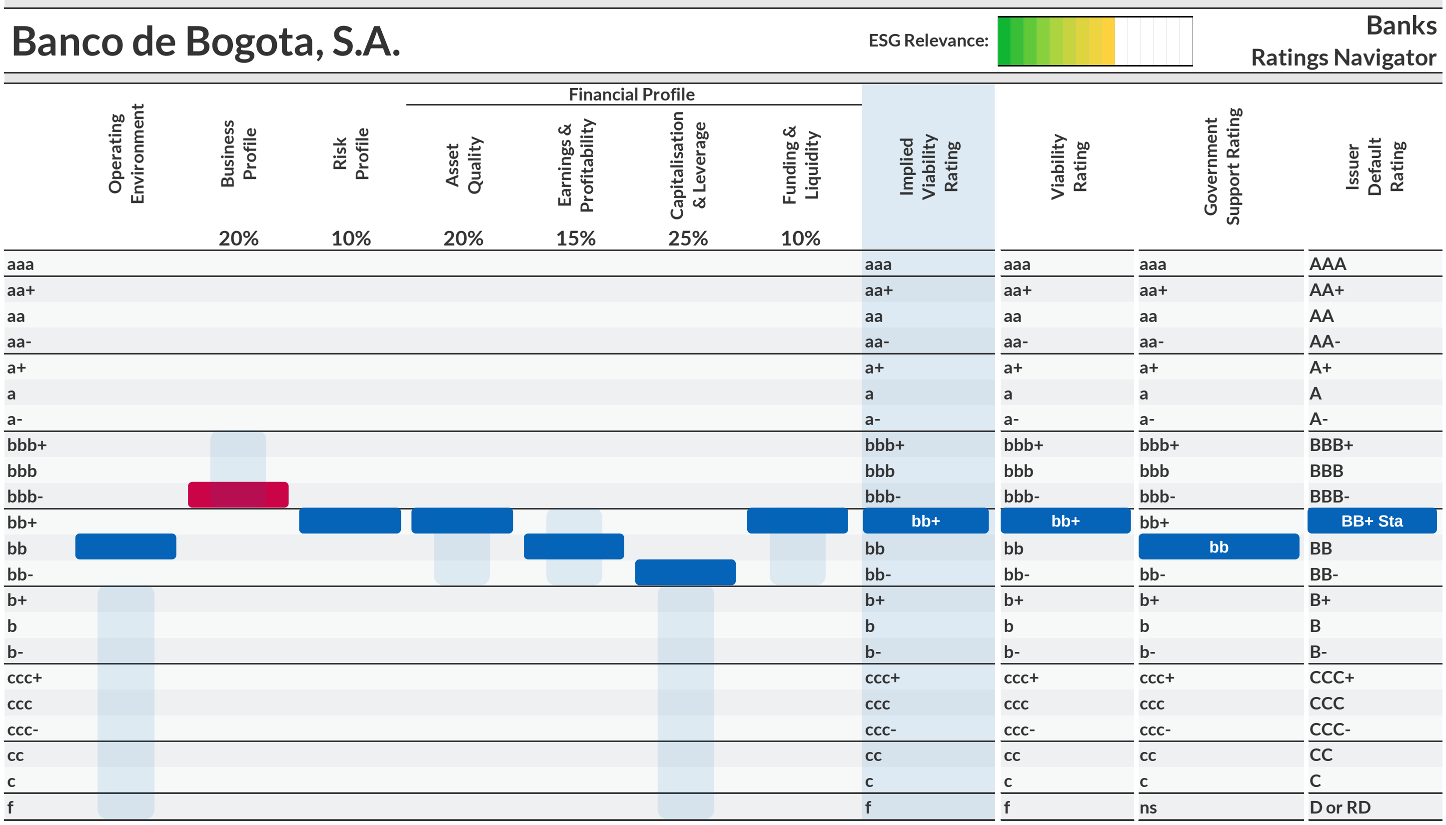
Source: Fitch Ratings.

Debt Rating Classes

Rating Level	Rating
Senior Unsecured	BB+
Subordinated	BB–

Source: Fitch Ratings.

Ratings Navigator



Significant Changes

The assessment of the operating environment's influence on Bogota's VR has been revised to moderate, as Fitch does not anticipate a material impact on the bank's financial profile from any remaining operating environment pressure, such as upcoming elections or a higher than expected deceleration in economic growth.

