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Banco de Bogota S.A. y Subsidiarias

Primary Credit Analyst:
Alejandro Peniche, Mexico City (52) 55-5081-2874; alejandro.peniche@spglobal.com

Secondary Contact:
Ricardo Grisi, Mexico City (52) 55-5081-4494; ricardo.grisi@spglobal.com

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Banco de Bogota S.A. y Subsidiarias

SACP	bb+

Anchor	bb+	
Business Position	Strong	+1
Capital and Earnings	Weak	-1
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

\+

Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

\+

Additional Factors	0

Issuer Credit Rating
BB+/Stable/B

Strengths:

- Strong brand recognition with solid market position in Colombia and Central America;
- Well-diversified business activities by economic sectors, which will help maintain asset quality metrics manageable amid the pandemic-induced economic downturn; and
- Ample deposit base with conservative liquidity management.

Weaknesses:

- Still weak risk-adjusted capitalization;
- Strong competition in the Colombian and Central American financial systems that could pressure margins; and
- Dominant presence in countries in which economic growth took a substantial hit from the pandemic and will take time to recover.

Outlook : Stable

The stable outlook on Banco de Bogota S.A. y Subsidiarias reflects our expectation that its well-diversified business operations will help maintain asset quality metrics manageable amid the pandemic effect on the region, despite worsening economic performance. The outlook also reflects that the bank will maintain its risk-adjusted capital (RAC) ratio at about 3.3% for the next 12 months due to a modest credit growth and a steady dividend payout ratio. We expect the bank to keep its solid funding and liquidity metrics based on an ample deposit base.

Downside scenario

We could lower the ratings in the next 12 months if the RAC ratio drops consistently below 3%. This could happen if the bank's loan portfolio grows above our expectations while its capital generation does not compensate this growth. The latter could stem from higher loan-loss reserves amid the pandemic-induced economic downturn or higher-than-expected dividend payout ratio that could hurt the capital base. Finally, if the bank's asset quality deteriorates beyond our expectations, we may also lower the ratings. However, we don't expect this scenario in the next 12 months.

Upside scenario

We could raise the rating in the next 12 months if the bank's RAC ratio rises consistently above 5%. This could happen if Banco de Bogota, despite difficult economic conditions, increases its internal capital generation primarily by generating lower-than-expected loan-loss reserves, coupled with a stable Colombian peso.

Rationale

The issuer credit ratings on Banco de Bogota reflect its sound market position in the Colombian and Central American markets supported by its main subsidiary, BAC International Bank Inc. (BB+/Stable/B), and the recent acquisition of Multibank Inc. (BB+/Stable/B), which increased the bank's presence in the Panamanian market. The ratings also reflect that the bank's weaker profitability due to higher loan-loss reserves will be offset by lower growth in its risk-weighted assets, resulting in a projected RAC ratio of 3.3% for the next 12 months. Additionally, we believe the sound geographical and product diversification will help the bank to maintain asset quality metrics manageable during the COVID period. Finally, Banco de Bogota's funding and liquidity profiles continue to be supported by an ample deposit base with no material liquidity needs that could pose a risk in the next year. The bank's stand-alone credit profile (SACP) is 'bb+'.

Anchor:'bb+' given the blended economic risk that incorporates Banco de Bogotaś operations throughout Colombia and Central America.

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for Banco de Bogota is 'bb+', reflecting the weighted average economic risk of '7', given the countries in which the bank has its major loan portfolio exposures as of March 2020--Colombia (49%), Panama (13%), Costa Rica (14%), Guatemala (10%), Honduras

(6%), El Salvador (6%), and Nicaragua (2%). With the acquisition of Multibank, we expect loan exposures to be as following: Colombia (48%), Panama (19%), Costa Rica (12%), Guatemala (7%), Honduras (5%), El Salvador (5%), and Nicaragua (3%). It also reflects the industry risk for the Colombian banking system where the bank is domiciled.

In 2019, Colombia's GDP increased to 3.3%, one of the highest rates in the region, and lending picked up in the second half of that year, after three years of moderate expansion. However, as COVID-19 spreads to more countries, the global economy is moving towards a recession, in our view. We estimate Colombia's GDP to contract 5% this year due to the coronavirus and the collapse in oil prices. Therefore, the credit rebound will remain on hold until 2021 when we expect the economy to grow 4.5%.

