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 11.98% and 12.01% market shares, respectively, as of June 30, 2023. It is also the second largest by net income, with a 17.4% market share, and the third largest by loans, at 11.9% at 2Q23. Given its size, the bank is a systemically important financial institution in Colombia. Bogota also consolidates Multibank Inc., a Panamanian subsidiary acquired in 2020, on its balance sheet with a market share by loans and deposits of 5.9% and 4.2%, respectively, at February 2023.

BAC Holding International Corp. (BAC) Spinoff: After the BAC spinoff, 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 reached 3.9% at June 30, 2023. This reflected a deterioration in all segments, especially consumer loans. The loan loss reserve coverage ratio remained stable at 1.4x as of June 2023. Fitch Ratings expects the ratio to remain stable or slightly improve during the short to medium term.

Resilient Profitability: Bogota's performance as of 2Q23 was impacted by higher loans impairment charges compared to those from 2022. At the same time, the net interest margin (NIM) remained stable, thanks to still high interest rates on loans amid lower NIM from investments. The bank's operating profit/risk-weighted assets (RWA) ratio of 1.9% at 2Q23 is close to the 2.23% average for the 2019-2022 period. Fitch expects this ratio to stabilize to near 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.

Stable Capitalization: Bogota's capital has been maintained through sustained profitability and moderate dividend policies. Common Equity Tier 1 (CET1) stabilized to 10.1% as of 2Q23, Dec. 2022: 10.1%). This is a consequence of lower RWA. 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 other comprehensive income (OCI), which should revert later in 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 spinoff 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 2Q23, deposits grew 2.6% YTD, supported especially by time deposits. This is explained in part by the new net stable funding ratio (NSFR) regulation in Colombia.

Bogota's loan to customer deposits ratio remains relatively stable, even after the BAC spinoff, and is better than that of local peers, due to having about 78% 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'.

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 2023)

Related Research

Latin American Banks: 2023 Midyear Outlook (June 2023)

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

Financial Data

Banco de Bogota, S.A.

	June 30, 2023	Dec. 31, 2022
Total Assets (USD mil.)	32,477.2	28,662.8
Total Assets (COP bil.)	136,121.1	137,873.8
Total Equity (COP bil.)	15,589.7	15,810.6

Source: Fitch Ratings, Fitch Solutions

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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 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. (former Leasing Bogotá S.A. Panama [LBP]) spinoff, Fitch expects Bogota's financial ratios to remain commensurate with its current rating, even considering potential changes, especially in the bank's capitalization and asset quality levels after the BAC spinoff. Fitch will monitor potential financial ratio variations, which could take several months to manifest. However, if Fitch makes a material change in its 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; however, 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 after the BAC spinoff, 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

