FitchRatings

Banks
Universal Commercial Banks
Colombia

Banco de Bogota, S.A.

Update

Key Rating Drivers

Viability Rating Drives Rating: 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. Capitalization remains the bank's main credit weakness, relative to international peers.

Leading Franchise: Bogota is Colombia's third largest bank by assets and deposits, with 12.0% and 11.8% market shares, respectively, at March 31, 2023. It is also the second largest by net income, with a 16.0% market share, and the third largest by loans, at 11.6%. Given its size, the bank is a systemically important financial institution in Colombia. Bogota also consolidates Multibank Inc., a Panamanian subsidiary acquired in 2020 with a market share by loans and deposits of 5.9% and 4.2%, respectively, at February 2023.

BAC Spin-Off: After the BAC spin-off, loan quality ratios at the consolidated level moved closer to those of the Colombian operations, as these ratios have a higher non-performing loan (NPL) ratio compared to the Central American operations'. Bogota's asset quality is in line with its local peers' and includes controlled chargeoff ratios.

Stable Asset Quality: Bogota's loan portfolio quality remains sound. The bank's 90-day NPLs, after the BAC spin-off, reached 3.8% at March 2023. This was a consequence of a deterioration in all segments, especially consumer loans. In addition, the Panamanian portfolio asset quality was affected, following the end of the relief period in Panama. The loan loss reserve coverage ratio was 1.5x at March 2023. Fitch expects the ratio to remain stable or slightly improve during the short to medium term.

Resilient Profitability: Bogota's performance in 2022 improved due to decreasing loan impairment charges connected to the coronavirus pandemic and gains related to the Porvenir deconsolidation and BAC spin-off. During 1Q23, the net interest margin (NIM) improved, thanks to high interest rates on loans and a recovery of NIM from investments. The bank's operating profit/RWA ratio of 2.5% at 1Q23 is close to the 2.45% average for the pre-spin-off period (2018-2021). Fitch expects this ratio to stabilize to close to the 2.0%-2.5% range in the short to medium term amid a stable operating environment (OE), moderate loan growth, stable margins and lower loan impairment charges.

Capital after Spin-Off: Bogota's capital has been maintained through sustained profitability and moderate dividend policies. Common Equity Tier 1 (CET1) decreased to 9.7% at 1Q23, below the level prior to Porvenir's deconsolidation and the spin-off (Dec. 21: 10.21%), when consolidated equity decreased in nominal terms. These actions had a double effect on the ratio numerator because of the respective one-off income in 2021 and 2022, in addition to lower capital at the consolidated level. The main effect in the denominator was from lower risk-weighted assets (RWA). During 2022, healthy loan growth affected the bank's capitalization ratio and, at 1Q23, the dividend distribution.

Capital ratios for Bogota are likely to improve during the short to medium term, as profitability is expected to remain sound and due to the effect of the available-for-sale portfolio on capital from OCI, which should revert later in 2023. In addition, diversification and improving income, under the equity method, of its investments in Corficolombiana and Porvenir should sustain the bank's profitability and, consequently, its capitalization through 2023.

Wide, Stable Funding: Bogota boasts an ample, well-diversified and low-cost depositor base that funds all its lending activities. Its loan to customer deposits ratio compares favorably to that of local and regional peers, although the spin-off 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. For 1Q23, deposits grew 1.8% QOQ, supported especially by time deposits (+18% QOQ). This is explained in part by the new NSFR regulation in Colombia.

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 (September 2022)

Related Research

Major Colombian Banks — Peer Review (Impact from Operating Environment Headwinds Manageable) (February 2023)

Colombian Banks Datawatch 4Q22 (Banking System Resilient as Headwinds Mount) (May 2023)

Latin American Banks 2023 Outlook (December 2022)

Financial Data

Banco de Bogota, S.A.

(COP Bil.)	3/31/23	12/31/22
Total Assets (USD Mil.)	29,730.7	28,662.8
Total Assets	137,571.9	137,873.8
Total Equity	15,368.2	15,810.6

Source: Fitch Ratings

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Bogota's loan to customer deposits ratio remains relatively stable, even after the BAC spin-off, and is better than that of local peers, due to having about 76% of customer deposits in its total funding mix. Fitch believes that Bogota's liquidity position 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 IDRs are sensitive to a material deterioration in the local OE or a negative sovereign rating action.
- The ratings could be downgraded from an extended deterioration of the OE that leads to a significant deterioration of asset quality and/or profitability (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 of the BAC Holding International Corp. (formerly Leasing Bogotá S.A. Panama [LBP]) spin-off, Fitch expects Bogota's financial ratios to remain commensurate with its current rating, even taking into consideration potential changes, especially in the bank's capitalization and asset quality levels after the BAC spin-off. Potential financial ratio variations will be monitored by Fitch and could take several months to become clear. However, if there is eventually a material change in Fitch's assessment of the capital adequacy and/or double leverage of Bogota or Grupo Aval during or after the completion of the corporate reorganization, a negative rating action could occur, although this is not the baseline scenario.

