

## CREDIT OPINION

31 August 2018

Update

✓ Rate this Research

### RATINGS

#### Banco de Bogota S.A.

Domicile	Bogota, Distrito Capital, Colombia
Long Term CRR	Baa1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Baa2
Type	Senior Unsecured - Fgn Curr
Outlook	Negative
Long Term Deposit	Baa2
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Banco de Bogota S.A.

### Update to Credit Analysis

#### Summary

The ba1 standalone baseline credit assessment (BCA) of Banco de Bogotá S.A reflects its stronger but still moderate core capitalization levels and the fact the bank has shown resiliency in its profitability levels despite the last two challenging years in the operating environment in Colombia.

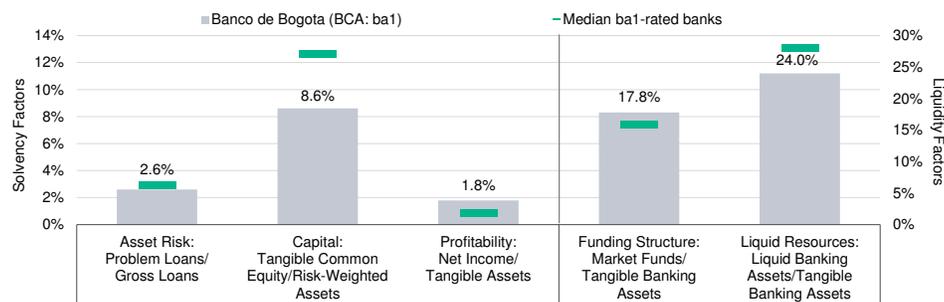
In the twelve months, the bank demonstrated capacity to keep the tangible common equity to risk weighted assets at or above 8.5%, sustained by sound internal earnings generation and lower capital consumption as the pace of asset growth accommodated at lower levels than previous years. It also incorporated the still attractive profitability levels with a net income above 1.8% of tangible banking assets, despite the downward trend in the last year.

Banco de Bogota's Baa2 deposit ratings incorporates our assessment of very high likelihood of government support, if needed, resulting in a two-notch uplift from its ba1 BCA.

#### Exhibit 1

#### Rating Scorecard - Key Financial Ratios

Scorecard ratios for Banco de Bogotá as of June 2018



Source: Moody's Financial Metrics

## Credit challenges

- » Asset risk pressures arising from single borrower concentration and weak economy
- » Potential volatility from exposures to Central America
- » Though capitalization has increased substantially following a corporate restructuring, it remains low by regional and global standards

## Credit strengths

- » Resilient earnings as credit costs reduce
- » Good access to core deposit funding

## Outlook

The negative outlook on the deposit and senior unsecured debt ratings assigned to Banco de Bogotá reflects the negative outlook on Colombia's sovereign bond rating

## Factors that could lead to an upgrade

- » Banco de Bogotá's deposit and senior unsecured debt ratings are unlikely to face upward pressures because they have a negative outlook and are already positioned at the same level as the sovereign rating, which also has a negative outlook. However, the outlook could be stabilized if and when Colombia's sovereign outlook stabilizes.

## Factors that could lead to a downgrade

- » Banco de Bogotá's deposit and senior unsecured debt ratings are positioned at the same level of sovereign bond rating and will likely be downgraded if Colombia's sovereign rating is lowered.
- » The bank's ratings could also be downgraded if its capital ratio weakens, or if the bank posts higher-than-expected deterioration in asset risk and fails to sustain profitability at sound levels.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

Please note that in the exhibit below, chart for key indicators, the figures for December 2015 have been adjusted excluding Corficolombiana and Casa de Bolsa for comparative purposes between 2016 and 2015.

## Key indicators

Exhibit 2

### Banco de Bogota S.A. (Consolidated Financials) [1]

	6-18 <sup>2</sup>	12-17 <sup>2</sup>	12-16 <sup>2</sup>	12-15 <sup>2</sup>	12-14 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (COP billion)	145,411	149,204	141,245	136,664	118,803	5.9 <sup>4</sup>
Total Assets (USD million)	49,510	49,992	47,050	43,050	49,991	-0.3 <sup>4</sup>
Tangible Common Equity (COP billion)	10,766	11,341	10,545	9,744	4,881	25.4 <sup>4</sup>
Tangible Common Equity (USD million)	3,666	3,800	3,513	3,070	2,054	18.0 <sup>4</sup>
Problem Loans / Gross Loans (%)	2.6	2.4	1.7	1.5	1.5	1.9 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	8.6	9.0	8.9	7.8	4.6	7.8 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	17.8	16.9	12.9	11.6	16.7	15.2 <sup>5</sup>
Net Interest Margin (%)	4.8	5.0	4.8	4.5	3.8	4.6 <sup>5</sup>
PPI / Average RWA (%)	4.2	4.5	6.1	3.5	4.1	4.5 <sup>6</sup>
Net Income / Tangible Assets (%)	1.8	1.5	3.3	1.6	2.0	2.0 <sup>5</sup>
Cost / Income Ratio (%)	53.3	53.1	44.9	55.4	47.6	50.9 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	18.0	17.8	19.4	21.4	22.7	19.8 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	22.8	24.0	22.9	24.0	27.4	24.2 <sup>5</sup>
Gross Loans / Due to Customers (%)	104.9	101.4	103.6	103.2	98.8	102.4 <sup>5</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] May include rounding differences due to scale of reported amounts [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel II periods presented

