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Ratings

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Banco de Bogota S.A. y Subsidiarias

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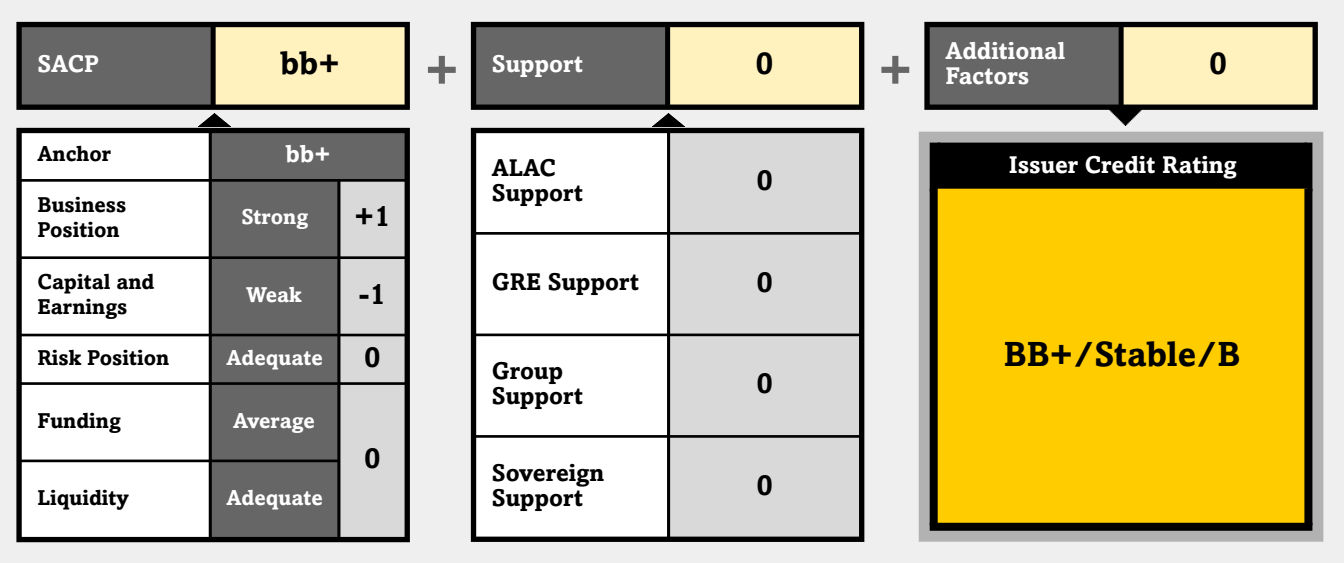
Banco de Bogota S.A. y Subsidiarias



Credit Highlights

Key strengths	Key risks
Large and well-known franchise in Colombia and throughout Central America.	High intangible asset levels result in low risk-adjusted capitalization.
Solid deposit base and conservative liquidity management.	Pandemic uncertainties still weigh on some of the jurisdictions in which the bank operates.
	Profitability metrics will continue to be depressed as loan loss reserves remain high during 2021.

We forecast that Banco de Bogota's RAC ratio will continue to be a key risk for the bank. The high level of goodwill stemming from acquisitions, continues to drag down Banco de Bogota's (BBogota) risk-adjusted capital (RAC) ratio. Additionally, we believe that 2021 will continue to be a challenging year that will force the bank to generate additional loan loss provisions. Thus, we forecast that its RAC ratio will be about 4% for the next 24 months.

We expect BBogota's asset quality metrics to worsen over the coming months as deferral programs come to an end. The long-lasting effects of the pandemic have taken a toll on the bank's asset quality metrics, increasing its nonperforming asset (NPA) levels by nearly 60 basis points (bps. However, the bank still has some active deferral programs, such as in Panama, where the regulator has allowed forbearance products until the end of June 2021. Therefore, the full effect of these programs remains uncertain. In this context, we forecast NPAs to peak this year at 3.8% and start gradually dropping after that. Nonetheless, we believe these levels are manageable.

BBogota continues to benefit from its strong franchise and its deposit-based funding profile with conservative liquidity management. The bank has a large market position in Colombia and throughout Central America through its BAC International Bank Inc. (BAC; BB+/Stable/B) and Multibank Inc. (BB+/Stable/B) subsidiaries. Furthermore, with the acquisition of Multibank and its existing presence in Panama, BBogota is now the second biggest lending group in the country. This adequate geographic diversification coupled with multiple revenue-generating businesses helped the bank maintain profitability metrics that compare favorably to its domestic peers. Finally, throughout last year's pandemic, its solid funding profile--primarily composed of deposits--provided enough flexibility to support its liquidity

needs.

