FitchRatings

Banco de Bogota, S.A.

Banks
Universal Commercial Banks
Colombia

Key Rating Drivers

Viability Rating Drives IDRs: Banco de Bogota, S.A.'s (Bogota, or the bank) Viability Rating (VR) is highly influenced by the operating environment of the jurisdictions where it does business and its company profile supported by a 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 (emerging market commercial banks in the bbb category), especially after the consolidation of Multi Financial Group's (MFG) operations in Panama.

Leading Franchise: Bogota is Colombia's second largest bank by assets and third largest by deposits (14.6% and 13.4% market share, respectively, at September 2020); largest bank by net income (41% market share); and third largest bank by loans. Bogota's Central American operations contribute to a diversified revenue base and business profile, a balanced credit portfolio, and critical credit card and retail know-how.

Sustained Asset Quality: Bogota's loan portfolio quality has remained sound in general. However, the bank implemented various types of deferrals or grace periods for clients in Colombia and Central America to support those affected by the coronavirus outbreak. In September 2020, the total relief program represented 14.8% of gross loans. The agency expects the data for 4Q20 and 1Q21 to present a clearer representation of loan quality deterioration for its Colombian operations. However, this will only be apparent in Central America after 2Q21, as deferral measures vary by the country of operation and have been extended in some cases.

Increasing Loan Loss Coverage: Past-due loans (PDLs), defined as more than 90 days past due, increased to 3.13% of gross loans at September 2020, above the 2016–2019 period average of 2.39%. Nevertheless, Fitch notes that Bogota's asset quality is in line with that of its local peers and includes controlled chargeoff ratios. As of September 2020, the loan loss reserve (LLR) coverage ratio returned to its historical level (1.49x) as a consequence of the increase in PDLs. Fitch expects the deteriorating trend in PDLs to continue in 1H21.

Capitalization Affected by Depreciation and Acquisition: During 2020, peso depreciation and, to a greater extent, the MFG acquisition, which was consolidated in June 2020, weighed on capitalization. Nevertheless, the impact on Bogota's capital metrics following the acquisition has been in line with Fitch's initial projections, including Fitch Core Capital (FCC) to risk weighted assets (RWA) and tangible equity to tangible assets ratios 130bps-160bps below those from before the acquisition, under a scenario of moderate growth and a conservative dividend payout. As of September 2020, the entity issued an Additional Tier 1 (AT1) bond of about USD520 million to enhance regulatory metrics. Bogota's FCC and tangible equity ratios reached 9.39% and 7.24%, respectively, while consolidated regulatory capital ratios stood at 12.7% above the 9% minimum required.

Performance Affected by Coronavirus: In 2020, higher loan impairment charges due to the impact of the coronavirus and a lower net interest margin (NIM) caused the bank's operating profit to RWA ratio to decline to 1.91% at 3Q20 from 2.81% at YE19. Higher RWA due to the peso depreciation, as well as the consolidation of MFG after June 2020, also weighed on profitability.

Wide, Stable Funding: Bogota boasts an ample, well-diversified and low-cost deposit base that funds all its lending activities. In September 2020, peso depreciation and the acquisition of MSG underpinned deposit growth of 30% YoY. Fitch's core indicator, the loans to deposits ratio, improved in September 2020 to 94.6%, comparing favorably with local and regional peers.

Ratings

Foreign Currency	
Long-Term IDR	BBB–
Short-Term IDR	F3
Local Currency	
Long-Term IDR	BBB–
Short-Term IDR	F3
Viability Rating	bbb–
Support Rating	3
Support Rating Floor	BB+
Sovereign Risk	
Long-Term Foreign-Currency IDR	BBB–
Long-Term Local-Currency IDR	BBB–
Country Ceiling	BBB

Outlooks

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

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Fitch Ratings 2021 Outlook: Latin American Banks (December 2020)

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Support Rating and Support Rating Floor: Fitch has affirmed the bank's Support Rating (SR) of '3' and Support Rating Floor (SRF) of 'BB+', reflecting its estimation 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 'BBB-' Long-Term IDRs, which have a Negative Rating Outlook.

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 notching reflects the change in baseline notching for loss severity to two notches, from one notch previously.

Rating Sensitivities

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

- Any negative rating action on the sovereign would also lead to a similar action on the Foreign-Currency and Local-Currency IDRs for Bogota.
- An extended period of economic disruption as a result of the coronavirus that leads to a significant deterioration in the operating environment, asset quality and/or profitability, resulting in an erosion of capital cushions, would also be negative for ratings.
- Bogota's ratings could also be negatively affected if the bank fails to restore its core and tangible capital ratios in accordance with Fitch's expected projections during the 12 months after completion of the MFG acquisition (tangible capital to tangible asset ratio consistently above 8.5%). A further downside could occur if the bank's operating profit relative to RWA consistently deteriorates to below 1.5%, although this is not Fitch's base case scenario. Short-Term IDRs would be negatively affected by a downgrade in the Long-Term IDR.