In our opinion, Colombia's weakening external profile--due to the slump in oil prices and exacerbated by the negative impact of COVID-19--will pressure export revenues and widen the current account deficit. Therefore, in our view, because the country has lesser capacity to absorb additional external shocks, if a global economic slowdown is prolonged or access to external funding worsens, the Colombian banking system would be more vulnerable. We believe that the increasing deficit in Colombia's current account will be transmitted to the banking system in the form of higher external funding costs and borrowing costs for sectors sensitive to currency fluctuations. However, the prolonged period of moderate credit expansion--with conservative lending practices--and limited housing price growth would mitigate a potential increase in economic imbalances in Colombia.

Due to the currently stressed conditions, we expect Banco de Bogota's asset quality to weaken because we expect lower spending on discretionary goods and services, with higher impact on entities more exposed to sensitive sectors such as oil, transportation, tourism, and importers. However, our economic risk assessment on Colombia--which is a component of our BICRA analysis--already captures the potentially worsening credit risk and weaker external profile.

Table 1

Banco de Bogota S.A. y Subsidiarias--Key Figures

	--Fiscal year ended Dec. 31--				
(Mil. COP)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	200,096,929.0	168,968,644.0	157,294,607.6	143,798,770.0	135,814,131.5
Customer loans (gross)	134,807,712.8	116,483,706.4	109,543,478.3	102,404,367.3	97,009,316.0
Adjusted common equity	9,060,029.4	11,060,332.0	9,503,905.4	9,184,001.2	8,267,014.4
Operating revenues	3,511,811.0	13,817,145.0	12,889,142.5	11,585,782.5	13,282,046.6
Noninterest expenses	1,808,272.0	7,118,852.0	6,314,179.1	6,131,706.3	5,841,722.7
Core earnings	758,182.0	3,073,657.0	3,131,212.3	2,132,950.9	4,524,134.2

*Data as of March 31. COP--Colombian peso.

Business position: A leading market position in Colombia and Central America will mitigate the impact of the pandemic's effects.

We expect the bank's leading market position in Colombia and Central America will help it withstand the COVID-19 crisis. However, the bank will need to reassess its growth strategy, focus on maintaining existing relationships, and monitor asset quality indicators. Banco de Bogota has been granting loan forbearance periods to some of its clients, given the ample geographic diversification and the different economies in which the bank operates, helping it navigate difficult economic conditions.

At the end of May 2020, Banco de Bogota bought 96.6% of Multi Financial Group—the owner of Multibank--for $433.8 million, representing around 9% of the bank's consolidated assets. The bank funded the transaction mainly through BAC's AT1 issuance, generating only $35 million in goodwill. We expect Multibank's broadly recognized brand, and product and industry expertise will create a strong synergy with Banco de Bogota's operations in Panama through BAC and will accelerate the bank's expansion in the region.

Banco de Bogota offers a wide variety of banking products; however, it has historically focused on commercial loans, which represents about 58% of total loans as of March 2020. As of the same date, Banco de Bogota was the second-largest financial institution by total assets on a consolidated basis in Colombia, with a market share of 14%, following Bancolombia S.A. (BB+/Stable/B) with 26%. Finally, our business position assessment incorporates Banco de Bogota's highly experienced management enabling business stability, and satisfactory asset quality metrics and capital levels.

Table 2

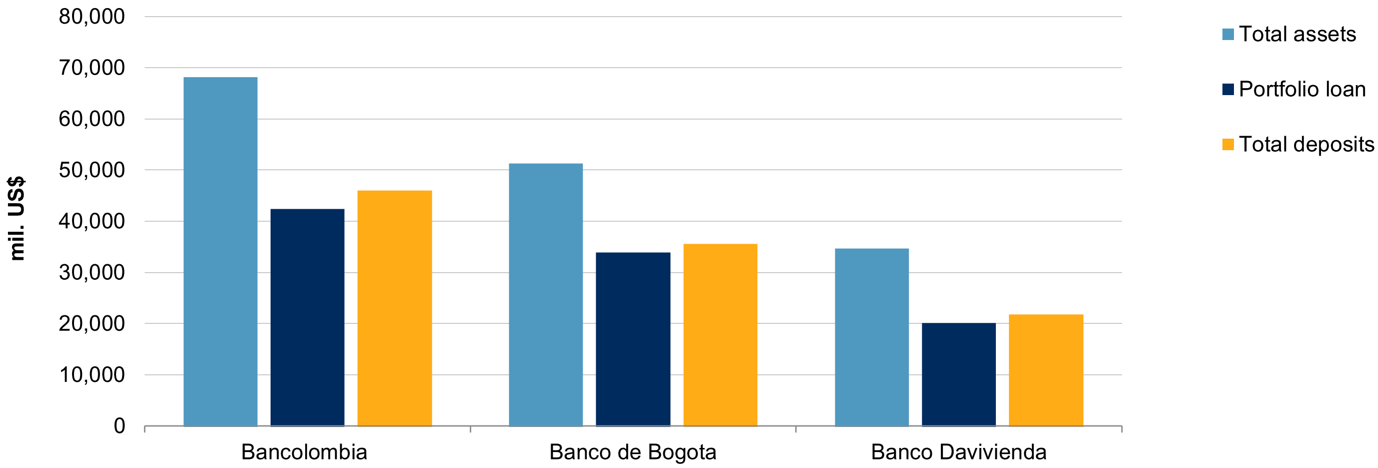
Banco de Bogota S.A. y Subsidiarias--Business Position