Outlook: Stable

The stable outlook on BBogota for the next 12 months reflect our expectation that the bank will maintain its solid brand and market position in the countries in which it operates. Additionally, it reflects its projected RAC ratio that's slightly above 4% and its worsening asset quality metrics, although these remain manageable. Finally, we expect that the bank will maintain its funding and liquidity metrics in line with the system.

Downside scenario

We could lower the ratings in the next 12 months if:

- The RAC ratio drops below 3%. This could happen if the bank posts higher-than-expected loan growth, weaker asset quality that could pressure internal capital generation, or a higher-than-expected dividend payout ratio that could hurt its capital base; or
- The bank's asset quality metrics worsen beyond our expectations and no longer compare with its regional peers.

Upside scenario

We could raise the ratings in the next 12 months if the bank's RAC ratio rises consistently above 5%. This could happen if BBogota increases its internal capital while maintaining manageable asset quality metrics.

Key Metrics

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

	--Fiscal year ended Dec-31 --				
	2018a	**2019a**	**2020a**	**2021f**	**2022f**
Growth in operating revenue (%)	11.2	7.2	9.1	6.4-6.8	4.8-5.3
Growth in customer loans (%)	7.0	6.3	16.6	6.5-7.5	4.5-5.5
Growth in total assets (%)	9.3	7.2	19.0	4.0-4.5	3.9-4.4
Net interest income/average earning assets (NIM) (%)	5.5	5.6	5.4	5.4-5.5	5.5-5.6
Cost to income ratio (%)	49.0	51.5	49.8	50-52	51-53
Return on equity (%)	17.5	15.7	12.0	12-13	14.5-15.5
Return on assets (%)	2.1	1.9	1.4	1.2-1.5	1.5-1.8
New loan loss provisions/average customer loans (%)	2.4	2.3	3.4	3.0-3.3	2.2-2.5
Gross nonperforming assets/customer loans (%)	3.0	2.8	3.4	3.7-3.9	3.4-3.6
Net charge-offs/average customer loans (%)	1.6	2.5	1.7	2.2-2.4	2.0-2.2
Risk-adjusted capital ratio (%)	3.4	3.7	3.9	3.8-4.0	4.2-4.4

*All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast.

Anchor: 'bb+' Given The Blended Economic Risk That Incorporates BBogota's Operations Throughout Colombia And Central America.

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 December 2020--Colombia (48%), Panama (20%), Costa Rica (12%), Guatemala (8%), Honduras (5%), El Salvador (5%), and Nicaragua (2%). It also reflects the industry risk of '5' with an stable trend for the Colombian banking system, where the bank is domiciled.

For Colombia, we expect continued pragmatism in policies handling the economic consequences of the pandemic. This includes steps to maintain long-term economic growth prospects and to address recent weakening of public finances. The latter would contribute to economic stability, setting the stage for healthy credit growth in 2021-2022 as the impact of the pandemic recedes. We expect credit losses to widen in 2020-2021 due to weakening economic conditions causing unemployment to rise, pointing to a likely correction phase with a potentially high impact on banks. However, our economic assessment for the Colombian banking system already captures a potential deterioration in asset quality--with greater effect on entities more exposed to sensitive sectors such as oil, transportation, tourism, and importers--as a result of the increasing economic imbalances. We expect that once the economy and employment resume growth, the banking system will return to an expansionary phase, and NPAs and credit losses will return to more normal patterns.

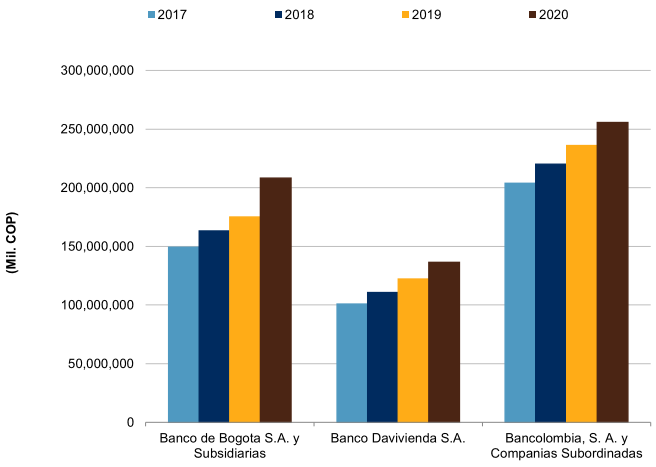
Recent and ongoing regulatory changes and reforms in Colombia are increasing the banking authority's ability to remedy problems more quickly, ensuring that banks take corrective actions. In particular, we believe that efforts to strengthen banks' RAC levels--which could provide a greater ability to absorb credit losses and which we have identified as a weakness for several years--along with greater supervision of conglomerates, could strengthen Colombia's regulatory track record and its institutional framework. This in turn will reduce the banking system's vulnerability to financial crises. We'll observe if the regulatory improvements cause RAC ratios of banks with exposures abroad to improve and wholesale funding concentrations to diminish, which would allow banks to weather the pandemic. At that point, we could reassess the banking system's institutional framework.