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

⇧ Positive ⇩ Negative

⇳ Evolving ▫ Stable

Operating Environment

Following Colombia's sovereign rating downgrade to 'BB+' from 'BBB–', Fitch adjusted its operating environment assessment to 'bb'/Stable, indicating that the agency expects any additional pandemic-related fallout to be manageable for Colombian banks at their current rating levels. Fitch expects gradual improvement in asset quality metrics once loans with relief measures finalize, as well as increasing profitability driven by improving margins, lower impairment charges and higher fee income. Nevertheless, tighter fiscal and monetary policies and domestic political uncertainty ahead of the 2022 general election pose downside risks to the sector's performance. In addition, Fitch expects sound economic growth of 9.4% in 2021 and 3.9% in 2022, above its 3.3% growth potential.

Brief Company Summary

Franchise

Bogota is Colombia's second-largest bank by assets and third-largest by deposits, with 14.7% and 13.3% market shares, respectively, at Sept. 30, 2021; the largest by net income with a 31.1% market share; and third-largest by loans at 12.6%. It is the largest bank by assets, with an 11.5% share; net loans with 12.7%; and deposits at 12.0% in Central America, as well as the second-largest bank by net income with a 15.5% share. Given its size, the bank is a systemically important financial institution in Colombia.

The bank is the main banking subsidiary of Grupo Aval, Colombia's largest financial services group, which operates four commercial banks in Colombia, a regional bank conglomerate in Central America and multiple financial subsidiaries.

Business Model

Bogota is a universal bank offering a wide array of banking services and products, including banking, trust services, leasing and retirement fund management, to around 12 million customers in the corporate, consumer and microcredit segments. The bank has nationwide and regional coverage and a comprehensive portfolio of services and products distributed through a consolidated regional network. Its main subsidiary, BAC, has the largest regional network in Central America.

As of 3Q21, corporate lending reached 57.0% of gross loans, slightly below the 58.3% at YE 2020, due to lower than expected commercial/corporate loan growth after the pandemic and riots in Colombia. Foreign loans, as a proportion of the consolidated loans portfolio, reached 55% at Sept. 30, 2021, mainly booked through BAC, though Colombian operations resulted in roughly 60% of net income. Growth in mortgage and consumer loans outpaced that of corporate during 2021. SME loans declined 11.8% YTD in September 2021. The bank is focused on entering into profitable sectors and deals, rather than market share.

Organizational Structure

Bogota is controlled by Grupo Aval, which owns 68.7% of the bank's shares. Bogota has a conservative approach to banking and controls nine financial services subsidiaries in 11 countries that are active in banking, trust services and leasing. Bogota has a branch in Florida and one in New York, a bank with a general license in Panama, and an off-shore bank in Nassau. Its largest and most important holding is BAC-Credomatic, which is organized as a network of several banks that cover Central America. Controls remain adequate and rely on centralized strategic supervision and operating autonomy.

During 2021 Banco de Bogota and Grupo Aval took two main decisions to improve the bank's and the group's focus and efficiency. On Sept. 15, 2021, they announced a planned to spin off Leasing Bogota S.A. Panama, the full owner of BAC International Bank, from Bogota. Grupo Aval indicated the main objective was to optimize Bogota's and Grupo Aval's corporate structures as well as to use capital in a more efficient way. Also, another objective is to strengthen the strategic positions of the entities involved in the spin-off.

In connection with that transaction, Fitch expects Bogota's financial ratios to remain commensurate with its current rating even with the potential changes, especially in the bank's capitalization after the BAC spin-off. Fitch will monitor potential financial ratio variations, which could take several months to become clear. Fitch's assessment of the potential support for subsidiary Multibank Inc. would receive from its parent, if required, remains unchanged by this transaction. However, if a material change occurs in Fitch's assessment of the capital adequacy or double leverage of Bogota or Grupo Aval during or after the corporate reorganization, it could trigger a negative rating action, although this is not the baseline scenario at present.

The second decision relates to Porvenir, Grupo Aval's pension fund. On July 28, 2021, a shareholder agreement was reached, in which Grupo Aval became Porvenir's direct controlling entity. Consequently, Bogota no longer consolidates Porvenir's results and began to account for it as an equity investment.

The agreement is expected to allow Bogota to increase its focus on its core banking operation with no changes in Porvenir's shareholder structure. In addition, Bogota will continue to benefit from business diversification and income from Porvenir, but there will be a more efficient use of capital for the bank.

