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Ratings

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Banco de Bogota S.A. y Subsidiarias

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Banco de Bogota S.A. y Subsidiarias

Ratings Score Snapshot

Issuer Credit Rating
BB+/Stable/B

SACP: bb+ → **Support: 0** → **Additional factors: 0**

Anchor	bb+	
Business position	Strong	+1
Capital and earnings	Constrained	-1
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
BB+/Stable/B

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Key strengths	Key risks
Solid deposit base with conservative liquidity management.	Low risk-adjusted capitalization stemming from minority equity investments and intangible assets.
Strong brand recognition in Colombia and wide geographic footprint throughout Central America.	High asset quality metrics, reflecting its new corporate structure.
	After the spin-off of BHI, Banco de Bogota now relies more on the conditions of the Colombian economy.

BHI spin-off heightens the importance of the Colombian market. As of March 31, 2022, Banco de Bogota S.A. (BBogota) had completed the spin-off of 75% of BAC Holding International Corp. (BHI, formerly Leasing Bogota Panama S.A.; not rated), which fully owns BAC International Bank Inc. (BIB; BBB-/Stable/A-3). Despite losing close to 50% of its total assets with the spin-off, BBogota remains one of the largest banks in the Colombian banking sector, with large brand recognition.

We expect asset quality to remain high because it now more closely resembles the bank's Colombian operations. Nonperforming assets (NPAs) will stay high because of the new portfolio composition and, to a lesser extent, due to the phasing out of the remaining loan support programs. Additionally, the bank granted restructures that could also hurt its asset quality this year, but NPAs should remain manageable and in line with the rest of the Colombian banking system.

BBogota's RAC ratio took a slight tumble with the transaction. Although BBogota lost a significant amount of goodwill and risk-weighted assets (RWAs) in the transaction, this was outweighed by the loss of capital and minority equity investment adjustments. As a result, BBogota's risk-adjusted capital (RAC) ratio decreased nearly 60 basis points from the end of 2021, but we still assess its capital and earnings within the same category.

The bank's funding and liquidity profile will remain solid. BBogota's deposit base proved to be very stable amid challenging economic conditions during the pandemic and we don't expect any major changes after BHI's spin-off. The bank's funding profile will continue to be primarily based on deposits and will provide enough liquidity for needs that may arise.

Outlook

The stable outlook on BBogota for the next 12 months reflect our expectation that the bank will maintain its solid brand in Colombia along with its geographic diversification through the MFG group and its minority equity investment in BHI. Additionally, it reflects that BBogota's projected RAC ratio will be comfortably within our current rating level. The outlook also considers the bank's high but still manageable NPAs, mainly a product of the new corporate structure after BHI's spin-off. We expect asset quality to recover to near the Colombian system's average. Finally, we anticipate that the bank will keep its funding and liquidity in line with the system, supported by its stable deposit base.

Upside scenario

We could raise the ratings on BBogota in the next 12 months if the bank's RAC ratio improves to consistently above 5% and we also upgrade Colombia (foreign currency: BB+/Stable/B), because the sovereign rating caps those on BBogota. This is because we rarely rate financial institutions above the long-term sovereign rating since during sovereign stress, the latter's regulatory and supervisory powers may restrict a bank's or financial system's flexibility. In our view, banks are affected by many of the same economic factors that cause sovereign stress.

Downside scenario

We could lower the ratings in the next 12 months if BBogota's asset quality metrics worsen beyond our expectations and no longer compare in line with its domestic and regional peers. This could happen if the bank's NPAs plus net charge-offs (NCOs) rise above 8%.

Key Metrics

Banco de Bogota S.A. y Subsidiarias Key Ratios And Forecasts

	--Fiscal year ended Dec. 31--				
(%)	**2019a**	**2020a**	**2021a**	**2022f***	**2023f**
Growth in operating revenue	7.2	9.1	2.6	(30.8)-(37.7)	(7.4)-(9.0)
Growth in customer loans	6.3	16.6	15.0	(40.5)-(49.5)	8.1-9.9
Growth in total assets	7.2	19.0	11.6	(40.4)-(49.3)	6.5-8.0
Net interest income/average earning assets (NIM)	5.6	5.4	4.9	3.6-4.0	5.1-5.7

Banco de Bogota S.A. y Subsidiarias Key Ratios And Forecasts (cont.)