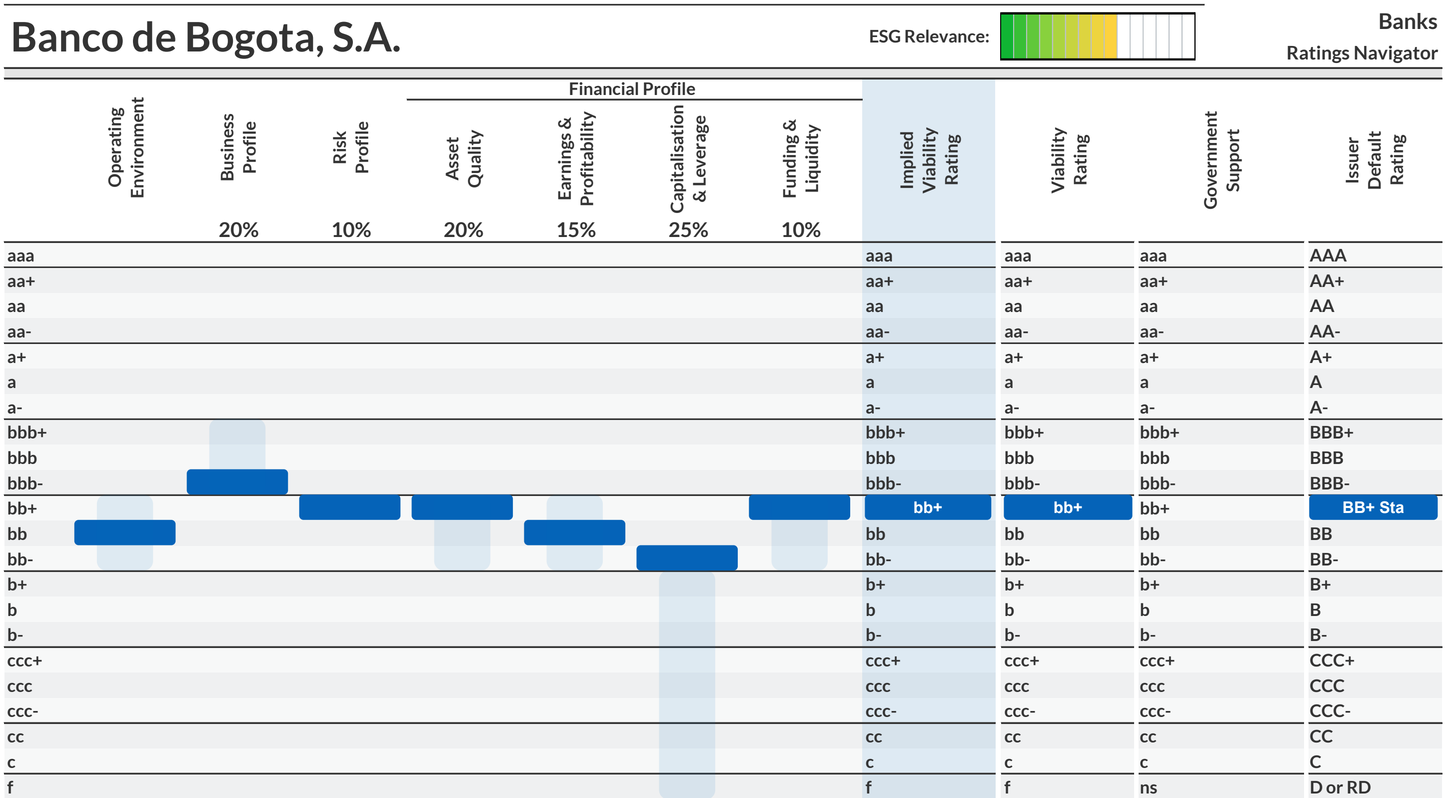
Rating Level	Rating
Senior unsecured: Long-Term	BB+
Subordinated: Long-Term	BB-

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 Viability Rating (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.

VR — Adjustments to Key Rating Drivers

The Capitalization and Leverage score has been assigned above the implied score due to the following adjustment reason: Reserve Coverage and Asset valuation (positive).

Significant Changes

Fitch expects the OE for Colombian banks to remain stable and consistent with the 'bb' factor score, despite slowing GDP growth in 2023 and the longer than expected effects of the macroeconomic imbalances, including still high inflation, which in turn delays a change in the monetary policy.

Fitch believes sustained capitalization, improving profitability and lower loan impairment charges provide sufficient resilience to face stress for Colombian banks. Nevertheless, the expected inflexion point for the system will start in 4Q23.