Business Position: Powerful Franchise Supports Business Stability

We consider that BBogota's prominent market position throughout Colombia and Central America will continue to be a clear strength in its credit profile. The bank is one of the biggest lenders in Colombia, with 14.5% of market share in terms of assets. It is also the biggest lending group in Central America through its BAC brand, which was recently reinforced by its acquisition of Multifinancial Group (MFG) in Panama. The latter improved BBogota's already diversified geographical footprint because Panama now represents nearly 20% of its total portfolio. The rest of its portfolio is distributed between Colombia (48%), Costa Rica (12%), and the remainder spread among Nicaragua, El Salvador, Honduras, and Guatemala.

Chart 1

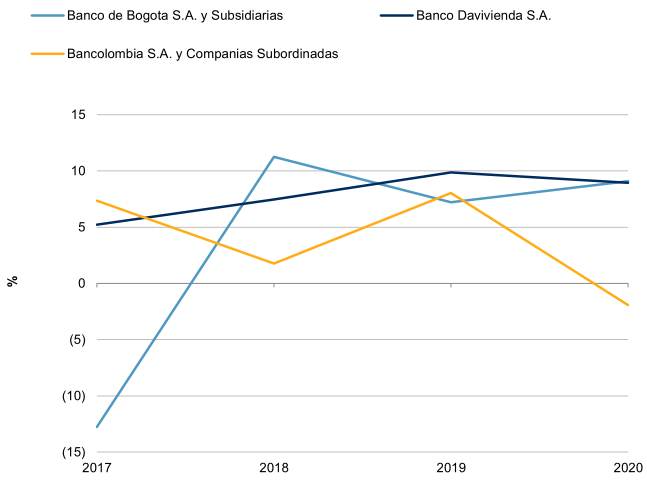
Total Assets Of Top Three Colombian Banks



Source: Company filings.

Chart 2

Year-On-Year Growth In Operating Revenues



Source: S&P Global Ratings.

BBogota's operating performance will remain solid as economic growth improves and interest income grows. In light of a better economic situation for the region where the bank operates, management's expertise and strategy will focus more on loan portfolio growth and continuing to monitor the bank's asset quality. The latter, coupled with deferral programs coming to an end and expected operating synergies from Multibank's acquisition, should improve the bank's net interest margins (NIMs) and its fees and commissions. We forecast that operating revenues will grow about 6.0% on average for the next two years, lower than its three-year average of 9.1%.

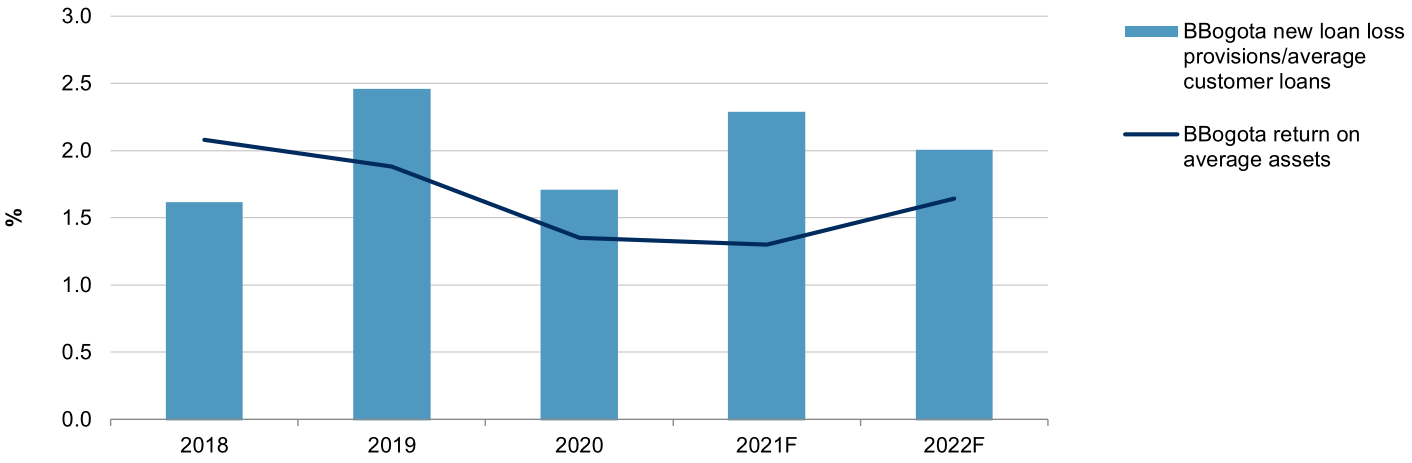
Capital And Earnings: Low RAC Ratios Continue To Be A Key Risk For Colombian Banks