	--Fiscal year ended Dec. 31--				
(%)	**2019a**	**2020a**	**2021a**	**2022f***	**2023f**
Cost to income ratio	51.5	49.8	48.5	36.2-40.8	43.0-47.0
Return on average common equity	15.7	12.0	19.6	17.2-19.0	13.4-14.8
Return on assets	1.9	1.4	2.0	1.7-2.5	1.6-2.0
New loan loss provisions/average customer loans	2.3	3.4	2.0	1.7-2.1	2.2-2.6
Gross nonperforming assets/customer loans	2.8	3.4	2.8	4.4-4.9	4.1-4.5
Net charge-offs/average customer loans	2.5	1.7	2.3	2.3-2.6	2.2-2.5
Risk-adjusted capital ratio	4.4	4.6	4.8	4.3-4.6	4.2-4.5

*2022f figures are distorted by BHI's spin-off during the first quarter of the year. All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

Anchor:'bb+' For Banks Operating In Colombia

Colombian banks' business and operating conditions are recovering at the same pace as the economy. The strong economic rebound in 2021 boosted credit demand, while favorable prospects for the next two years--real GDP growth will average 3.2%--will keep supporting credit expansion in 2022-2023, which we forecast at 8%-9%. However, low income levels, weak payment culture, and downside risks for the sector will keep credit losses above historical levels during the next 12-18 months. Once consumer and business dynamics stabilize and unemployment falls, credit losses will return to more normal patterns.

Despite the authorities' reactive response in past economic crises--in particular, in the late 1990s--the ongoing efforts to strengthen and align banking regulations with international standards is improving the supervision, timeliness, and transparency in preventing potential deterioration in banks' credit fundamentals. Wholesale funding concentrations are shrinking but still represent a challenge for banks. Colombian banks' profitability is returning to adequate levels after the pandemic, and they maintain fairly conservative lending practices.

The economic risk trend for the Colombian banking system remains stable. In our view, Colombia's ongoing and expected economic recovery will support banks in terms of business and operating conditions and should help return NPAs and credit losses to more normal patterns in the next 12-18 months. Economic recovery could alleviate pressure on imbalances and credit risks among Colombian banks. On the other hand, the still high uncertainty about the pandemic's duration and potential recurrence of severe and widespread infection, along with still weak labor market dynamics, high inflation, and increasing interest rates, could arrest recovery and exacerbate economic risks.

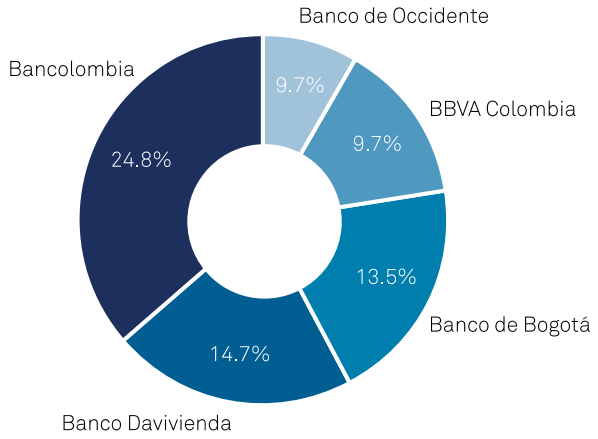
We view the industry risk trend for Colombian banks as stable. We expect the banking regulator to continue with its efforts to improve its supervision, capacity to remedy problems on a timelier basis, and transparency. If the regulator is successful in doing so, banks' RAC ratios will rise--which could provide a greater ability to absorb credit losses--and wholesale funding diversification will also increase. In addition, the institutional framework could strengthen, which we expect could take more than two years. We expect Colombia's large banks to maintain their predominant position, and for competitive dynamics to remain stable due to adequate risk appetite and absence of market distortions.