Summary Financials and Key Ratios

	June 30, 2023		Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020
	6 Months - Interim	6 Months - Interim	Year End	Year End	Year End
	USD mil.	COP bil.	COP bil.	COP bil.	COP bil.
	Unaudited	Unaudited	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified
Summary Income Statement					
Net Interest and Dividend Income	616	2,581.1	4,720.0	8,646.6	8,276.3
Net Fees and Commissions	172	720.8	1,245.1	3,654.7	4,254.2
Other Operating Income	109	454.9	613.0	1,849.6	2,542.8
Total Operating Income	896	3,756.8	6,578.1	14,150.9	15,073.3
Operating Costs	435	1,822.9	3,257.4	7,499.0	7,513.2
Pre-Impairment Operating Profit	461	1,933.9	3,320.7	6,651.9	7,560.1
Loan and Other Impairment Charges	224	940.3	1,362.4	2,993.7	4,307.8
Operating Profit	237	993.6	1,958.3	3,658.2	3,252.3
Other Non-Operating Items (Net)	N.A.	N.A.	1,138.1	1,671.8	N.A.
Tax	52	217.8	290.2	781.0	747.7
Net Income	185	775.8	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	185	775.8	182.5	5,596.9	2,100.6
Summary Balance Sheet					
Assets					
Gross Loans	23,316	97,725.9	96,078.0	156,219.1	135,845.5
- of which impaired	902	3,781.1	3,381.9	4,200.6	4,479.0
Loan Loss Allowances	1,291	5,410.6	5,293.3	7,637.1	7,345.0
Net Loan	22,026	92,315.3	90,784.7	148,582.0	128,500.5
Interbank	N.A.	N.A.	N.A.	N.A.	N.A.
Derivatives	154	644.0	786.3	408.5	604.8
Other Securities and Earning Assets	6,027	25,261.6	30,137.3	39,745.8	37,120.8
Total Earning Assets	28,206	118,220.9	121,708.3	188,736.3	166,226.1
Cash and Due From Banks	2,219	9,299.0	7,274.1	26,997.9	27,497.6
Other Assets	2,052	8,601.2	8,891.4	16,600.7	14,544.7
Total Assets	32,477	136,121.1	137,873.8	232,334.9	208,268.4
Liabilities					
Customer Deposits	21,553	90,336.7	88,027.5	163,733.6	147,287.5
Interbank and Other Short-Term Funding	3,022	12,665.6	16,093.1	19,950.2	16,535.7
Other Long-Term Funding	2,992	12,540.3	13,587.7	15,913.0	15,886.8
Trading Liabilities and Derivatives	205	857.7	633.9	447.4	628.5
Total Funding and Derivatives	27,772	116,400.3	118,342.2	200,044.2	180,338.5
Other Liabilities	986	4,131.1	3,721.0	6,951.7	5,431.3
Total Equity	3,720	15,589.7	15,810.6	25,339.0	22,498.6
Total Liabilities and Equity	32,477	136,121.1	137,873.8	232,334.9	208,268.4
Exchange Rate		USD1 = COP4191.28	USD1 = COP4810.20	USD1 = COP3997.71	USD1 = COP3444.90

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

Summary Financials and Key Ratios

	June 30, 2023	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020
Ratios (annualized as appropriate)				
Profitability				
Operating Profit/Risk-Weighted Assets	1.9	1.9	2.2	2.0
Net Interest Income/Average Earning Assets	4.4	3.7	4.9	5.2
Non-Interest Expense/Gross Revenue	54.1	55.1	55.1	51.8
Net Income/Average Equity	10.0	15.8	19.2	11.2
Asset Quality				
Impaired Loans Ratio	3.9	3.5	2.7	3.3
Growth in Gross Loans	1.7	-38.5	15.0	16.6
Loan Loss Allowances/Impaired Loans	143.1	156.5	181.8	164.0
Loan Impairment Charges/Average Gross Loans	2.0	1.3	2.0	3.2
Capitalization				
Common Equity Tier 1 Ratio	10.1	10.1	10.2	7.8
Fitch Core Capital Ratio	N.A.	N.A.	N.A.	9.8
Tangible Common Equity/Tangible Assets	10.5	10.6	7.8	7.6
Basel Leverage Ratio	N.A.	7.7	8.1	N.A.
Net Impaired Loans/Common Equity Tier 1	-15.6	-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	108.2	109.2	95.4	92.2
Gross Loans/Customer Deposits + Covered Bonds	108.2	109.2	95.4	92.2
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Total Non-Equity Funding	78.2	74.8	82.0	82.0
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.

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

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

Government Support Rating (GSR)

Bogota's 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+' rating/Stable Outlook,

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 GSRs 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.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E) Relevance Scores

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

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

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

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

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

Social (S) Relevance Scores

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

Governance (G) Relevance Scores

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

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.

SOLICITATION & PARTICIPATION STATUS

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

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

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