As a result, the bank reported COP1.302 trillion in income from Porvenir's investment valuation update to its fair value in3Q21, a result of the deconsolidation process. This is expected to improve capital ratios, with regulatory total capital of 13.5% at 3Q21, up from 12.5% as of 2Q21 and the Tier I capital ratio improving to 11.1% at 3Q21 from 10.2% at 2Q21.

Management and Strategy

Bogota has a very experienced, stable and deep management team that has successfully steered the bank through the rapid expansion of the past few years. Bogota's generally conservative culture has not prevented it from expanding abroad, as the bank adopted a pragmatic approach to new markets, largely relying on existing local expertise. Executive Vice President Julio Rojas Sarmiento decided to step down from the bank in 2021 and Mr. German Salazar was appointed as executive vice president and Mr. Alfredo Botta was appointed as treasurer and international vice president. The internal changes continue to include experienced members of the bank or the group.

Bogota's board consists of five principal members and five alternate members appointed for repeatable three-year terms. Two of the principal members and two of the alternate members are independent. As an issuer on the New York Stock Exchange, its holding Grupo Aval complies with all of the U.S. Securities and Exchange Commission's corporate governance guidelines. The board established several committees to oversee and steer operations, including credit, risk management, and sustainability and audit. Bogota's corporate governance policies are considered sound and among the region's best practices.

Bogota's strategy is to build on the bank's competitive strengths to pursue opportunities for growth and enhance its long-term financial performance. Bogota continues to focus on the Colombian market, capitalizing on synergies and improving efficiencies, expanding services and product offerings and diversifying its income sources in Colombia, as well as increasing penetration of the Central American market. Bogota's goal is to improve efficiency and profitability, even if market share is affected in the medium term.

In general, Bogota has not changed its core objectives in the past two years but is more focused, along with Grupo Aval, on innovation, digital channels and, in general, trying to improve efficiency by increasing transactions through digital channels. The bank's priority is to increase product diversification and control margins and costs, as well as asset quality.

Bogota has set up clear budgeting and control systems in each of its subsidiaries. Budgets are generally met with relatively small deviations. Bogota has demonstrated that it can carry out major acquisitions and manage new subsidiaries while meeting its overall performance goals.

Risk Profile

Fitch views Bogota's credit policies as conservative, given its detailed underwriting processes, sophisticated scoring models, conservative collateral requirements, credit approval limits and ongoing monitoring process. The underwriting process is carried out by two or more of the commercial, credit, risk management and administration areas. Each of the commercial, mortgage, consumer and microcredit segments has a different credit origination process, which depends on the product or segment. The board is the highest authority in terms of risk appetite and policies, as well as assessing exposures and limits. At Grupo Aval, as well as at Bogota and its subsidiaries, the risk function is independent of the business units.

Given the challenging operating environment, Bogota has reviewed and improved the collection process and has created a normalization area to follow up on problem credits.

Risk Controls

Risk controls at Bogota, BAC and Multi Financial Group (MFG) are deemed adequate, as they use effective tools and have maintained robust asset quality metrics, despite the cyclical deterioration expected by Fitch. The areas in charge of origination are also responsible for monitoring, classifying and determining adequate loan loss reserves (LLR). Classification is based on credit analysis and obligor performance, while LLR levels are determined by estimating the probability of default and the loss, given default.

Bogota implemented different deferrals or grace periods for 545,000 clients, covering about COP17.5 trillion. As of Sept. 30, 2021, the total relief program evolved to a 2.0% share of gross loans granted, from a 42.8% share as of June 2020. Its Colombian operation is fully out of relief, while in Central America, the relief program represents 3.5% of gross loans. The latter is mainly due to Panamanian operations

Follow up in the corporate segment is continuous and specialized, while consumer and microcredit loan monitoring are more data-intensive. Specialized collections and recovery areas are in place and have clear procedures to prevent deterioration and minimize losses. This area was reviewed and strengthened with new internal policies and more employees.

Additional monitoring of concentration and limits by obligor and sector for more than 25 main debtors by economic group, which comprises 170 clients as of June 30, 2021 is performed on a quarterly basis for commercial loans. If one of the limits is exceeded, the board will take steps that can include closer monitoring, requests for additional analyses, limiting credit for that given sector or establishing new procedures for approval of new credits, including the person or committee responsible.

The market risk unit reports daily trading positions and mark-to-market values for investments. In addition, it calculates a value at risk (VaR) and performs backtesting and sensitivity analysis. In addition, Bogota uses conditional VaR and historic simulation for stress testing its investment portfolio. The bank also performs a sensitivity analysis of the impact on trading portfolio earnings for interest rate increases of 25bps–50bps.