Business Position: After The Spin-Off, BBogota Focuses Its Efforts On The Colombian Market And Fully Integrating Multifinancial Group

BBogota remains the third largest bank in Colombia, with market shares of 13.5% of assets and 11.7% of loans. Additionally, it maintains strong brand recognition in Colombia. We think that the bank will continue growing its loan portfolio by 9%-10%, driven by its digitalization strategy that allows it to target a broader client base. Additionally, because of its 25% stake in BHI and full ownership of Multifinancial Group (MFG), the bank continues to have a diversified geographic footprint in Central America.

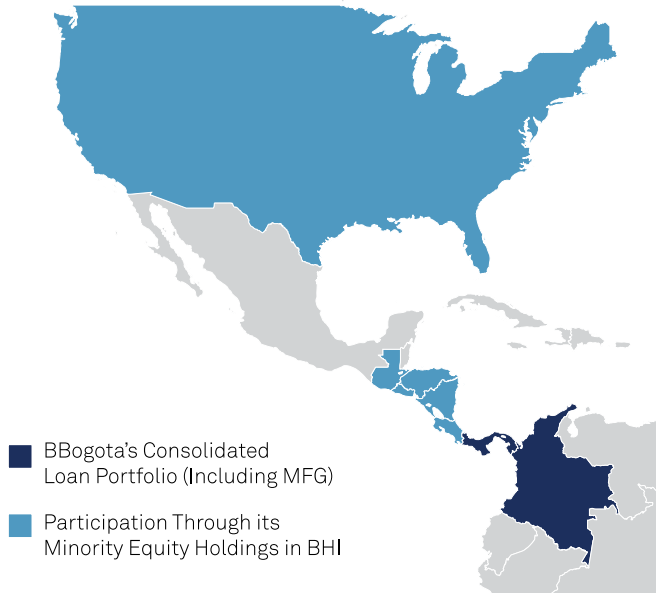
BBogota's Business Position After The Spin-off

Top Five Banks' Market Share in Colombia
Total Assets as of February 2022

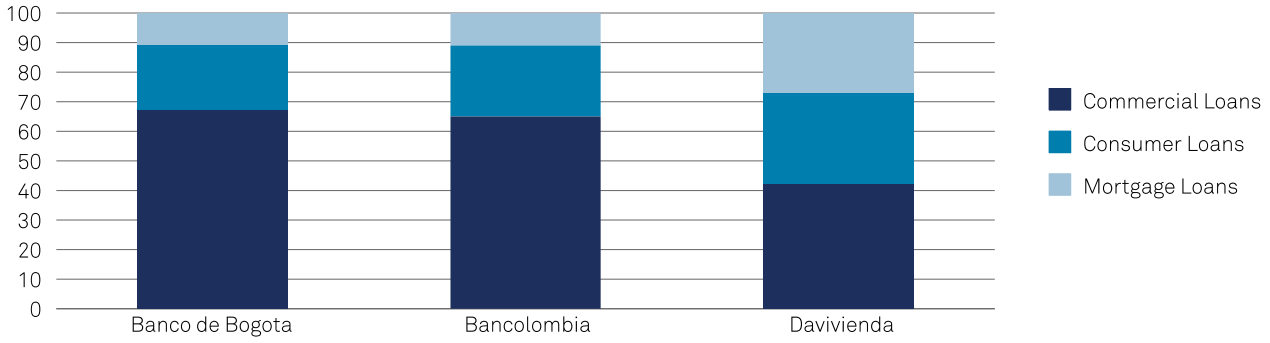


Source: Superintendencia Financiera de Colombia

BBogota Geographic Footprint



Loan Portfolio Distribution Vs Main Domestic Peers



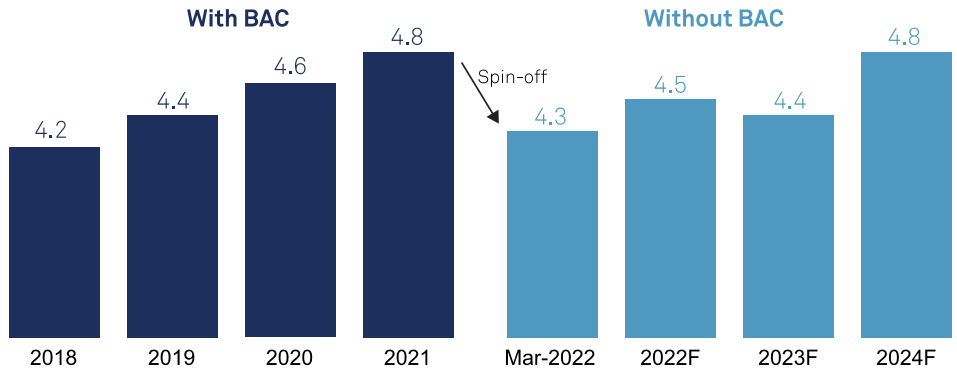
Source: S&P Global Ratings.