	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (currency in millions)	3,511,811.0	13,817,145.0	12,889,142.5	11,585,782.5	13,282,046.6
Commercial & retail banking/total revenues from business line	89.3	87.2	84.5	91.1	73.3
Trading and sales income/total revenues from business line	4.6	6.6	5.7	6.7	6.1
Other revenues/total revenues from business line	6.1	6.2	9.8	2.2	20.6
Investment banking/total revenues from business line	4.6	6.6	5.7	6.7	6.1
Return on average common equity	14.7	15.7	17.5	12.7	28.3

*Data as of March 31.

Chart 1

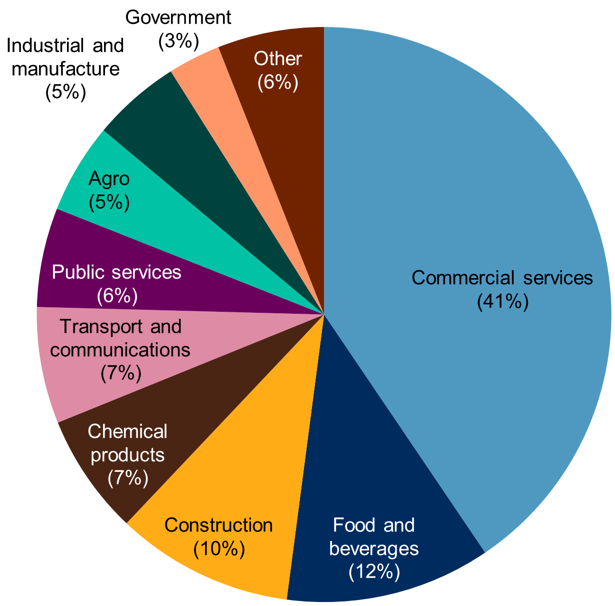
Portfolio Assets, Loans And Deposits
Banco de Bogota versus peers



** Data as of March 2020. Source: S&P Global Ratings with consolidated data of banks.

Chart 5

Banco de Bogota's Sector Diversification
Sector composition



Source: S&P Global Ratings.

Capital and earnings: Profitability will balance modest growth in RWAs, resulting in stable RAC levels

We forecast that the bank's RAC ratio will be around 3.3% for the next 24 months. Our projection takes into account lower internal capital generation stemming from higher loan-loss reserves, which will bite into bottom-line results. Furthermore, retained earnings will be offset by modest credit growth that will keep the bank's risk weighted assets low. Multibank's acquisition and funding for it didn't affect Banco de Bogota's RAC ratio. The transaction had limited effect on the bank's total adjusted capital as it only generated $35 million of goodwill.

Our financial forecasts also incorporate our base-case scenario assumptions, which include:

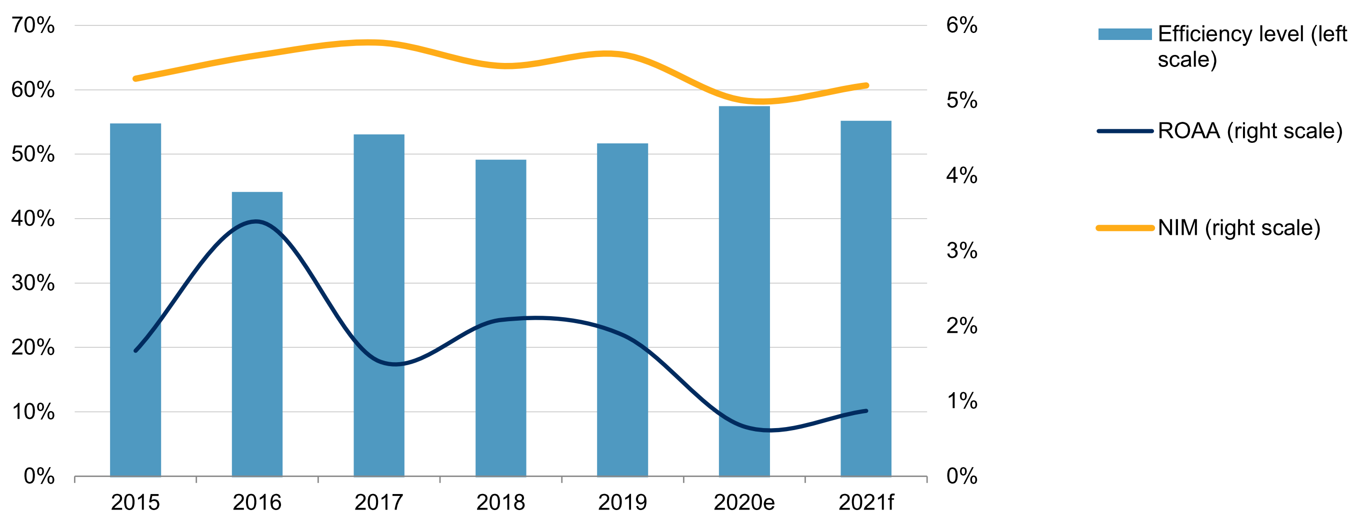
- Colombia's GDP contraction of 5% for 2020 and growth of 4.5% for 2021. Central American economies should contract overall during 2020: Costa Rica (3.6%), Guatemala (2.0%), Honduras (2.5%), El Salvador (4.0%), and Panama (3.0%).
- Foreign exchange volatility for the rest of 2020 but stabilizing towards 2021, with an average rate of COP3,750 per $1 in 2020 and COP3,825 per $1 in 2021.
- Consolidated loan portfolio growing about 14% in 2020, bolstered by acquisition-based growth, weaker peso, and higher demand for commercial loans due to the pandemic. We expect internal lending growth of 6.5% in 2021 amid more favorable economic conditions and less volatility in the foreign-exchange rate.

- Net interest margins (NIMs) to decrease to around 5% for 2020, reflecting the lower proceeds as non-performing assets (NPAs) rise, and inching up to 5.2% in 2021.
- Profitability to decline during the next two years, with core earnings to adjusted assets of about 0.75% and an efficiency ratio (measured by non-interest expenses to operating revenues) around 56% for 2020 and 2021.
- NPAs and net charge-offs (NCO) worsening to 4.1% and 2.5%, respectively, in 2020, but with a 110% reserves coverage.
- An average dividend payout ratio of 50% for the next two years.
- No additional acquisitions during the next 24 months.

In our view, the NIM will drop around 60 bps, resulting in a net income contraction of around 61%. Lower bottom-line results will reduce core earnings to average adjusted assets to close to 0.7% from 1.88% last year. However, these drops will be in line with those of regional and domestic peers.

Chart 2

Lower NIMs With Relatively Stable Efficiency Levels Depress ROAA
Banco de Bogota



NIM--Net interest margin. ROAA--Return on average assets. e--Estimate. f--Forecast. Source: S&P Global Ratings.

Table 3

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

	--Fiscal year ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
S&P Global Ratings' RAC ratio before diversification	N/A	3.7	3.4	3.6	3.7
S&P Global Ratings' RAC ratio after diversification	N/A	3.4	3.1	3.3	3.4

Table 3

Banco de Bogota S.A. y Subsidiarias--Capital And Earnings (cont.)

	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	57.2	54.2	53.3	58.0	46.2
Fee income/operating revenues	32.1	33.0	31.2	33.1	27.1
Market-sensitive income/operating revenues	4.6	6.6	5.7	6.7	6.1
Noninterest expenses/operating revenues	51.5	51.5	49.0	52.9	44.0
Preprovision operating income/average assets	3.6	4.0	4.2	3.8	5.3
Core earnings/average managed assets	1.6	1.8	2.0	1.5	3.2