Source: Moody's Financial Metrics

## Profile

Banco de Bogotá S.A. (Banco de Bogotá) is a privately owned universal bank in Colombia. It provides individuals and corporate customers with deposit and lending, financing, foreign exchange, private banking, pension fund administration, fiduciary, and treasury products and services. As of June 2018, it was the third-largest Colombian commercial bank in terms of loans (12.2% market share) and the second-largest in term of assets (13.3%). As of 30 June 2018, it reported a consolidated asset base of COP145.6 trillion (USD \$49.5 billion).

As of June 2018, Banco de Bogotá distributed its products and services through a network of 706 branches and 1,740 ATMs in Colombia. Furthermore, it maintained a network of 720 branches and 2,034 ATMs in six Central American countries.

Banco de Bogotá's main shareholder is Grupo Aval Acciones y Valores S.A. (Grupo Aval), Colombia's largest financial conglomerate, which owns 68.7% of its total share capital.

## Detailed credit considerations

### Large problematic exposures has been leading to asset risk volatility

Although B.Bogota holds the second largest branch network in Colombia, commercial lending represents the largest portion of total loans (60%), followed by consumer (28%) and mortgage (12%). In terms of geographic distribution, about 55% of the bank's total assets and loans are allocated in Colombia, given its significant presence in Central America, which exposes the balance sheet to potential volatility in terms of asset quality. Although Central America is experiencing a certain degree of volatility, a meaningful deterioration in the asset risk is not expected for the region the next 12-18 months, while these operations remain profitable and provide geographic diversification.

Nevertheless, Moody's downward adjustment to asset risk score reflects the exposure of the bank in much weaker operating environments along with the bank's single name concentrations in large economic groups that could amplify potential deterioration.

The 90-day past due loans increased significantly in 2018 compared to previous year mainly due to a single name exposure to Electrificadora del Caribe S.A. E.S.P. (Electricaribe, unrated). The bank calculates that Electricaribe's explains around one third of the

30bps increase in NPLs to 2.6% as of June 2018 when compared with the same period last year 2.3%. Nevertheless this exposure is mitigated with a provisions that cover 80% of the total exposure.

The bank also has problematic exposures to Bogota's mass transportation system (SITP), amounting to around USD100 million, which is likely to have a longer term resolution and require increasing loan loss reserves from the current 21% of coverage.

The bank also have exposure of about USD190 million to Concesionaria Ruta del Sol S.A.S. (CRDS, unrated), an extension of this loan has been negotiated to October 2018, however bank's management does not rule out another extension depending in how the situation place out.

The consumer portfolios have also deteriorated in the last months as a result of the Colombian weak labor market, however the deterioration pace has subside and could further benefit from the positive growth momentum of the Colombian economy that reported a GDP growth of 2.8% as of June 2018. The 90-day past due loan ratios in both mortgage and consumer loans have increased around 20bps to 1.8% and 2.8% respectively. Further, reserve coverage of around 1.9 times problem loans provides and important buffer to absorb these expected losses.

### Stable capitalization reflects lower loan growth

The bank's tangible common equity to risk weighted assets (TCE / RWA) was around 8.6% as of June 2018, supported by the meaningful slowdown in RWA growth and the maintenance of good earnings generation. Nevertheless, relative to regional and global peers, the capitalization ratio of Banco de Bogotá is still low.

To the extent that Banco de Bogotá's growth pace remains at lower levels than last years, and dividend payout policy does not materially change for a long time, the bank is expected to maintain stable capital ratios.

### Resilient earnings as credit costs reduce

For the first six months of 2018, the bank reported a net income of COP 1,151.2 billion, which represented an 11% increase versus the same six months of 2017. This increase in bottom line results was due to the lower credit costs as the bank, last year provisioned the bulk of the exposure to Electricaribe. A such, loan loss provisions to pre provision income decrease significantly to 37% in June 2018 from 46% in the same period last year. Going forward we expect that the bank continues to show lower cost of risks boosted by the positive momentum of the Colombian economy.

Positive results were achieved notwithstanding a decrease in the bank's net interest margin to 4.8% in June 2018 from the 5.1% reported in the same period last year. This reduction was a reflection of the lower benchmark rates in Colombia. However, we expect that pressures to bank's margins subside as the pace of the easing policy decreases due to a more controlled inflation and a less volatile exchange rate and the capacity of repricing its loan book quicker than its liabilities. Banco de Bogotá will also benefit from the lowering tax rates implemented in the recent fiscal reform, which will decline from 37% currently, 33% from 2019 onwards.