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

- The Negative Rating Outlook makes an upgrade highly unlikely in the near future as the bank IDRs are constrained by the sovereign rating, while the VRs are constrained by the worsening operating environment.
- The Rating Outlooks could be revised to Stable if the operating environment stabilizes and the bank is on a path to sustain or rebuild capital metrics and profitability to pre-pandemic levels.
- The ratings of Bogota's debt would move in line with its IDRs.

Issuer Ratings (Including Main Issuing Entities)

Rating Level	Rating
Long-Term Foreign-Currency IDR	BBB–
Short-Term Foreign-Currency IDR	F3
Long-Term Local-Currency IDR	BBB–
Short-Term Local-Currency IDR	F3
Viability Rating	bbb–
Support Rating	3
Support Rating Floor	BB+
Outlook	Negative

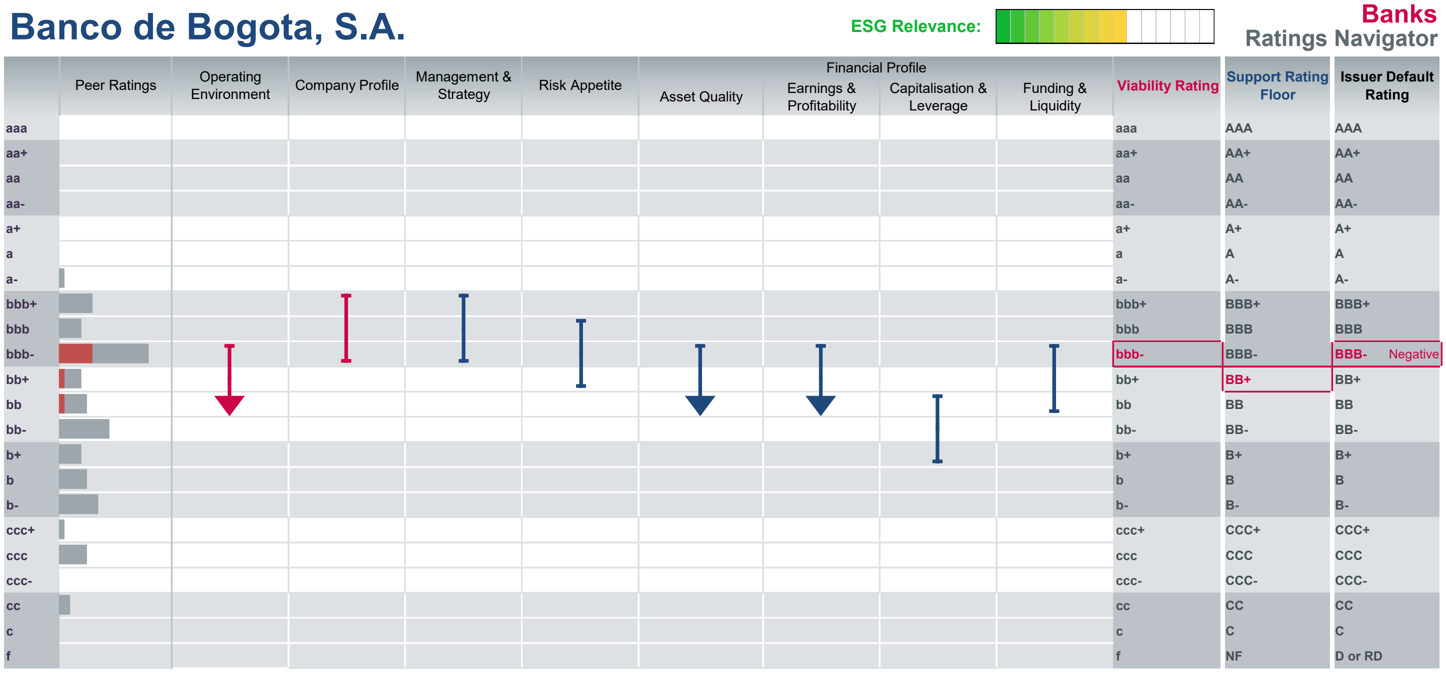
Source: Fitch Ratings.

Debt Rating Classes

Rating Level	Rating
Senior Unsecured	BBB–
Subordinated	BB

Source: Fitch Ratings.