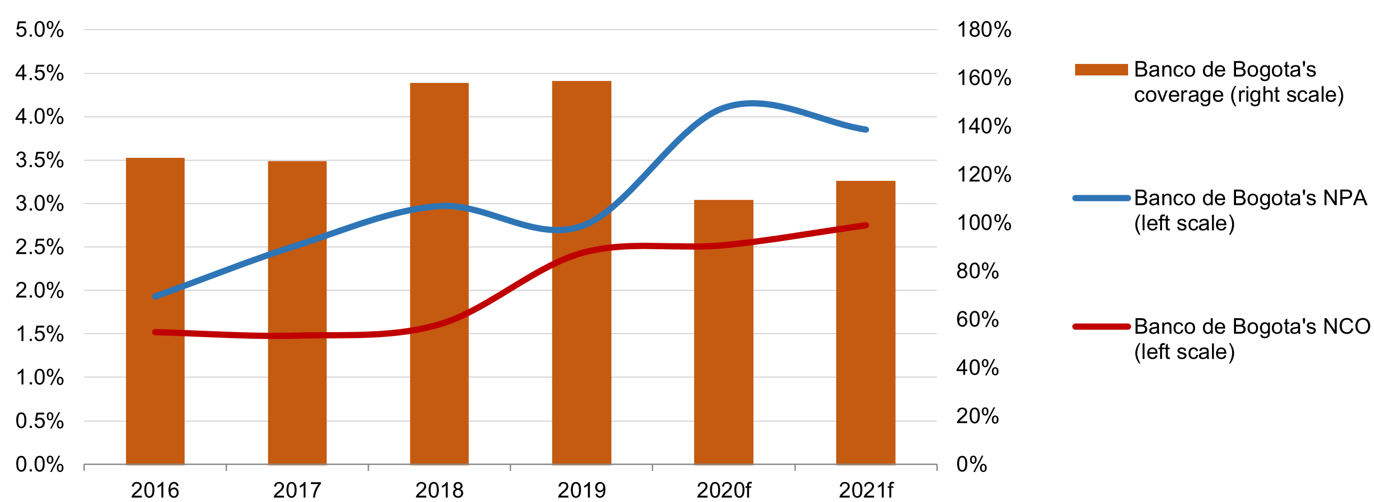
RAC--Risk-adjusted capital. *Data as of March 31. N/A--Not applicable.

Risk position: The economic downturn will weaken asset quality metrics

We expect Banco de Bogota's asset quality metrics to take a hit, given the current macroeconomic challenges. However, we expect the bank to maintain them at manageable levels thanks to ample product range and geographic diversification. Moreover, Banco de Bogota's top 20 largest exposures only represented 11% of its total consolidated loan portfolio and 1.2x of its total adjusted capital as of March 2020, which will also help mitigate the impact of weaker asset quality. We forecast NPAs to deteriorate around 140 bps to around 4.1% for 2020 and to partly recover towards 3.9% for 2021. The degree of asset quality improvement will depend on the economy's recovery and the pandemic's duration. However, the bank tightening its origination standards and collection to reduce the potential credit risk. We believe net charge-offs will increase towards 2.6% in average for the next two years. Asset quality deterioration will decrease the bank's reserve coverage, but will remain above 100%.

Chart 4

Similar Trend In NPAs But Higher Charge-Offs



NPA--Nonperforming asset. NCO--Net charge offs. f--Forecast. Source: S&P Global Ratings.

Table 4

Banco de Bogota S.A. y Subsidiarias--Risk Position

	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Growth in customer loans YoY	24.4	6.3	7.0	5.6	5.9
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	9.1	8.4	7.4	7.6
Total managed assets/adjusted common equity (x)	22.9	15.8	17.2	16.3	17.1
New loan loss provisions/average customer loans	2.1	2.3	2.4	2.4	1.9
Net charge-offs/average customer loans	1.7	2.4	1.6	1.5	1.5
Gross nonperforming assets/customer loans + other real estate owned	3.0	2.7	3.0	2.5	1.9
Loan loss reserves/gross nonperforming assets	140.1	158.2	157.5	125.1	126.5

RWA--Risk-weighted assets. *Data as of March 31. N/A--Not applicable. YoY--Year over Year

Funding and liquidity: Ample deposit base and a comfortable debt maturity profile support the funding and liquidity profile

A wide deposit base continues to support the bank's funding profile. During the first quarter of the year, the bank had reported a substantial rise in its deposit base, because of the flight-to-quality scenario. As of March 2020, the bank's deposit base accounted for nearly 80% of its funding base, followed by interbank loans (12%), market debt (6%), and other sources (2%). Even if nearly 75% of that deposit base belongs to wholesale clients, we consider them to have a high degree of stability, supporting Banco de Bogota's funding profile in the future. Its top 20 depositors only accounted for around 10% of total deposits as of March 2020. Finally, the bank's deposit base translates into satisfactory stable funding ratios (SFRs). As of March, 2020, the bank's SFR was 114% and had averaged 109% for the past three years.