Operational risk is well controlled by type of risk event and by entity.

Growth

Loan growth for Bogota averaged 6.3% for 2017–2019. Higher growth in Bogota's gross loans of 17% in 2020 was due to healthy growth in commercial loans during 1Q20 and by the consolidation of MFG that started in June 2020, as well as depreciation of the Colombian peso. As Fitch expected, healthy 2021 loan growth of10.1% as of Sept. 30, focused on payroll loans for public-sector employees and retirees and mortgage loans due to a subsidy offered to the middle-income sector. Similar growth is expected for 2022 excluding the BAC spin-off, and includes higher growth in commercial loans, which could result in an upper-single-digit growth rate.

Market Risk

Market risk is monitored by a specialized market risk management team. Comprehensive procedures are in place to ensure that trading, accounting, counterparty selection, trading limit adherence and trading documentation, among others, comply with internal policies and guidelines. Bogota has counterparty and trading limits per operator for each trading platform in its markets. These limits are controlled daily by the group's back office and middle office.

Bogota monitors its interest rate risk daily and sets limits on the level of mismatches in the repricing of assets and liabilities. Based on the bank's calculations, a change in interest rates of plus or minus 50bps with all other variables constant would have affected consolidated net income by less than 0.05% of FCC in 2Q21, corresponding to 0.50% of reported net income, with all other variables constant.

Summary Financials

(COP Bil., Year End Dec. 31)	9/30/21 Nine Months — Third Quarter Unaudited (USD Mil.)	Unaudited	2020 Audited — Unqualified	2019 Audited — Unqualified	2018 Audited - Unqualified	2017 Audited — Unqualified (Emphasis of Matter)
Summary Income Statement						
Net Interest and Dividend Income	1,661	6,368.3	8,276.3	7,505.9	6,884.3	6,725.1
Net Fees and Commissions	818	3,136.8	4,254.2	4,555.0	4,022.2	3,839.1
Other Operating Income	722	2,769.8	2,542.8	1,732.3	1,521.2	1,008.6
Total Operating Income	3,201	12,274.9	15,073.3	13,793.2	12,427.7	11,572.8
Operating Costs	1,462	5,605.0	7,513.2	7,118.9	6,309.6	6,131.3
Pre-Impairment Operating Profit	1,739	6,669.9	7,560.1	6,674.3	6,118.1	5,441.5
Loan and Other Impairment Charges	592	2,270.4	4,307.8	2,625.6	2,493.9	2,350.9
Operating Profit	1,147	4,399.5	3,252.3	4,048.7	3,624.2	3,090.6
Other Non-Operating Items (Net)	13	50.7	N.A.	24.0	457.0	12.6
Tax	175	672.2	747.7	999.0	950.0	970.2
Net Income	985	3,778.0	2,504.6	3,073.7	3,131.2	2,133.0
Other Comprehensive Income	N.A.	N.A.	(404.0)	534.3	(82.6)	(235.8)
Fitch Comprehensive Income	985	3,778.0	2,100.6	3,608.0	3,048.6	1,897.2
Summary Balance Sheet						
Assets						
Gross Loans	38,990	149,513.1	135,845.5	116,483.7	109,543.5	102,404.4
- of Which Impaired	1,143	4,383.7	4,479.0	3,573.3	3,094.5	2,501.0
Loan Loss Allowances	1,980	7,593.5	7,345.0	5,141.7	5,132.7	3,227.0
Net Loan	37,010	141,919.6	128,500.5	111,342.0	104,410.8	99,177.4
Interbank	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Derivatives	59	225.3	604.8	499.2	356.5	234.5
Other Securities and Earning Assets	9,849	37,768.5	37,120.8	25,423.9	25,053.5	22,462.9
Total Earning Assets	46,917	179,913.4	166,226.1	137,265.1	129,820.8	121,874.8
Cash and Due from Banks	7,543	28,923.1	27,497.6	24,809.1	22,061.1	16,924.6
Other Assets	4,055	15,548.4	14,544.7	12,945.4	11,420.6	10,589.7
Total Assets	58,515	224,384.9	208,268.4	175,019.6	163,302.5	149,389.1
Liabilities						
Customer Deposits	41,296	158,356.1	147,287.5	117,795.0	108,404.5	100,947.2
Interbank and Other Short-Term Funding	4,922	18,873.1	16,535.7	17,348.7	18,359.5	15,740.9
Other Long-Term Funding	4,425	16,969.8	15,886.8	12,010.4	10,200.5	9,553.9
Trading Liabilities and Derivatives	86	331.0	628.5	447.5	561.3	190.5
Total Funding and Derivatives	50,729	194,530.0	180,338.5	147,601.6	137,525.8	126,432.5
Other Liabilities	1,385	5,310.5	5,431.3	5,558.0	6,108.9	4,764.5
Preference Shares and Hybrid Capital	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total Equity	6,401	24,544.4	22,498.6	21,860.0	19,667.8	18,192.1
Total Liabilities and Equity	58,515	224,384.9	208,268.4	175,019.6	163,302.5	149,389.1
Exchange Rate		USD1 = COP3834.68	USD1 = COP3444.9	USD1 = COP3294.05	USD1 = COP3275.01	USD1 = COP2971.63