Ratings Navigator



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

Brief Company Summary

Franchise

Bogota is Colombia's second largest bank by assets and third largest by deposits (14.6% and 13.4% market share, respectively, at September 2020); the largest bank by net income (41% market share); and third largest bank by loans. It is the largest bank by assets, loans and deposits in Central America, as well as the second largest bank by net income. Given its size, the bank is a systemically important financial institution (SIFI) in Colombia.

The bank is the main banking subsidiary of Grupo Aval (GA), Colombia's largest financial services group, which operates four commercial banks in Colombia, a regional bank conglomerate in Central America and numerous financial subsidiaries. Created in 1870, the bank has been controlled by a prominent Colombian family, led by Luis Carlos Sarmiento Angulo, since 1987. Within Colombia, Bogota is the flagship bank of GA and enjoys some synergies with its sister banks, which nevertheless compete with the bank in some subsegments.

BAC's acquisition in 2010 marked a departure from Bogota's long-held strategy as it expanded abroad and bolstered its exposure to retail lending. Sound organic growth and strategic acquisitions have further bolstered BAC's presence in Guatemala and Panama as it consolidated as a regional leader.

As of May 2020, the transaction to acquire Multibank in Panama was closed, after approval from regulators in both countries, and it was consolidated in June 2020, increasing Bogota's market share in Panama and Central America in general.

Business Model

Bogota is a universal bank offering a wide array of banking services and products (banking, trust services, leasing and retirement fund management, among others) to about 23 million customers in the corporate, consumer and microcredit segments. The bank has nationwide and regional coverage, and a comprehensive portfolio of services and products, which are distributed through a regional network of 1,456 branches and 3,950 ATMs in Colombia and Central America, as of September 2020. Its main subsidiary, BAC, has the largest regional network in Central America.

Bogota's business model is largely based on universal banking intermediation. The bank has evolved from a purely local corporate bank to a universal bank with a strong presence in Central America. The know-how and expertise the bank acquired with BAC's strong consumer business is gradually being transferred to Bogota as it builds its own retail franchise in Colombia. By the same token, BAC is strengthening its corporate lending business in Central America organically and through well-selected acquisitions.

The bank's model is also diversified in terms of business lines through its investments in Porvenir (largest pension fund in the country), Fiduciaria Bogota (subsidiary providing trust and asset management services) and Corficolombiana (GA's merchant bank), which boosts Bogota's revenue generation and profit.

The bank's portfolio and revenue mix have evolved after BAC's acquisition with an increase in retail lending. As of 3Q20, corporate lending reached 58.3% of gross loans, similar to that of December 2019. Credit exposure outside of Colombia as a proportion of consolidated assets reached 55% at September 2020, mainly through BAC, although the Colombian operation results in roughly 60% of net income. Corporate and consumer loan growth outpaced that of mortgage loans and SMEs during 2020. The bank is focused on entering profitable sectors and deals, rather than on market share. This is in part one of the reasons why Banco de Bogota has lowered its market share in terms of loans in Colombia; however, the bank's profitability has been positively affected.

Organizational Structure

Bogota is controlled by GA, which owns 68.7% of the bank's shares; the rest is widely held. GA, in turn, is tightly controlled by Luis Carlos Sarmiento Angulo, a successful Colombian entrepreneur. In turn, Mr. Sarmiento owns 92.6% of GA's ordinary shares and 56.9% of its preference shares, equivalent to 85.1% of total shares.

Bogota has a conservative approach to banking and controls eight financial services subsidiaries in 11 countries. It is active in banking, trust services, leasing and retirement fund management. Bogota has a branch (International Banking Facility) in Florida and another one in New York, a bank with general license in Panama and an offshore bank in Nassau. Its largest and most important holding is by far BAC-Credomatic, which is itself organized as a network of several banks that cover Central America. Control remains adequate and relies on a mix of centralized strategic supervision and operating autonomy.

Management and Strategy

Management Quality

Bogota has a very experienced, stable and deep management team that has successfully steered the bank through rapid expansion in the past few years. Bogota's generally conservative culture has not prevented it from expanding abroad, as the bank adopted a pragmatic approach to these new markets, largely relying on the existing local expertise.

General goals and commercial strategies have been defined, adopted and executed for the acquired entities. Both sides have benefited from the integration as BAC has the support of Bogota (and its ultimate parent GA) to strengthen its franchise in Central America, and Bogota taps the extensive expertise in retail lending that BAC has developed over the past decades.

Corporate Governance

Bogota's board of directors is composed of five principal members and five alternate members appointed for repeatable three-year terms. Two of the principals and their respective two alternate board members are independent. The board has established several committees to oversee and steer the bank operations including credit, risk management, and treasury and audit. Bogota's corporate governance policies are considered sound and within the region's best practices. The main committees that support the board of directors are the comprehensive risk management committee, credit and treasury risk committee, sustainability committee and audit committee.