### Good access to core funding

Because of its strong core deposit base in all the markets in which it operates, Banco de Bogotá's reliance on market funds is relatively reduced. The need to raise market funds will remain reduced while its operations grow at a lower pace than in the previous years.

Following the slowdown in the loan growth, Banco de Bogotá has been showing a very stable liquidity at 23% of total banking assets, though it is still positioned at moderate levels. Also, we note that the exposure to sovereign bonds in Central America represents less than 10% of total liquid assets.

### Banco de Bogotá's weighted Macro Profile of "Moderate" reflects its exposure to the lower operating environments of Central America

Colombia's Macro Profile is "Moderate+" and represents around 55% of the bank's loan book, while its remaining operations are focused in Central America including Costa Rica (Macro Profile of "Moderate-"), Panama (Moderate), Guatemala (Weak) and El Salvador (Very Weak+), as well as Honduras and Nicaragua.

Despite the lower expectations of GDP growth, the economy will remain resilient, as it continues to adjust to lower oil prices, and benefits from its sound fiscal framework and adequate reserve buffers. Our evaluation of Colombia's macro profile is nevertheless tempered by the country's low GDP per capita and high inequality. Despite below average indicators for government effectiveness, the

country benefits from a favorable investment climate and policy predictability. Colombia faces event risk related to its dependence on oil exports.

## Support and structural considerations

### Government support considerations

Moody's assessment of a very high likelihood of government support for Banco de Bogotá's deposits and senior unsecured debt reflects its large market share of deposits in Colombia and hence the material systemic consequences that would result from an unsupported failure. Therefore, its Baa2 global long-term deposit rating benefits from a two-notch uplift from its ba1 BCA.

### Foreign Currency Debt Rating

Moody's assigns a Ba2 long-term foreign currency subordinated debt rating to the bank's ten-year USD500 million subordinate debt issuance due 19 February 2023 and ten-year USD1.1 billion subordinated debt issuance due 12 May 2026<sup>1</sup>

### Counterparty Risk Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

### **Banco de Bogotá's long- and short-term CR Assessments are positioned at Baa1(cr)/Prime-2(cr)**

The CR assessment is one- notch above the deposit rating of the bank, reflecting Moody's view that its probability of default is lower at the operating obligations than of deposits.

### Counterparty Risk Rating (CRR)

Moody's Counterparty Risk Ratings are opinions of the ability of entities to honor the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honored. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

### **The CRR for Banco de Bogotá and its rated branches is Baa1/P-2.**

### About Moody's Bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

## Rating methodology and scorecard factors

Exhibit 3

### Banco de Bogota S.A.

#### Macro Factors

<b>Weighted Macro Profile</b>	<b>Moderate</b>	<b>100%</b>
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Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.6%	baa2	← →	baa3	Single name concentration	
Capital						
TCE / RWA	8.6%	b1	← →	b1	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	1.8%	baa1	← →	baa1		
Combined Solvency Score		ba1		ba1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	17.8%	baa3	← →	baa3	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	24.0%	ba1	← →	ba1	Stock of liquid assets	
Combined Liquidity Score		baa3		baa3		
Financial Profile						
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Baa2		
Scorecard Calculated BCA range				baa3-ba2		
Assigned BCA				ba1		
Affiliate Support notching				0		
Adjusted BCA				ba1		

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	1	0	baa3	2	Baa1	Baa1
Counterparty Risk Assessment	1	0	baa3 (cr)	2	Baa1 (cr)	--
Deposits	0	0	ba1	2	Baa2	Baa2
Senior unsecured bank debt	0	0	ba1	2	--	Baa2
Dated subordinated bank debt	-1	0	ba2	0	--	Ba2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Financial Metrics

## Ratings

Exhibit 4

Category	Moody's Rating
<b>BANCO DE BOGOTA S.A.</b>	
Outlook	Negative
Counterparty Risk Rating	Baa1/P-2
Bank Deposits	Baa2/P-2
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)
Senior Unsecured	Baa2
Subordinate	Ba2
<b>PARENT: GRUPO AVAL ACCIONES Y VALORES S.A.</b>	
Outlook	Stable
Issuer Rating	Ba2
ST Issuer Rating	NP
<b>BAC INTERNATIONAL BANK, INC</b>	
Outlook	Stable
Counterparty Risk Rating	Baa2/P-2
Bank Deposits	Baa3/P-3
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)

Source: Moody's Investors Service

## Endnotes

- <sup>1</sup> See Moody's Press Releases titled "[Moody's assigns Ba2 to Banco de Bogotá's proposed subordinated debt; rating on review for downgrade](#)," 2 May 2016 and "[Moody's continues to rate Banco de Bogotá's subordinated debt Ba2 following reopening](#)," 1 November 2016.

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