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 improvement in the OE, along with improvement of 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/Watch	Stable

Source: Fitch Ratings

Debt Rating Classes

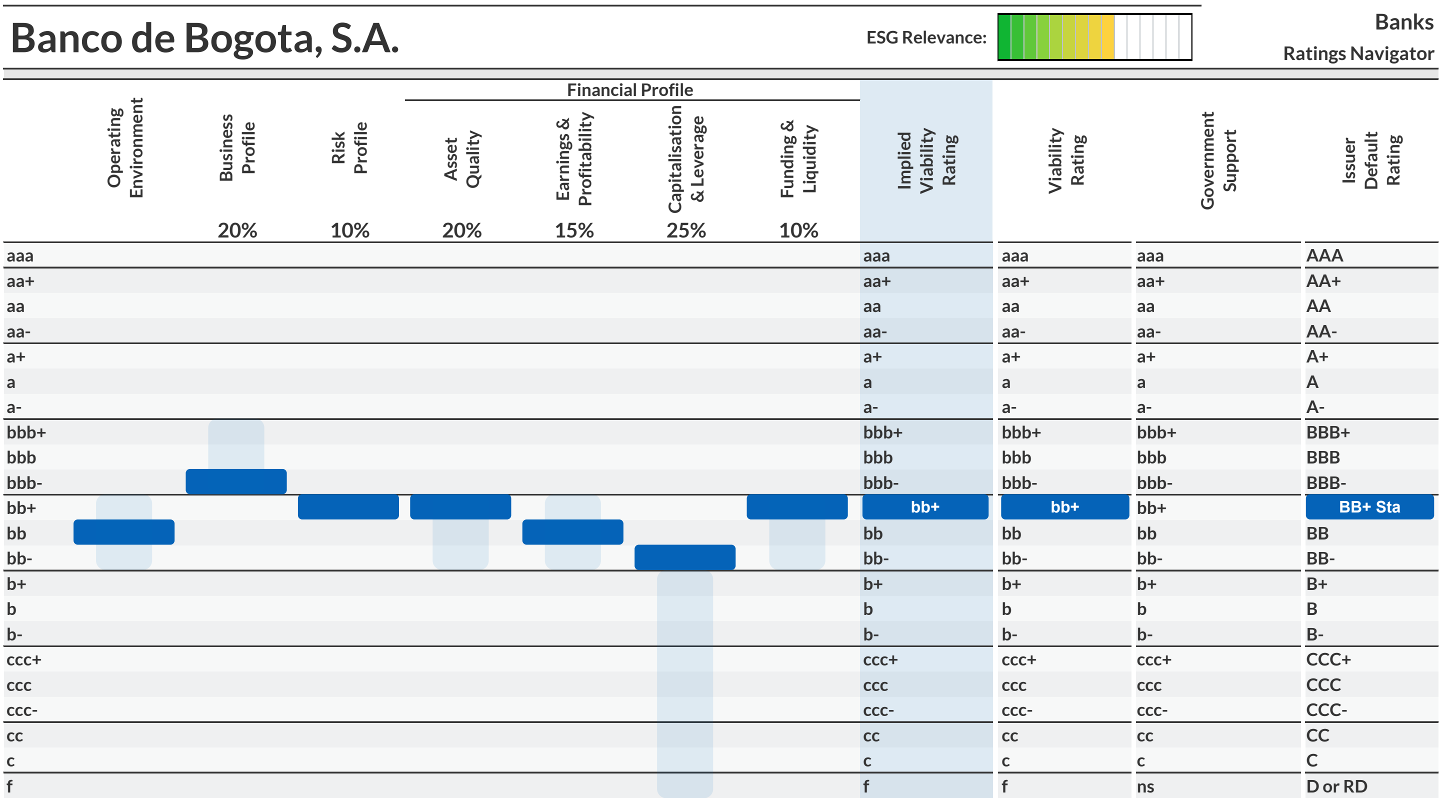
Rating Level	Rating
Senior Unsecured: Long Term	BB+
Subordinated: Long Term	BB–

Source: Fitch Ratings

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 upward or downward 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

Fitch expects the OE for Colombian banks to remain stable and consistent with the 'bb' factor score, despite an expectation for slowing GDP growth in 2023 and the effects of a sharp rise in interest rates through 2022 to address high inflation. Fitch believes sustained capitalization, improving profitability and lower loan impairment charges provide sufficient resilience to face stress for Colombian banks.

The Rating Outlook on the Long-Term IDRs is Stable. Nevertheless, falling household spending, still-elevated inflation and high interest rates, as well as market volatility due to the new government's planned reforms, underpin the banking system's expected weaker financial performance in 2023 compared to 2022. Fitch expects the impaired loans ratio to deteriorate due to lower borrower repayment capacity and credit demand as unsecured retail loans from 2022 season. Additionally, earnings are challenged due to higher impairment charges from the aforementioned seasoning of unsecured retail loans from 2022. The upsurge in RWA negatively affected capital ratios, although they still remain significantly above the minimum regulatory requirements.

In March 2022, the BAC Holding International Corp. (formerly Leasing Bogota S.A. Panama) spin-off – of 75% of the equity stake – was completed (as expected since 2021). In December 2022, Bogota sold 20.89% of the outstanding shares of BAC, and, later in March 2023, the bank sold its remaining stake. Currently, the bank does not hold any stake in BAC Holding International Corp.