We don't expect the spin-off to jeopardize the bank's business stability or revenue-generating capabilities. BBogota's Colombian operations remain adequately diversified in terms of product offerings, with commercial loans representing the bulk of the portfolio (67%), followed by consumer loans (22%) and mortgages (11%).

Capital And Earnings: Risk-Adjusted Capitalization Continues To Be A Key Risk

BBogota's capital assessment continues to be a major weakness for the bank. However, in 2021, the bank's earnings increased, supported by lower new loan loss provisions stemming from the economic recovery in Colombia and in the region, and by its extraordinary income from the Porvenir deconsolidation. This resulted in a RAC ratio of 4.8% as of December 2021. However, in the first quarter of this year, BBogota's capital structure changed after it spun-off the majority of BHI. Its RWAs decreased nearly 50%, but that was partially outweighed by a decrease in its common shareholder's equity of nearly 60%. Additionally, BBogota lost its AT1 subordinated notes because BIB had issued them. Finally, the minority equity participations that the bank has been accumulating (mainly in Porvenir, Corficolombiana, and BHI) also pressure its capital ratios. All of the above factors result in a RAC ratio of 4.3% as of March 2022. We expect that internal capital generation with similar payout ratios (close to 50%) will gradually increase its RAC ratio to an average near 4.4% for the next 24 months.

BBogota's RAC Ratio



Source: S&P Global Ratings.

In terms of earnings, BBogota reported a boost in its net income of 67.5% mainly due to lower credit loss provisions and extraordinary income from the Porvenir sale. New loan loss provisions to operating revenues stood at 19.3%, in line with the pre-pandemic three-year average of 19.5%. The latter translates to return on average assets (ROAA) of 2% and return on average equity (ROAE) of 19.6%, as of December 2021, above the three-year averages of 1.7% and 15%. We expect profitability to slightly decrease this year due to the impact of the BHI spin-off. However, for 2023 we forecast ROAA and ROAE to increase in line with the bank's with pre-pandemic levels of about 1.8% and 16.5%.

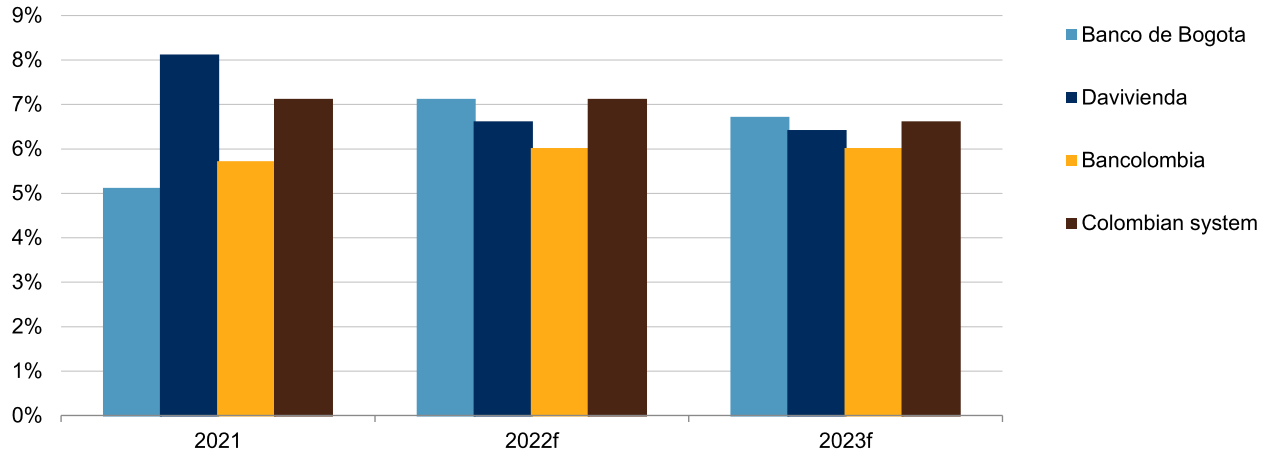
Risk Position: NPAs Will Remain Above Historical Levels Because Of The New Corporate Structure After The Spin-Off