Bogota and GA in general have very low inter-company transactions with less than 5% of the FCC.

Strategic Objectives

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

According to Bogota's management, the three main pillars include a well-diversified operation with resilient net income and synergies across business lines; economies of scale and ecosystems supported by the strong footprint in Colombia and Central America; and transformation and digitalization, with a focus on customers.

In general, Bogota has not changed the core of its objectives for the past two years but now is more focused 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.

The bank seeks to deepen its mortgage business and increase its efforts in technology and virtual banking. In addition, with lower investment and weak corporate credit demand, Bogota expects to re-start infrastructure loans (4G roads), which are of core importance for the bank and GA in general.

Execution

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

As a consequence of the Covid-19 crisis, Banco de Bogota has prepared itself (as well as GA at the consolidated level) to focus on employees, customers and the greater community, and it took some actions to support customers who might be facing more difficulties. In addition, Bogota has aligned with some programs the government has set in order to support the economy, including new loans and guarantees through development banks.

A main focus of Bogota and GA, in general, is to deepen their digital strategy. This was more clear during 2020 after the Covid-19 outbreak and, as a result, the bank increased its digital sales and digital transactions (69% of sales and 79% of all transactions from 2018-2020).

Risk Appetite

Underwriting Standards

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 following areas: commercial, credit, risk management and administration. Each business segment (commercial, mortgage, consumer and microcredit) has a different credit-origination process, and also depends on the product or segment. The board of directors is the highest authority in charge of setting the risk appetite and policies, as well as assessing exposures and limits. At GA as well as Bogota and its subsidiaries, the risk function is independent of the business units.

For commercial credit, clients are segmented according to their revenue levels and assigned to a team. A traditional credit analysis is performed by the risk management unit with input from the credit area. The analysis is then submitted to the credit committee to approve the loan, which, in turn, is presented to the board of directors.

Consumer lending uses scoring models for salaried or retired customers, while independent borrowers are segmented by their profile (small businesses or microcredit) and use a mix of scoring and approval flow models. Credit-approval delegation is more widely distributed among the geographical areas and branches.

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

In Central America, BAC has a regional unit to manage policy-concerning investments and the management of assets and liabilities. It establishes guidelines to determine limits on country and counterparty risk, limits on monetary positions in foreign currency and guidelines on how to manage liquidity, interest rate and exchange risks. The establishment of regional risk management policies is the responsibility of the regional asset and liability committee, which is made up of the BAC board members.

Risk Controls

Risk controls at Bogota (and at BAC + MFG) are deemed adequate as they use effective tools and have successfully 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 LLRs. Classification is based on credit analysis and obligor performance, while LLR levels are determined by estimating the probability of default (PD) and the loss given default.

To support clients and based on government guidance, starting in May 2020, Bogota has implemented different types of deferrals or grace periods for 545,000 clients, for about COP17.5 trillion. As of September 2020, the total relief program has evolved from a 42.8% share of gross loans granted during 2Q20 to a share of 14.7%. The share from its Colombian operation is 9.4% of gross loans, while in Central America, the relief program currently represents 19% of gross loans. The latter is explained by the Panamanian operations, since the regulation permitted a longer relief period (up to June 2021) and, as such, 37% of the portfolio in Panama is still under a relief program.

In Fitch's opinion, the relief program evolution is within expectations and no further problems are expected since 90% of the loans granted some relief are on track. The second relief package in Colombia (called Programa de Acompañamiento a Deudores — PAD) represented only 1.1% of gross loans, and its extension is not expected to change this trend. Fitch expects that the data from 4Q20 and 1Q21 will show a more clear representation of the loans with some kind of delays, while in Central America, this will be seen after 2Q21.

The bank performed a top-down analysis to assess the sectors where it is exposed to, and likely more affected by, the coronavirus crisis. Bogota identified eight main sectors to monitor, which comprised 7.4% of the gross loans in Colombia. Of that level, the conclusion is that around 1.4% of gross loans present a high risk regarding credit quality.

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

Additional monitoring of concentrations and limits by obligor and sector for more than 25 main debtors by economic group (which comprises 200 clients) are performed on a quarterly basis for commercial loans. If one of the limits is exceeded, the board of directors will take some measures that include one or all of: closer monitoring, requests for additional analyses, limiting credit for that given sector and/or establishing new procedures for approval of new credits, including the person or committee responsible.

Credit attributions include concentration limits by risk limit, concentration and share by sector. As for the risk limit, the bank set a limit of 10% for a ratio of reserves to capital; regarding concentration, the limit set by the bank is 1% for the ratio of reserves to capital; finally, for share by sector, the bank set a limit for the ratio of loan by sector to gross loans of 10% for all sectors, except for investors (15%).