Despite recent economic contraction, Banco de Bogota's liquid assets comfortably cover its debt maturity profile. As of March 2020, the bank's broad liquid asset to short-term wholesale funding ratio improved to 3.2x, from a three-year average of 2.5x, reflecting its higher cash and money market positions. Finally, we consider Banco de Bogota has sufficient liquidity that offset the impact of the high share of wholesale deposits and the potential risk that could arise from that type of deposits.

Table 5

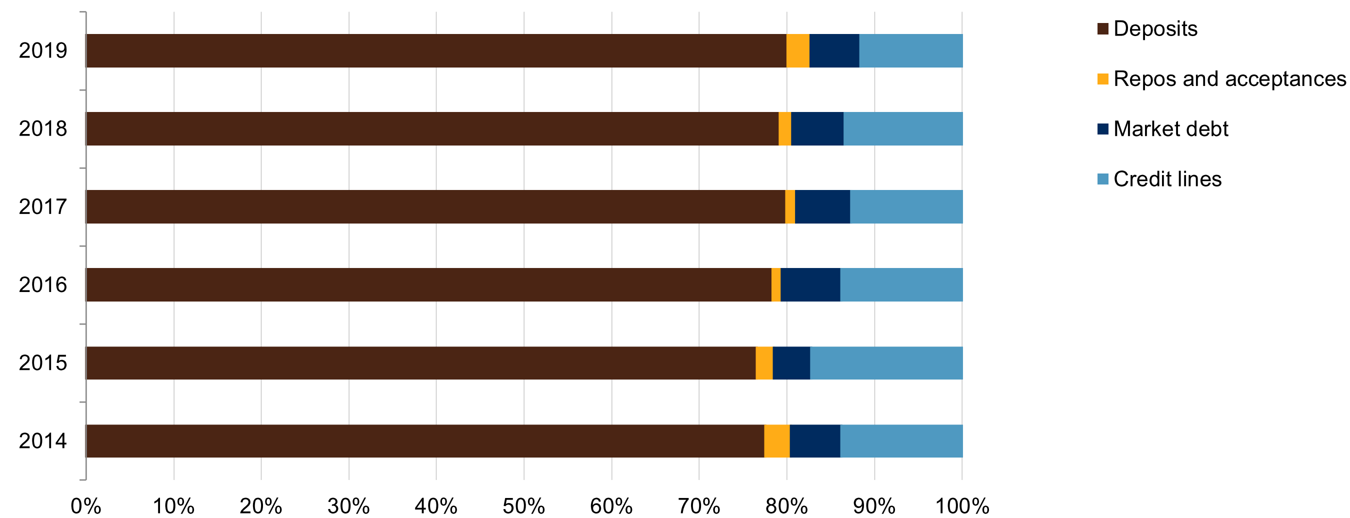
Banco de Bogota S.A. y Subsidiarias--Funding And Liquidity

	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	80.8	80.0	79.1	80.0	78.4
Customer loans (net)/customer deposits	89.9	94.5	96.3	98.2	101.0
Long-term funding ratio	93.1	91.7	91.2	92.6	90.5
Stable funding ratio	114.0	109.8	109.2	108.1	107.0
Short-term wholesale funding/funding base	7.5	9.2	9.6	8.2	10.4
Broad liquid assets/short-term wholesale funding (x)	3.2	2.5	2.4	2.5	2.1
Net broad liquid assets/short-term customer deposits	25.7	21.3	21.9	19.1	17.5
Short-term wholesale funding/total wholesale funding	38.9	46.3	46.2	40.7	48.3

*Data as of March 31.

Chart 6

Deposits Continue To Dominate The Funding Profile



Source: S&P Global Ratings.

Support:High systemic importance in the Colombian financial system

Given its high market share in deposits and its importance to the country's payment system, coupled with our belief that the government is supportive of the financial system, we continue to view Banco de Bogota as having a high systemic importance in the Colombian financial system. In this sense, we expect moderately high likelihood of extraordinary government support to the bank if necessary.

Related Criteria

- 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: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	6	**7**	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	**bb+**	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of July 9, 2020)*

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	BBB-/Negative/A-3
Local Currency	BBB/Negative/A-2
Related Entities	
BAC International Bank Inc.	
Issuer Credit Rating	BB+/Stable/B
Credomatic International Corp.	
Issuer Credit Rating	BB+/Stable/B

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