After the spin-off, the bank's NPAs increased with the new corporate structure, and now more closely resemble the asset quality of its Colombian portfolio. NPAs increased to 3.8% as of March 2022 from 2.8% as of December 2021. We forecast NPAs will stay high because of the new portfolio composition and, to a lesser extent, due to the phasing out of the remaining support programs and restructures granted that could also hurt BBogota's asset quality this year. As of March 2022, relief programs only represent about 1% of total consolidated loans, and all of them were from Panama. However, the bank opted to extend additional restructures to some clients that the pandemic is still affecting, and these still represent about 8.9% of the total loan portfolio. In addition, we forecast NCOs will also increase as the bank aims to improve the loan portfolio's nonperforming ratio. We expect that NPAs plus NCOs for 2022 will hover around 7.0%, in line with our expectations for the rest of the Colombian banking system. Finally, for 2023, we forecast that asset quality will gradually improve to near 6.5% as economic conditions recover.

BBogota continues benefiting from a well-diversified loan portfolio in terms of sectors, with a higher weight toward consumer services of around 47%, but it also has presence in commercial services (23%), construction (7%), food and beverage (6%), public services (3%), transport and communications (3%), agribusiness (3%), chemical products (2%), tourism (1%), and others (5%). Additionally, the bank doesn't have client concentration because its top 20 clients represent about 9% of its gross loan portfolio and around 1.0x of its total adjusted capital, slightly below the previous year figures. We note that high-risk sectors during the current pandemic-related crisis, such as tourism and hotels, don't represent more than 5% of the bank's total loan portfolio. Finally, we don't expect a significant shift in the bank's client or sector mix for the next few years because the bank will continue to maintain its origination standards and target sectors.

Chart 1

Banco de Bogota's Asset Quality Versus Peers'



f--Forecast. Source: S&P Global Ratings.

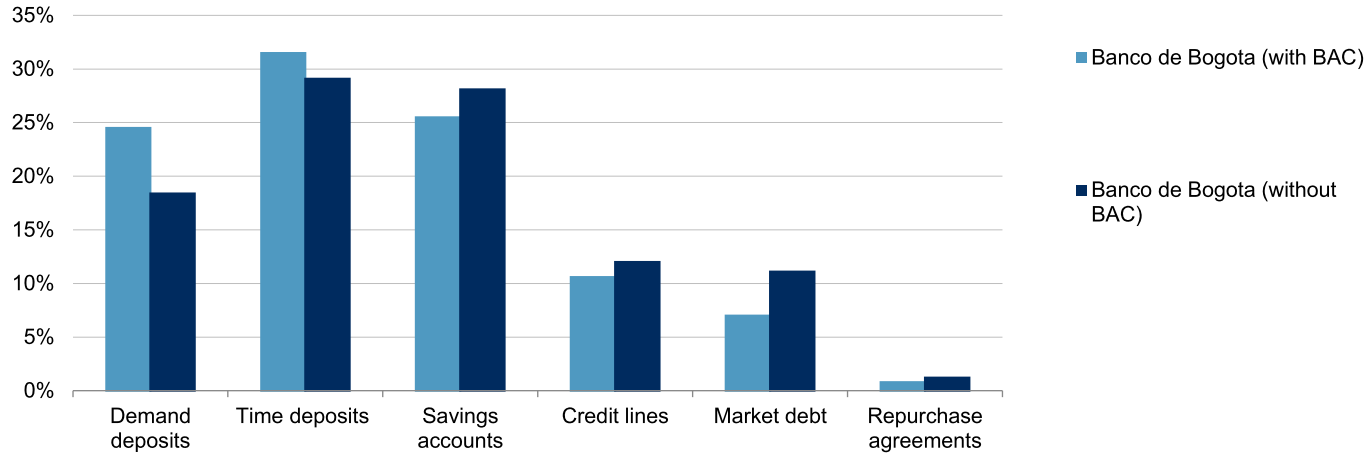
Funding And Liquidity: A Stable Deposit Base Will Keep Supporting BBogota's Funding And Liquidity Will Stay Manageable