N. A. – Not available.
Source: Fitch Ratings, Fitch Solutions, Banco de Bogota, S.A.

Key Ratios

(As of Dec. 31)	9/30/21	2020	2019	2018	2017
Ratios (Annualized as Appropriate)					
Profitability					
Operating Profit/Risk-Weighted Assets	3.7	2.0	2.8	2.8	2.5
Net Interest Income/Average Earning Assets	4.9	5.2	5.7	5.7	5.7
Non-Interest Expense/Gross Revenue	45.7	51.8	53.7	53.2	53.2
Net Income/Average Equity	21.8	11.2	15.1	17.3	12.2
Asset Quality					
Impaired Loans Ratio	2.9	3.3	3.1	2.8	2.4
Growth in Gross Loans	10.1	16.6	6.3	7.0	5.6
Loan Loss Allowances/Impaired Loans	173.2	164.0	143.9	165.9	129.0
Loan Impairment Charges/Average Gross Loans	2.1	3.2	2.3	2.4	2.3
Capitalization					
Common Equity Tier 1 Ratio	11.1	8.9	9.1	N.A.	N.A.
Fully Loaded Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital Ratio	11.4	9.8	11.1	10.5	10.3
Tangible Common Equity/Tangible Assets	7.9	7.6	9.0	8.4	8.5
Basel Leverage Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Net Impaired Loans/Common Equity Tier 1	N.A.	(22.3)	(12.0)	N.A.	N.A.
Net Impaired Loans/Fitch Core Capital	(18.8)	(18.8)	(10.3)	(15.6)	(6.0)
Funding and Liquidity					
Gross Loans/Customer Deposits	94.4	92.2	98.9	101.1	101.4
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Total Non-Equity Funding	81.5	82.0	80.1	79.2	80.0
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.	N.A.

N. A. − Not available.
Source: Fitch Ratings, Fitch Solutions, Banco de Bogota, S.A.

Key Financial Metrics — Latest Developments

Asset Quality

Bogota's loan portfolio quality remained sound overall in 2021, despite relief programs after the coronavirus outbreak. The 90-day NPL improved to 2.93% as of Sept. 30, 2021 from 3.30% at YE 2020 and 3.33% at June 30, 2021. This was largely due to better than expected performance in the consumer loans after finalizing the relief period in Panama and Colombia and especially by improvement in the commercial loans, including the Avianca loan, which changed from non-performing to performing during 3Q21.

Fitch expects the ratio to remain stable or slightly improve during the short to medium term due to low loans under relief and the expected 8%–10% loan growth for 2021 and 2022. Nevertheless, because Colombian operations have a higher NPL ratio compared to Central America's after the proposed BAC's spin-off, loan quality ratios will more closely resemble those of Colombian operations.

LLR coverage of past-due loans (PDLs) improved to 1.7x, aligned with the 1.5x of 2017–2020, due to higher loan loss allowances in general for IFRS 9. Bogota's consolidated loan portfolio remained relatively stable by composition at Sept. 30, 2021, at 57.0% commercial, down from 58.3% at YE 2020, with the rest retail: consumer at 28.1%, up from 27.3% at YE 2020; mortgage loans at 14.7%, up slightly up from 14.1% at YE 2020; and SME loans, stable at 0.2%.

In the corporate portfolio, Bogota has limits to avoid concentration by economic segment at 10% of the loan portfolio. In addition, the bank historically has maintained LLR coverage of around 1.0x for 30-day PDLs and 1.5x for 90-day PDLs. Concentration by obligor is also limited, with Bogota's top 20 obligors as consolidated economic groups, including over 170 entities, accounted for 9.9% of the total portfolio as of June 30, 2021. Exposure to foreign currency risk is limited and concentrated in Bogota's operations abroad. Foreign currency exposure to foreign customers is locally funded, and Colombian customers that have foreign currency debt to Bogota are mostly foreign currency generators.

