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CREDIT OPINION
27 July 2020

Update

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RATINGS

Banco de Bogota S.A.

Domicile	Bogota, Distrito Capital, Colombia
Long Term CRR	Baa2
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.

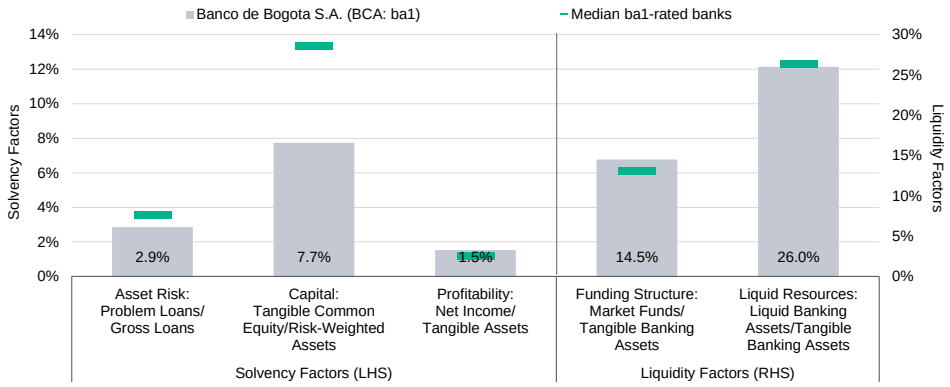
Update to credit analysis

Summary

Banco de Bogotá S.A.'s Baseline Credit Assessment (BCA) of ba1 reflects the bank's strong earnings and good access to core deposit funding. The bank's capitalization ratio, measured as tangible common equity (TCE)/risk-weighted assets (RWA), deteriorated significantly to 7.7% as of March 2020, mainly as a result of the strong depreciation of the Colombian peso in the first quarter of 2020. Its capitalization will also be affected by the acquisition of Multi Financial Group (MFG), the parent company of the Panama-based Multibank[1]. Banco de Bogotá closed the acquisition on 22 May 2020, with a transaction cost of $433 million[2].

Banco de Bogotá's ratings take into consideration the negative trends in the bank's Colombian and Central American portfolios arising from the deteriorating operating environment as the coronavirus pandemic and lockdown measures affect its clients' repayment capacity. Banco de Bogota's Baa2 deposit ratings incorporate our assessment of a very high likelihood of government support, if needed, resulting in a two-notch uplift from its ba1 BCA. The outlook on Banco de Bogotá's ratings remains negative.

Exhibit 1
Rating Scorecard - Key financial ratios
March 2020 scorecard ratios



For the problem loan and profitability ratios, we review the latest three year-end ratios, as well as the most recent intra-year ratio, where applicable, and base our starting point ratio on the weaker of the average of this period and the latest figure. For the capital ratio, we use the latest figure. For the funding structure and liquid asset ratios, we use the latest year-end figures.
Source: Moody's Investors Service

Credit challenges

» Rising asset risk because of the deteriorating operating environments in Colombia and Central America

» Provisioning needs to hurt bottom-line results and high credit costs

» Capitalization remains low by regional and global standards, although it has improved substantially

Credit strengths

» Good access to core deposit funding

» Weak loan growth and limited dividend payouts will moderate capital consumption

Outlook

The negative outlook on Banco de Bogotá's ratings incorporates its large presence in the potentially more volatile Central American markets, which continues to expose Banco de Bogotá's assets and earnings to increased risks that could lead to downward pressure on its BCA. Banco de Bogotá's acquisition of MFG in Panama is credit positive because it adds an attractive asset in a more stable operating environment. Nevertheless, the increased asset exposure to Panama will likely not offset the deteriorating operating conditions in both Costa Rica and Nicaragua, which account for a combined 17% of Banco de Bogotá's loans, and are incorporated into Banco de Bogotá's weighted Macro Profile of "Moderate".

Factors that could lead to an upgrade

Banco de Bogotá's ratings are unlikely to face upward pressure because they have a negative outlook. However, the outlook could be changed to stable if the operating environment and asset quality in Costa Rica and Nicaragua stabilize, and the bank's exposures to those countries decline in line with current expectations.

Factors that could lead to a downgrade

» Banco de Bogotá's supported ratings are positioned at the same level as the sovereign bond rating and will likely be downgraded if Colombia's sovereign rating is lowered.

» Banco de Bogota's ratings could also be downgraded if the operating environment in Central America, specifically Costa Rica and Nicaragua, deteriorates further, leading to increased delinquencies and credit costs, or if the bank's exposures to those countries increase.

» The ratings could also face downward pressure if the bank´s capital ratio weakens, or if the bank experiences higher-than-expected delinquencies and credit costs from its exposures to large troubled Colombian corporates.