BBogota's deposit base proved to be very stable among challenging economic conditions during the pandemic. Furthermore, the bank's funding profile didn't suffer any major changes from the BHI spin-off because the funding mix profile stayed relatively similar--it just decreased in volume. Deposits now account for 74% of its total funding from 82% before the transaction. The overall Colombian banking system's deposits are around 78%; in line with BBogota's current metrics. The rest of the bank's funding profile is now composed of credit lines (12.0%), market debt (10.3%), and repos (3.7%). BBogota's stable funding ratio (SFR) decreased to 100% from 113% and its loans-to-deposits (LTD) ratio is now 101% from 90% as of December 2021. In our view, deposits will keep growing because of the bank's digital strategy and our expected increase in interest rates following the high inflation in the region, which will gradually improve funding metrics toward previous levels.

The bank's liquidity position was also affected by BHI's deconsolidation, but remains sound. BBogota's broad liquid assets to short-term wholesale funding declined to 1.2x as of March 2022 from 2.9x in December. The bank has maintained prudent management and a proactive stance toward its liquidity during stress periods and has adequate management of market debt gaps. We expect liquidity to remain solid as its deposit base grows and the bank starts leveraging its digital strategy in the Colombian market.

Chart 2

Banco de Bogota's Funding Profile Distribution



f--Forecast. Source: S&P Global Ratings.

Support: No Uplift To The SACP

We consider BBogota a highly systemic important bank in the Colombian financial system, given its solid market share in terms of local deposits and loans. Moreover, we view the Colombian government as supportive toward its banking system. However, given the narrow gap between the rating on Colombia and that on BBogota, we consider that its capacity to support the bank is limited. Therefore, BBogota's stand-alone credit profile (SACP) receives no notch of uplift from the government and the rating reflects its SACP.

Group Structure And Rated Subsidiaries

Following the spin-off of 75% of its equity stake on BHI, we no longer consider BIB and Credomatic as subsidiaries of the group. BBogota's only rated subsidiary is Multibank Inc. y Subsidiarias (BB+/Stable/B), which we consider a core subsidiary for the group. However, given that its SACP is stronger than BBogota, it doesn't benefit from any kind of support from BBogota.

Environmental, Social, and Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of BBogota. The bank has solid governance practices and standards that have enabled it to execute its acquisition and diversification strategy throughout Central America with success. At the same time, we think that these standards will allow the bank to adapt and implement the regulatory changes that will take place in various jurisdiction in which it operates. In terms of environmental risk factors, although these are relevant for the bank's long-term strategy, they don't have more influence on BBogota's credit quality than for its peers.

The bank's broad client base grants it a strong market position in terms of brand reputation and stability, but we already consider these factors in our business position assessment. Finally, we consider that the bank's digitalization efforts result in cost-efficient operations, although the rest of the Colombian banks are also implementing digital transformations, and we consider their efforts comparable to BBogota's.

Key Statistics

Table 1

Banco de Bogota S.A. y Subsidiarias Key Figures

	--Year-ended Dec. 31--				
(Mil. COP)	**2021**	**2020**	**2019**	**2018**	**2017**
Adjusted assets	225,467,684.0	201,847,153.0	168,968,644.0	157,294,607.6	143,798,770.0
Customer loans (gross)	156,219,134.0	135,845,475.0	116,483,706.4	109,543,478.3	102,404,367.3
Adjusted common equity	14,815,564.4	12,861,599.0	13,257,976.0	11,696,774.4	11,377,208.7
Operating revenues	15,468,730.0	15,073,341.0	13,817,145.0	12,889,142.5	11,585,782.5
Noninterest expenses	7,499,119.0	7,513,145.0	7,118,852.0	6,314,179.1	6,131,706.3
Core earnings	4,195,033.0	2,504,606.0	3,073,657.0	3,131,212.3	2,132,950.9

COP--Colombian peso.