Bogota's monitoring process includes the daily collection of loan data to monitor and manage based on an analysis of PDLs according to the amount of time they are overdue, classification according to risk levels, permanent monitoring of high-risk customers, a restructuring process and the receipt of foreclosed assets. It also conducts a weekly assessment of individual credit risk on outstanding balances in excess of COP2 billion, evaluated on the basis of updated financial information on the customer, compliance with agreed terms, collateral received and inquiries with credit bureaus.

The market risk unit reports daily trading positions and mark-to-market values for investments. In addition, it calculates a VaR and performs backtesting and sensitivity analysis. Bogota calculates a VaR using the parametric method with a 99% confidence level and a one-day horizon. In addition, Bogota uses conditional VaR (C-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 increases of 25bps or 50bps in interest rates. The board of directors approves a framework of limits based on the VaR associated with the annual budget for earnings and establishes additional limits, according to the different types of risk. On a semiannual basis, the bank checks for ratios and alerts for all approved and present exposures (for credit, investments and settlement risk).

Policies with respect to operational risk at Bogota are in line with those of GA and the rest of the banks of the group, complying with guidelines established by the Superintendency of Finance (which, in turn, follows the Basel II Accord of 2004) and the U.S. Sarbanes-Oxley Act of 2002. These guidelines require that Colombian banks establish a system for the administration of operational risks (Sistema de Administración de Riesgo Operacional), which includes the identification, measurement, control and monitoring functions as well as a business continuity plan.

To comply with these guidelines, the bank established an operational risk unit independent of the operational and control area within its organizational structure. This area establishes and defines policies, methodologies and the procedures for communicating all information related to operational risk. Bogota also has an operational risk management committee that meets on a periodical basis to review operational risks policies and follow up on the execution of action plans.

Growth

Due to a slower than expected operating environment, the loan growth for Bogota was 5.93% on average for 2016-2019. During 2020, there was higher growth in Bogota's gross loans (23%), explained by the healthy growth in commercial loans during 1Q20, the consolidation of MFG that started in June 2020 and the depreciation of the peso. If depreciation and the MFG acquisition are excluded, loan growth would have been around 6% YoY as of September 2020.

At the beginning of 2020, Fitch expected growth for 2020 of about 8% in nominal terms. Now, due to Covid-19, the expectation is for a low 1-digit rate of growth for 2020. For 2021 the expected loan growth is 8%-10%, with an increasing share of consumer loans in Colombia and commercial loans in Central America. In Colombia, many companies conservatively acquired loans during 2Q20 to support liquidity after the Covid-19 outbreak, but this has since changed. The main focus in 2021 is expected to be payroll loans (for public-sector employees and retirees) and mortgage loans due to a subsidy offered to the mid-income sector of the population.

Market Risk

Market risk is monitored by a specialized market risk management area. 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 counterpart and trading limits, per operator, for each trading platform in the markets where it does business. These limits are controlled daily by the back office and the middle office of the group. The trading limits, per operator, are assigned to the different levels of hierarchy within the treasury business, based on the officer's experience in the market, in trading the type of product in question and in portfolio management. The risk area can monitor the Colombian-based investment portfolio position in real time, which includes Leasing Bogota Panama, Bogota NY, Miami and Nassau.

Regarding interest rate risk on the consolidated balance sheet, Bogota monitors its interest rate risk on a daily basis and sets limits to the level of mismatches in the repricing of assets and liabilities. Based on the bank's calculations, a change in interest rates of +/- 50bps (with all other variables held constant) would have affected consolidated net income by less than 0.5% of FCC at June 2020, slightly up from YE19, corresponding to 1.8% of the reported net income or 0.36% of the FCC, with all other variables held constant. This interest rate exposure is analyzed in a dynamic way. Scenario modeling considers renewal of existing positions, financing alternatives and hedges. Bogota's exposure to currency risk is low as it reported a short position in USD of 20.9% of FCC at YE19. In Fitch's opinion, the financial risk levels are in line with the bank's conservative risk appetite and there are no high volatility expectations. As of June 2020, 65% of the portfolio was sovereign debt.

Key Financial Metrics — Latest Developments

Asset Quality

Bogota's loan portfolio quality has remained sound in general, and some chargeoffs performed during 2019 resulted in an NPL ratio of 3.1%. During 2020, and despite the relief programs after the Covid-19 outbreak, the 90-days NPL remained stable at 3.1% as of September 2020. Fitch expects that this ratio could change in the next few quarters as the remaining loans under the relief program mature. By geography and segment, at September 2020, PDL ratios in Central America slightly deteriorated to 1.9%, up from 1.6% at YE19 (1.8% excluding MFG). Colombian operations experienced deterioration to 4.7%, up from 4.5% as of YE19. Nevertheless, Fitch notes that Bogota's asset quality is in line with that of its local peers and includes controlled chargeoff ratios.