Key indicators

Exhibit 2
Banco de Bogota S.A. (Consolidated Financials) [1]

	03-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (COP Billion)	207,185.3	174,834.1	163,117.0	149,203.6	141,245.2	12.5[4]
Total Assets (USD Million)	51,029.6	53,278.7	50,228.5	49,992.8	47,050.4	2.5[4]
Tangible Common Equity (COP Billion)	13,067.7	13,873.7	12,320.5	11,425.3	10,587.7	6.7[4]
Tangible Common Equity (USD Million)	3,218.6	4,227.8	3,793.9	3,828.2	3,526.9	(2.8)[4]
Problem Loans / Gross Loans (%)	2.9	3.1	2.8	2.4	1.7	2.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	7.7	9.4	9.3	9.1	8.9	8.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	20.6	18.8	17.6	16.8	12.8	17.3[5]
Net Interest Margin (%)	4.5	4.8	4.9	5.0	4.8	4.8[5]
PPI / Average RWA (%)	3.9	4.4	4.7	4.5	6.1	4.7[6]
Net Income / Tangible Assets (%)	1.5	1.8	2.0	1.5	3.3	2.0[5]
Cost / Income Ratio (%)	53.9	53.5	51.2	53.1	44.9	51.3[5]
Market Funds / Tangible Banking Assets (%)	14.9	14.5	15.2	14.3	15.6	14.9[5]
Liquid Banking Assets / Tangible Banking Assets (%)	27.0	26.0	26.3	24.0	22.9	25.3[5]
Gross Loans / Due to Customers (%)	93.9	98.9	101.1	101.4	103.6	99.8[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel II; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel II periods.
Sources: Moody's Investors Service and company filings

Profile

Banco de Bogotá S.A. 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 31 March 2020, it was the third-largest Colombian commercial bank in terms of loans (12.3% market share) and the second largest in term of assets (15.1%). As of March 2020, it reported a consolidated asset base of COP207.2 trillion[3].

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. Banco de Bogotá consolidates the largest bank in Central America, BAC International Bank, Inc, as it owns 100% of that company.

Recent developments

The rapid spread of the coronavirus pandemic has led to a deteriorating economic outlook, sharply lower oil prices and a broad financial market upheaval, generating an unprecedented credit shock across many sectors worldwide. Our baseline economic scenario assumes pandemic-driven disruptions of economic activity through June, followed by some recovery in H2 2020. However, the potential for downside outcomes is increasing. The greatest negative credit effects will be felt initially by banks in regions most immediately and acutely disrupted or with concentrated lending to the most affected sectors, as well as more thinly capitalized banks and non-bank lenders.

To reflect the increasing strain from the disruption caused by the coronavirus pandemic, in March 2020, we changed our outlook on Latin American banking systems to negative, reflecting our view that the disruption related to the coronavirus pandemic will exacerbate an existing slowdown in the region's economic growth. This will increase the strain on Latin American banks' operating environment and will erode banks' asset quality. The authorities' broad supplemental policy actions will provide support to banks' liquidity, and their adequate capitalization will help buffer stress losses. However, the recovery will likely be relatively more muted in the region than in advanced economies, in which case, the credit-negative implications for banks will intensify.

Considering the increasing strain from the coronavirus pandemic-related disruptions, in April 2020, we changed the outlook for the Colombian banking system to negative from stable, to reflect our view that the disruption related to the coronavirus pandemic and the effects of lower oil prices on economic growth expectations will increase the strain on Colombian banks' operating environment and asset quality. Colombian banks' capital will decrease with rising loan-loss provisions, and profitability will be tempered by the

increasing credit costs and lower interest rates. Lower growth and more moderate dividend payouts could benefit Colombian banks' only moderate capitalization levels.

Detailed credit considerations

Rising asset risk because of the difficult operating environment in the more-volatile Central American portfolio

Although Banco de Bogota's 90+ days nonperforming loan (NPL) ratio deteriorated 20 basis points to 2.86% in the first three months of 2020, we expect the deterioration in the loan portfolio to continue throughout 2020 as the lockdown measures in Colombia and Central American countries hurt their economies. New past-due loans in the quarter increased in nominal terms as a result of the early impacts of the general lockdown, the depreciation of the Colombian peso versus the US dollar and the deterioration in specific corporate clients. The bank's reserves coverage remained at a high 1.5x of problem loans in March 2020, increasing from 1.44x as of year-end 2019.

We take into consideration the fact that loan delinquencies have been stable in the early stages of the coronavirus pandemic as banks focused on providing adequate support to their most vulnerable customers through loan deferrals and government programs. However, this only delays an expected increase in problem loans, which will come due in what looks like an increasingly worse economic environment and amid clients' repayment capacities.