Table 2

Banco de Bogota S.A. y Subsidiarias Business Position

	--Year-ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Total revenues from business line (currency in millions)	15,468,730.0	15,073,341.0	13,817,145.0	12,889,142.5	11,585,782.5
Commercial & retail banking/total revenues from business line	79.5	83.0	87.2	84.5	91.1
Trading and sales income/total revenues from business line	4.6	11.2	6.5	5.7	6.7
Other revenues/total revenues from business line	15.9	5.8	6.2	9.8	2.2
Investment banking/total revenues from business line	4.6	11.2	6.5	5.7	6.7
Return on average common equity	19.6	12.0	15.7	17.5	12.7

Table 3

Banco de Bogota S.A. y Subsidiarias Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Tier 1 capital ratio	11.5	8.9	9.1	8.9	8.8
S&P Global Ratings' RAC ratio before diversification	4.8	4.6	4.4	4.2	4.4
S&P Global Ratings' RAC ratio after diversification	4.5	4.4	4.0	3.9	4.1
Adjusted common equity/total adjusted capital	89.3	87.8	100.0	100.0	100.0
Net interest income/operating revenues	55.9	54.8	54.2	53.3	58.0
Fee income/operating revenues	23.6	28.2	33.0	31.2	33.1
Market-sensitive income/operating revenues	4.6	11.2	6.5	5.7	6.7
Cost to income ratio	48.5	49.8	51.5	49.0	52.9
Preprovision operating income/average assets	3.6	3.9	4.0	4.2	3.8
Core earnings/average managed assets	1.9	1.3	1.8	2.0	1.5

Table 4

Banco de Bogota S.A. y Subsidiarias Risk Position

	--Year-ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Growth in customer loans	15.0	16.6	6.3	7.0	5.6
Total diversification adjustment/S&P Global Ratings' RWA before diversification	5.2	6.3	9.2	8.3	7.3

Table 4

Banco de Bogota S.A. y Subsidiarias Risk Position (cont.)

	--Year-ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Total managed assets/adjusted common equity (x)	15.7	16.2	13.2	14.0	13.1
New loan loss provisions/average customer loans	2.0	3.4	2.3	2.4	2.4
Net charge-offs/average customer loans	2.3	1.7	2.5	1.6	1.5
Gross nonperforming assets/customer loans + other real estate owned	2.8	3.4	2.8	3.0	2.5
Loan loss reserves/gross nonperforming assets	174.7	158.0	158.2	157.5	125.1

Table 5

Banco de Bogota S.A. y Subsidiarias Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Core deposits/funding base	82.0	82.8	80.0	79.1	80.0
Customer loans (net)/customer deposits	90.7	87.2	94.5	96.3	98.2
Long-term funding ratio	92.8	94.0	91.7	91.2	92.6
Stable funding ratio	113.0	116.7	109.8	109.2	108.1
Short-term wholesale funding/funding base	8.0	6.6	9.2	9.6	8.2
Broad liquid assets/short-term wholesale funding (x)	3.0	3.8	2.5	2.4	2.5
Broad liquid assets/total assets	20.2	21.6	19.2	19.7	17.2
Broad liquid assets/customer deposits	28.6	30.6	28.6	29.7	25.5
Net broad liquid assets/short-term customer deposits	23.7	28.2	21.3	21.9	19.1
Short-term wholesale funding/total wholesale funding	42.7	36.5	46.3	46.2	40.7

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of June 23, 2022)*	
Banco de Bogota S.A. y Subsidiarias	
Issuer Credit Rating	BB+/Stable/B
Senior Unsecured	BB+
Issuer Credit Ratings History	
12-Dec-2017	BB+/Stable/B
17-Feb-2016	BBB-/Negative/A-3
24-Apr-2013	BBB-/Stable/A-3
Sovereign Rating	
Colombia	
Foreign Currency	BB+/Stable/B
Local Currency	BBB-/Stable/A-3
Related Entities	
BAC International Bank Inc.	
Issuer Credit Rating	BBB-/Stable/A-3
Multibank Inc. y Subsidiarias	
Issuer Credit Rating	BB+/Stable/B
Senior Unsecured	BB+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.