LLR coverage of PDLs improved during 2019 to about 1.67x, above the 1.52x average of the 2016-2018 period, thanks to higher loan loss allowances for IFRS 9 in general. Due to the deterioration in 2020. the coverage slightly declined to 148.9% as of September 2020, although still in line with the previous year levels. At September 2020, Bogota's consolidated loan portfolio remained relatively stable by composition: 58.3% commercial (up from 57.90% at December 2019), with the rest retail: consumer (27.1%, down from 28.7% at December 2019); mortgage loans (14.3%, slightly up from 13% at YE19); and SME loans (stable at 0.3% of the portfolio). The Colombian book is 72.3% corporate with the rest focused on consumer loans, while the Central American operation (excluding MFG) is 46.6% corporate, with the rest comprising consumer loans.

In the corporate portfolio, Bogota has soft limits to avoid concentration by economic segment (10% of the loans portfolio). The bank uses in-house criteria to group industries by correlation and intrinsic risk rather than standardized industry codes, following 132 subsectors under 25 economic sectors on a quarterly basis. At December 2019, only the investor sector exceeded 10% of the commercial portfolio and each consisted of several subsegments that diluted concentration further. Concentration by obligor is also limited with Bogota's top 20 obligors (as consolidated economic groups including over 200 entities) accounted for about 11% of the total portfolio. 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 (73%) at 2Q20. The consolidated investment portfolio is well diversified by country and obligor, and the bank's investment policy is considered conservative by Fitch, focusing on the underlying credit quality, limited market risk/volatility and diversification.

Earnings and Profitability

Bogota's performance during 2020 was affected by higher loan impairment charges due to Covid-19 and lower NIM, with an operating profit/RWA ratio of 1.91% at 3Q20, below YE19 (2.81%) and the average for 2016-2018 (2.70%), although this result compares better than its local peers'. The ratio was also affected by higher RWA due to the peso depreciation and the effect of the drop in market rates, as well as the integration of MFG after June 2020. Porvenir's losses in its stabilization fund and the impact on Bogota's investment portfolio were reverted.

Loan and securities impairment charges to pre-impairment operating profit ratio resulted in a high 54.8% at 3Q20 (2016-2019 average: 36.9%), showing the impact of Covid-19 and the relief measures in the expected losses for Bogota. Fitch expects that this ratio will remain relatively high (around 45% during 1H21) and then revert to pre-pandemic levels. Thus, in accordance with Bogota's management, the cost of risk deteriorated to 3.4% at September 2020 and is expected by Fitch to remain at a level around 3.0% during 2021, slightly above Bogota's guidance for 2021 in accordance to the management of 2.25%-2.5%. Loan impairment charges/average gross loans ratio was 2.88%, above the 2016-2019 average ratio of 2.2%, and is expected to remain at levels close to 2.6%-2.7% during 2021.

Non-interest revenues contributed to about 41% of gross revenues and consist largely of recurrent fees and commissions from credit/ATM cards, pension fund management, trust services, transfers, checking and warehousing, among others. Fitch expects impacts to profitability due to a deterioration in asset quality and increasing provisions.

Capitalization and Leverage

Bogota's capital has been sustained through a mix of sustained profitability and moderate dividend policies. By YE19, Bogota's FCC ratio improved to 11.08% (up from 10.54% at YE18), due to higher income and low loan and assets growth. During 2020, the capital ratios were affected by the peso depreciation and increased due to the MFG acquisition, which was consolidated in June 2020. Fitch's initial projections are in line with current results, including FCC to RWA and tangible equity to tangible assets ratios 130bps-160bps below those from before the acquisition, under a scenario of moderate growth and conservative ratings payout.

In Fitch's opinion, the bank's conservative profile and moderate dividend policy should underpin a stabilization in accordance with Fitch's expectations for ratio restoration during the 12 months after the acquisition. Nevertheless, the current impact on profitability due to the pandemic could increase risks to Bogota's capital ratio restoration. Also, diversification, good results from BAC in Central America as well as improving income from Corficolombiana and Porvenir helped sustain the bank's profitability and, consequently, its capitalization during 2020.

During 2021, in Colombia the implementation of the new Basel III guidelines regulatory framework will start. Fitch believes that this change will improve the FCC ratio for most banks, including Bogota. Fitch will closely monitor the final rules from the Superintendence and the next steps to be taken by the bank to comply with the new capital requirements, which could improve solvency ratios by 200bps.