Despite increasing asset risks from deteriorating economic conditions in Colombia and Central America, as a result of the coronavirus pandemic, credit costs, measured as annualized loan-loss provisions/gross loans, decreased to 1.95% in March 2020 from 2.2% in December 2019. We expect loan-loss provisioning expenses to rise during the following quarters in line with the expected loss provisioning models.

While Banco de Bogotá has the second-largest branch network in Colombia (Baa2 stable), which represented 48% of the total loan portfolio as of March 2020, the bank has a significant and increasing presence in Central America, which exposes the bank to more volatile and weaker economic environments. Central America now represents the majority of the bank's credit portfolio (52%). Banco de Bogota's domestic loan book in Colombia was highly affected by the strong deterioration of the Colombian peso against the US dollar in Q1 2020. The bank has operations in Costa Rica (B2 negative; 14% of gross loans), Panama (Baa1 stable; 13%), Guatemala (Ba1 stable, 10%), Honduras (B1 stable, 6%), El Salvador (B3 positive, 5%) and Nicaragua (B3 stable, 3%). Although the bank has a fairly balanced portfolio, commercial lending represents the largest portion of total loans (58%), followed by consumer lending (28%) and mortgage (13%).

In addition, on 10 May 2020, one of the largest borrowers of the bank, Avianca Holdings, filed a voluntary request to reorganize under the Chapter 11 of the Bankruptcy Code of the US. As of March 2020, 9% of the combined exposure to this company was provisioned, a percentage that had increased during the Q2 2020. Also, 93% of the loan amount granted to Avianca is secured.

In the recent past, Banco de Bogota has been exposed to large deteriorated corporates such as Electrificadora del Caribe S.A. E.S.P.; the loan was charged off in December 2019. Similarly, the bank's exposure to Concesionaria Ruta del Sol S.A.S. II (CRDS II), a highway construction project that was suspended because of a corruption scandal involving Brazil's Odebrecht Engenharia e Construção S.A., has been fully provisioned. Finally, we expect its exposure to Bogota's mass transportation system (Sistema Integrado de Transporte de Bogotá, SITP) to add some more basis points to the total NPL ratio, depending on how the new plan to solve the structural problems of SITP works out.

Profitability to deteriorate as the bank increases provisioning expenses in 2020

In the first three months of 2020, the bank's net income fell 3.6% from a year earlier to COP758 billion, representing 1.5% of its tangible assets, lower than the 2.0% reported in March 2019. The ratio decreased mainly because of growth in the amount of provisions from the exposure to Avianca and an increase in operating expenses, driven by higher personnel expenses and taxes. Banco de Bogota's lower profitability is also explained by a significant increase in tangible assets from a year earlier as the bank's consolidated assets grew 29% (15% growth attributable to foreign-exchange variation).

We expect an increase in loan-loss provisions during the next few quarters as a result of the expected deterioration in the banks' portfolio, driven by the pandemic containment measures in Latin America. As coronavirus infections and deaths continue to rise in

Latin America, we expect countries to face difficulties in reopening their economy in H2 2020, forcing banks to continue to provision during the following quarters, in line with higher expected losses.

The bank's exposure to SITP amounts to COP283 billion, which is likely to have a longer-term resolution, and the bank continues to have different levels of provisioning depending on the credit quality of the SITP supplier, but, on average, the provisioning level remains at 31%.

Capitalization remains low by regional and global standards

The bank's TCE/RWA was 7.7% as of March 2020, lower than the 9.4% in year-end 2019 and well below the 13.3% average for banks with a ba1 BCA. The ratio decline mainly because of an increase in RWA because of loan growth and the depreciation of the Colombian peso against the US dollar. Likewise, the ratio was affected by a decrease in TCE, also attributable to the strong variation of the foreign exchange, which caused a rise in the bank's goodwill in US dollars from its international operations.

We expect the bank to preserve its capital position during 2020 as the high growth in its consumer portfolio slows down in light of the pandemic, and as limited dividend payments and the Basel III implementation start to take effect, lowering the density of the bank's RWA and increasing its capital ratios.

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. Further, the bank had a very stable liquidity, at 27% of total banking assets (as of March 2020). Also, 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 weaker operating environment of Central America

Colombia's Macro Profile is Moderate+ and the country represents around 48% of the bank's loan book, while its remaining operations are focused on Central America including Costa Rica (Macro Profile of Weak+), Panama (Moderate), Guatemala (Weak) and El Salvador (Weak), as well as Honduras and Nicaragua. Colombia's Moderate+ Macro Profile reflects the country's relatively large and resilient economy, and history of predictable policymaking, balanced against a relatively high dependence on commodities and sensitivity to trade shocks, and borrower concentration in the banking system.