Summary Financials and Key Ratios

(Year End as of Dec. 31)	3/31/23 Three Months - First Quarter USD Mil. Not Disclosed	COP Bil. Not Disclosed	2022 COP Bil. Audited - Unqualified	2021 COP Bil. Audited - Unqualified	2020 COP Bil. Audited - Unqualified
Summary Income Statement					
Net Interest and Dividend Income	280	1,294.6	4,720.0	8,646.6	8,276.3
Net Fees and Commissions	77	358.1	1,245.1	3,654.7	4,254.2
Other Operating Income	65	299.9	515.6	1,849.6	2,542.8
Total Operating Income	422	1,952.6	6,480.7	14,150.9	15,073.3
Operating Costs	197	909.5	3,257.4	7,499.0	7,513.2
Pre-Impairment Operating Profit	225	1,043.1	3,223.3	6,651.9	7,560.1
Loan and Other Impairment Charges	87	404.5	1,362.4	2,993.7	4,307.8
Operating Profit	138	638.6	1,860.9	3,658.2	3,252.3
Other Non-Operating Items (Net)	N.A.	N.A.	1,235.6	1,671.8	N.A.
Tax	31	143.9	290.2	781.0	747.7
Net Income	107	494.7	2,806.3	4,549.0	2,504.6
Other Comprehensive Income	N.A.	N.A.	-2,623.8	1,047.9	-404.0
Fitch Comprehensive Income	107	494.7	182.5	5,596.9	2,100.6
Summary Balance Sheet					
Assets					
Gross Loans	20,968	97,023.9	96,078.0	156,219.1	135,845.5
- of which Impaired	787	3,642.6	3,381.9	4,200.6	4,479.0
Loan Loss Allowances	1,168	5,406.5	5,293.3	7,637.1	7,345.0
Net Loan	19,799	91,617.4	90,784.7	148,582.0	128,500.5
Derivatives	167	771.6	786.3	408.5	604.8
Other Securities and Earning Assets	5,628	26,042.4	30,137.3	39,745.8	37,120.8
Total Earning Assets	25,594	118,431.4	121,708.3	188,736.3	166,226.1
Cash and Due from Banks	2,202	10,187.9	7,274.1	26,997.9	27,497.6
Other Assets	1,935	8,952.6	8,891.4	16,600.7	14,544.7
Total Assets	29,731	137,571.9	137,873.8	232,334.9	208,268.4
Liabilities					
Customer Deposits	19,365	89,606.3	88,027.5	163,733.6	147,287.5
Interbank and Other Short-Term Funding	3,044	14,084.8	16,093.1	19,950.2	16,535.7
Other Long-Term Funding	2,938	13,597.2	13,587.7	15,913.0	15,886.8
Trading Liabilities and Derivatives	144	664.1	633.9	447.4	628.5
Total Funding and Derivatives	25,491	117,952.4	118,342.2	200,044.2	180,338.5
Other Liabilities	919	4,251.3	3,721.0	6,951.7	5,431.3
Total Equity	3,321	15,368.2	15,810.6	25,339.0	22,498.6
Total Liabilities and Equity	29,731	137,571.9	137,873.8	232,334.9	208,268.4
Exchange Rate		USD1 = COP4627.27	USD1 = COP4810.20	USD1 = COP3997.71	USD1 = COP3444.90

N.A. – Not applicable
Source: Fitch Ratings

Summary Financials and Key Ratios

(%)	3/31/23	12/31/22	12/31/21	12/31/20
Ratios (Annualized as Appropriate)				
Profitability				
Operating Profit/Risk-Weighted Assets	2.5	2.0	2.2	2.0
Net Interest Income/Average Earning Assets	4.4	3.7	4.9	5.2
Non-Interest Expense/Gross Revenue	55.1	55.2	55.1	51.8
Net Income/Average Equity	12.9	15.8	19.2	11.2
Asset Quality				
Impaired Loans Ratio	3.8	3.5	2.7	3.3
Growth in Gross Loans	1.0	-38.5	15.0	16.6
Loan Loss Allowances/Impaired Loans	148.4	156.5	181.8	164.0
Loan Impairment Charges/Average Gross Loans	1.7	1.3	2.0	3.2
Capitalization				
Common Equity Tier 1 Ratio	9.7	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	10.2	10.5	7.8	7.6
Basel Leverage Ratio	N.A.	7.7	8.1	N.A.
Net Impaired Loans/Common Equity Tier 1	-17.5	-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	108.3	109.2	95.4	92.2
Liquidity Coverage Ratio	225.6	N.A.	N.A.	N.A.
Customer Deposits/Total Non-Equity Funding	76.4	74.8	82.0	82.0
Net Stable Funding Ratio	108.2	N.A.	N.A.	N.A.

N.A. – Not applicable
Source: Fitch Ratings

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 ability of the sovereign 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, 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.

Bogota's GSR would be affected if Fitch changes 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

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

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.

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

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.

ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to 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.

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.