Limited Risk in Other Assets

Bogota's debt securities were mostly classified as available for sale at 80.7% at 3Q21. The consolidated investment portfolio is well diversified by country and obligor, and Fitch considers the bank's investment policy conservative, focusing on the underlying credit quality, limited market risk/volatility and diversification.

Earnings and Profitability

Bogota's performance in 2021 improved due to decreasing loan impairment charges from the pandemic along with lower, yet improving, NIM, with an operating profit/RWA ratio of 3.74% at 3Q21, above the 1.99% at YE 2020 and the 2.69% average for 2017–2019. This compares favorably to local peers' but it is influenced by the Basel III requirements introduced in Colombia in 2021, which results in decreasing RWA. Fitch expects the ratio to remain stable in 2022 amid a stable operating environment, higher loan growth and margins, and lower loan impairment charges, along with the BAC spin-off.

Loan and securities impairment charges to pre-impairment operating profit ratio are slowly returning to pre-pandemic levels, at 34.0% at Sept. 30, 2021, down from 57.0% at YE 2020 and the 2017–2019 average of 41.1% as pandemic-related measures are completed. Fitch expects that the ratio will remain relatively stable at around 40.0%–45.0% in 2022. Loan impairment charges/average gross loans also reverted to pre-pandemic levels at 2.1% at June 30, 2021, compared with a 2.34% average for 2017–2019. It is expected to remain stable in 2022.

Capitalization and Leverage

Bogota's capital has been sustained through sustained profitability and moderate dividend policies. Bogota's FCC improved to 11.40% at Sept. 30, 2021, compared with 9.75% at YE 2020, due to higher profitability over 2020, and the change in RWA calculation after Basel III implementation, with RWA/total assets decreasing to 70% from 81% on average in 2017–2020.This ratio improved by 100bps over June 2021's level due to Porvenir's deconsolidation. This had a double effect in the ratio numerator because of the Porvenir deconsolidation one-off income and in the denominator due to lower RWA, especially in market risk. Capital ratios for Bogota are likely to remain stable or improve in 2022 thanks to the BAC spin-off, which is expected to occur by 1Q22.

In addition, diversification, good results from BAC in Central America and improving income from Corficolombiana and Porvenir helped sustain the bank's profitability and, consequently, its capitalization during 2021.

Funding and Liquidity

Bogota has an ample, well-diversified and low-cost depositor base that funds all its lending activities. The bank's deposit mix has been stable for the past four years. As of Sept. 30, 2021, deposits grew 4.3% yoy, especially supported by saving and current accounts, while term deposits grew by 0.7% yoy. Deposits consisted of 40.6% term deposits and 59.4% demand deposits, with 29.9% current and 29.3% savings accounts. Deposits, especially current and savings accounts, are stable, and estimated by the bank at about 75%–80%.

Bogota's loan to customer deposits ratio improved and is better than that of local peers, due to having about 84% of customer deposit in its funding mix. When aggregated by depositor, Bogota has moderate deposit concentration, with its top 20 depositors accounting for 12.1% of total deposits at June 30, 2021. The bank does not have any significant short-term maturities and is actively managing its liabilities through local and international capital markets.

The bank monitors its regulatory liquidity risk indicator for seven, 15 and 30 days, as well as stress scenarios. In Fitch's opinion, Bogota's liquidity position and liquidity management are appropriate for its risks, and are better than its peers'. Fitch expected increase in long-term funding due to the adoption of Basel's net stable funding ratio in Colombia, which could weigh on short-term portfolio concentrations. Nevertheless, loans to deposit ratio is better than its 2017–2020 average at 94.4% at Sept. 30, 2021.

Government Support Assessment

Commercial Banks: Government Support Rating KRDs

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

Given its size and systemic importance, Bogota is likely to receive support from the Colombian government, should it be required, 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, banks tend to have significant political influence.

Fitch is also withdrawing Bogota's Support Rating and Support Rating Floor, as they are no longer relevant to its coverage following the publication of an updated "Bank Rating Criteria" in November 2021. In line with the updated criteria, Fitch assigned Bogota a 'bb' GSR.

Environmental, Social and Governance Considerations

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

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

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.

			Overall ESG Scale
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)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
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)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
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)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
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 scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with 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) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

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.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.