In light of the effect that the coronavirus pandemic and oil price shocks will have on Colombia's economy, we have revised down our growth forecast for 2020 to -2.5% from our previous forecast of 0.5%. As a result of this deteriorated outlook, in May 2020, the Colombian government raised the limit for the central government's fiscal deficit to 6.1% of GDP in 2020, from the 4.9% level it had announced just a few weeks earlier. The government expects the economy to contract 5.5% this year.

Despite high exposure to terms-of-trade shocks, external vulnerabilities are limited by the country´s adequate foreign-exchange buffers and access to a sizable credit line from the International Monetary Fund. Moreover, the effectiveness of the government´s policy response to recent commodity shocks illustrates the country´s moderate institutional strength. In this regard, the actions by the Colombian government and the central bank in response to the coronavirus pandemic include measures to reinforce liquidity of financial institutions, and establish basic guidelines for the renegotiation of terms and conditions of existing consumer and SME loans, and interest rate cuts.

In line with lower economic growth, credit growth has decelerated substantially, and credit/GDP remains relatively modest. While banks are largely deposit funded, a substantial portion of these are provided by institutions, leaving banks potentially vulnerable to funding concentration risks. At the same time, high concentration in the banking system itself supports banks' pricing power and lending spreads.

Environmental, social and governance considerations

Banco de Bogota's exposure to environmental risks is low, consistent with our general assessment for the global banking sector. See our Environmental risks heat map for further information.

Overall, we consider banks to face moderate social risks. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which is partly mitigated by the sizable technology investments and banks' long history of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are a further social risk. Social trends are also relevant in a number of areas, such as shifting customer preferences toward digital banking services, increasing information technology cost, aging population concerns in several countries, affecting demand for financial services, or socially driven policy agendas that may translate into regulation that affects banks' revenue base. See our Social risks heat map for further information.

Governance is highly relevant for Banco de Bogota, as it is to all participants in the banking industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit a bank's credit profile. Governance risks are largely internal rather than externally driven, and for Banco de Bogota we do not have any particular governance concerns (with only minor control issues and governance shortfalls identified in recent years that were remediated in the normal course of business). Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Government support considerations

Our 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 significant 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

We assign a Ba2 long-term foreign-currency subordinated debt rating to the bank's 10-year $500 million subordinate debt issuance due 19 February 2023 and 10-year $1.1 billion subordinated debt issuance due 12 May 2026[4].

Counterparty Risk (CR) 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 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 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 (for example, swaps), letters of credit, guarantees and liquidity facilities.

Banco de Bogotá's long- and short-term CR Assessments are positioned at Baa2(cr)/Prime-2(cr)

The CR Assessment is positioned at Baa2(cr), which is two notches above its Adjusted BCA of ba1 and, therefore, aligned with its senior unsecured and deposit ratings.

Counterparty Risk Rating (CRR)

CRRs 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 CRRs for Banco de Bogotá and its rated branches are Baa2/P-2

Methodology and scorecard

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		
Weighted Macro Profile	**Moderate**	**100%**

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.9%	baa2	←→	baa3	Quality of assets	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel II)	7.7%	b3	←→	b2	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	1.5%	baa1	←→	baa1	Expected trend	
Combined Solvency Score		ba1		ba1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	14.5%	baa2	←→	ba1	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	26.0%	baa3	←→	ba1	Quality of liquid assets	
Combined Liquidity Score		baa2		ba1		
Financial Profile				ba1		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Baa2		
BCA Scorecard-indicated Outcome - 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	1	Baa2	Baa2
Counterparty Risk Assessment	1	0	baa3 (cr)	1	Baa2(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 Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
BANCO DE BOGOTA S.A.	
Outlook	Negative
Counterparty Risk Rating	Baa2/P-2
Bank Deposits	Baa2/P-2
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
Senior Unsecured	Baa2
Subordinate	Ba2
PARENT: GRUPO AVAL ACCIONES Y VALORES S.A.	
Outlook	Negative
Issuer Rating	Ba2
ST Issuer Rating	NP
BAC INTERNATIONAL BANK, INC	
Outlook	Stable
Counterparty Risk Rating	Baa3/P-3
Bank Deposits	Ba1/NP
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)

Source: Moody's Investors Service

Endnotes

1 Please see our release titled, Moody's affirms Banco de Bogotá and Aval's ratings, following acquisition announcement; outlook negative.

2 The $433 million transaction cost stands for 96.6% of total outstanding shares. If the bank were to acquire 100% of outstanding shares, the cost would climb to $450 million

3 Total assets in the key indicators chart differ because they are adjusted by deducting the goodwill attributed to the non-controlling interest, this is our standard adjustment.

4 See our 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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