Funding and Liquidity

Bogota boasts 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 September 2020, deposits grew 30% (YoY compared to September 2019), positively affected by peso depreciation and the MFG acquisition. Without these two factors, total funding grew 12.6%, still above the 7.2% average annual growth of the 2016–2019 period. Deposits consisted of 42% term deposits and 57.8% demand deposits (29.8% current and 28% savings accounts). Deposits, especially current and savings accounts, are stable (estimated by the bank at about 75%-80%). Bogota's loan to customer deposits ratio improved and compares better than that of local peers, as a consequence of having about 80% of customer deposit in its funding mix. When aggregated by depositor, Bogota has a moderate deposit concentration, with top 20 depositors accounting for 14.5% of the total deposits as of December 2019. The bank does not have any important 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. The non-stress scenarios assume normal liquidity based on the bank's contractual flows and historical experience. Even under a stress scenario, the bank reported ample liquidity as its liquidity risk indicator significantly exceeded the regulatory minimum of 100%. The bank's ability to cope with unexpected cash outflows with liquidity on hand is good as cash, bank deposits and assets in the form of liquid government securities composed about 22% of total assets and covered 33% of deposits and short-term funding. In addition to monitoring a set of early liquidity warning indicators, Bogota regularly simulates liquidity stress tests considering two stress scenarios, a reputational/confidence stress on Bogota and a systemic stress. These scenarios and the bank's calculation of liquid assets include additional regulatory haircuts.

In Fitch's opinion, Bogota's liquidity position and liquidity management are appropriate for the risks the bank faces, and compares better than its peers'. Nevertheless, Fitch expects that the bank's loans to deposit ratio, which is better than that of its local and regional peers (94.6% at September 2020) will be closer to 100% during 2021. This is a consequence of an expected increase in long-term funding due to the CFEN regulation to take effect in Colombia, which could weigh on short-term portfolio concentrations.

Summary Financials and Key Ratios

	Nine Mos. — Third Quarter 9/30/20		2019	2018	2017	2016
	USD Mil.	COP Bil.	COP Bil.	COP Bil.	COP Bil.	COP Bil.
(Years Ended Dec. 31)	Unaudited	Unaudited	Audited — Unqualified	Audited — Unqualified	Audited — Unqualified (Emphasis of Matter)	Audited — Unqualified
Summary Income Statement						
Net Interest and Dividend Income	1,601	6,211.1	7,505.9	6,884.3	6,725.1	6,135.3
Net Fees and Commissions	799	3,098.6	4,555.0	4,022.2	3,839.1	3,611.3
Other Operating Income	417	1,617.8	1,732.3	1,521.2	1,008.6	1,253.7
Total Operating Income	2,817	10,927.5	13,793.2	12,427.7	11,572.8	11,000.3
Operating Costs	1,424	5,522.8	7,118.9	6,309.6	6,131.3	5,921.8
Pre-Impairment Operating Profit	1,393	5,404.7	6,674.3	6,118.1	5,441.5	5,078.5
Loan and Other Impairment Charges	763	2,961.3	2,625.6	2,493.9	2,350.9	1,783.7
Operating Profit	630	2,443.4	4,048.7	3,624.2	3,090.6	3,294.8
Other Non-Operating Items (Net)	1	4.1	24.0	457.0	12.6	2,617.0
Tax	156	603.2	999.0	950.0	970.2	1,150.4
Net Income	475	1,844.3	3,073.7	3,131.2	2,133.0	4,761.4
Other Comprehensive Income	N.A.	N.A.	534.3	(82.6)	(235.8)	(342.3)
Fitch Comprehensive Income	475	1,844.3	3,608.0	3,048.6	1,897.2	4,419.1
Summary Balance Sheet						
Assets						
Gross Loans	37,027	143,624.6	116,483.7	109,543.5	102,404.4	97,009.3
- of which Impaired	1,160	4,501.4	3,573.3	3,094.5	2,501.0	1,664.2
Loan Loss Allowances	1,728	6,704.4	5,141.7	5,132.7	3,227.0	2,371.8
Net Loans	35,298	136,920.2	111,342.0	104,410.8	99,177.4	94,637.5
Interbank	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Derivatives	185	718.2	499.2	356.5	234.5	376.2
Other Securities and Earning Assets	9,129	35,411.9	25,423.9	25,053.5	22,462.9	18,395.5
Total Earning Assets	44,613	173,050.3	137,265.1	129,820.8	121,874.8	113,240.3
Cash and Due from Banks	7,988	30,985.5	24,809.1	22,061.1	16,924.6	17,400.7
Other Assets	4,083	15,838.5	12,945.4	11,420.6	10,589.7	10,620.7
Total Assets	56,684	219,874.3	175,019.6	163,302.5	149,389.1	141,430.7
Liabilities						
Customer Deposits	39,151	151,864.1	117,795.0	108,404.5	100,947.2	93,676.7
Interbank and Other Short-Term Funding	5,343	20,723.5	17,348.7	18,359.5	15,740.9	16,124.2
Other Long-Term Funding	4,582	17,774.8	12,010.4	10,200.5	9,553.8	9,739.2
Trading Liabilities and Derivatives	200	775.6	447.5	561.3	190.5	373.8
Total Funding	49,276	191,138.0	147,601.6	137,525.8	126,432.5	119,913.8
Other Liabilities	1,414	5,486.2	5,558.0	6,108.9	4,764.5	4,278.8
Preference Shares and Hybrid Capital	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total Equity	5,994	23,250.1	21,860.0	19,667.8	18,192.1	17,238.1
Total Liabilities and Equity	56,684	219,874.3	175,019.6	163,302.5	149,389.1	141,430.7
Exchange Rate		USD1 = COP3878.94	USD1 = COP3294.05	USD1 = COP3275.01	USD1 = COP2971.63	USD1 = COP3000.71

N.A. – Not applicable.
Source: Fitch Ratings.

Summary Financials and Key Ratios

(%, Years Ended Dec. 31)	9/30/20	2019	2018	2017	2016
Ratios (Annualized as Appropriate)					
Profitability					
Operating Profit/Risk Weighted Assets	1.9	2.8	2.8	2.5	2.8
Net Interest Income/Average Earning Assets	5.2	5.7	5.7	5.7	5.5
Non-Interest Expense/Gross Revenue	52.3	53.7	53.2	53.2	54.0
Net Income/Average Equity	11.0	15.1	17.3	12.2	28.0
Asset Quality					
Impaired Loans Ratio	3.1	3.1	2.8	2.4	1.7
Growth In Gross Loans	23.3	6.3	7.0	5.6	4.9
Loan Loss Allowances/Impaired Loans	148.9	143.9	165.9	129.0	142.5
Loan Impairment Charges/Average Gross Loans	2.9	2.3	2.4	2.3	1.9
Capitalization					
Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	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	9.4	11.1	10.5	10.3	10.1
Tangible Common Equity/Tangible Assets	7.2	9.0	8.4	8.5	8.3
Basel Leverage Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Net Impaired Loans/Common Equity Tier 1	N.A.	N.A.	N.A.	N.A.	N.A.
Net Impaired Loans/Fitch Core Capital	(14.4)	(10.3)	(15.6)	(6.0)	(6.3)
Funding and Liquidity					
Loans/Customer Deposits	94.6	98.9	101.1	101.4	103.6
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Funding	79.8	80.1	79.2	80.0	78.4
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.	N.A.

N.A. – Not applicable.
Source: Fitch Ratings.

Sovereign Support Assessment

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			BBB- to BB
Actual country D-SIB SRF			BB+
Support Rating Floor:			**BB+**
Support Factors	**Positive**	**Neutral**	**Negative**
Sovereign ability to support system			
Size of banking system relative to economy	✓		
Size of potential problem		✓	
Structure of banking system			✓
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)	✓		
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in		✓	
Track record of banking sector support		✓	
Government statements of support		✓	
Sovereign propensity to support bank			
Systemic importance	✓		
Liability structure of bank	✓		
Ownership	✓		
Specifics of bank failure		✓	
Policy banks			
Policy role			
Funding guarantees and legal status			
Government ownership			

Given its size and systemic importance, Bogota is likely to receive support from the Colombian government, should it be required, underpinning its Support Rating and Support Rating Floor (SRF). Colombia's ability to provide such support is reflected in its sovereign rating (BBB–/Negative by Fitch) and drives Bogota's SRF of 'BB+'.

The government has provided support to banks in the past and, even though there are no statements of support, banks tend to have important political influence.

Operating Environment

The Negative Rating Outlook on Bogota reflects the increased downside risks from the economic implications of the coronavirus pandemic, reflected in the negative outlook for the operating environment score. It also incorporates the Negative Rating Outlook on the sovereign rating as Fitch is unlikely to rate banks in Colombia higher than the sovereign based on their intrinsic credit profiles. Fitch believes the recession, with at least 6.9% decline in GDP, in 2020 will result in asset quality deterioration and weigh on profitability.

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	Company Profile; Management & Strategy; Risk Appetite; 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	Company Profile; Management & Strategy; Risk Appetite	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; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	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	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	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	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	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.

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.