The high proportion of intangibles will continue to drag down BBogota's capital ratios. Intangibles represent nearly 30% of the bank's common shareholder's equity. This is a result of a highly active business strategy in terms of acquisitions. Nonetheless, in its latest transaction the goodwill generated was not substantial, only representing about 1% of its total adjusted capital. Additionally, the bank's expected loan portfolio growth and its still depressed internal generation due to higher loan loss provisions this year will keep the RAC ratio vulnerable. We forecast that BBogota's RAC ratio will continue to be a key risk for the bank, hovering between 4.0% and 4.3% for the next 24 months. This reflects our view that 2021 will also be a challenging year for the region and that the bank has yet to take the full effect of the pandemic.

Despite last year's lower profitability metrics, we expect gradual recovery toward the end of 2021-2022. Higher loan loss reserves (LLR) hurt BBogota's profitability and resulted in a bottom-line contraction of 18.5% in 2020. LLR represented 28.6% of the bank's operating revenues, considerably higher than its five-year average of 17.0%. We forecast that high provisions will continue this year and will keep dragging down profitability levels because we expect return on average assets to be about 1.3% and return on average earnings about 12.2%. However, as economic conditions continue to improve and loan loss provisions decrease, we expect a gradual recovery in profitability levels toward 1.6% and 14.8%, respectively, in 2022.

Chart 3

Higher Provisions Hurt Profitability But Gradual Recovery Expected In 2021-2022



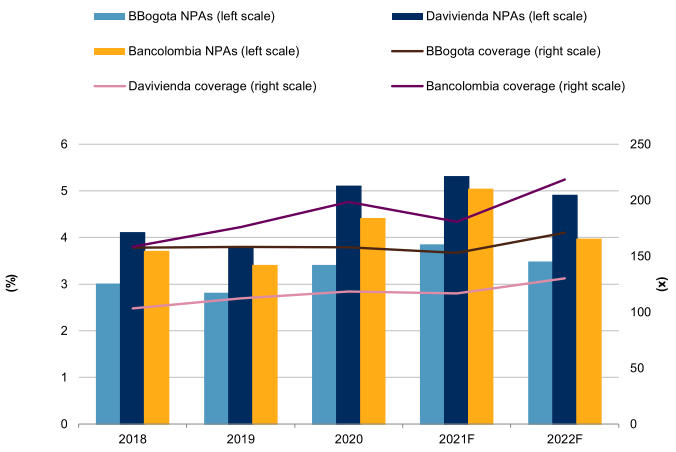
F--Forecast. Source: S&P Global Ratings.

Risk Position: Worsening But Still Manageable Asset Quality Metrics As The Pandemic Continues

We expect BBogota's loan portfolio to continue deteriorating as the full effect of the forbearance programs takes toll. The relief programs that the bank granted consisted mainly of payment deferrals that represented around 43% of the total loan portfolio at its peak. However, as of year-end 2020 only 8.2% of the programs remained active, with the majority of them based in Panama—those programs will end this June. In this sense, the bank has already began reflecting some of the deteriorated client loans from these programs. Its NPAs have increased to 3.4% from 2.8% in 2019. We forecast that NPAs could rise toward about 3.8% and credit losses toward 2.3% by the end of 2021. However, we still view these levels as manageable for the bank and we expect a gradual recovery in 2022 with metrics close to 3.5% and 2.0%, respectively. Finally, we expect the bank to maintain full reserve coverage even after the mentioned increases.

Chart 4

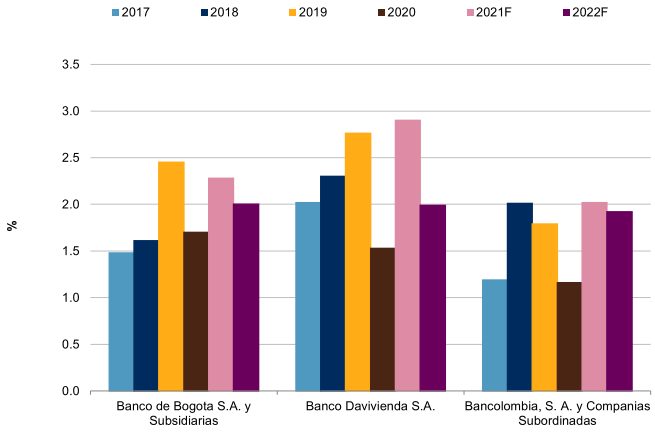
Nonperforming Assets* (%)



*Adjusted nonperforming assets/customer loans + other real estate owned. Source: S&P Global Ratings.

Chart 5

Net Charge-Offs



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

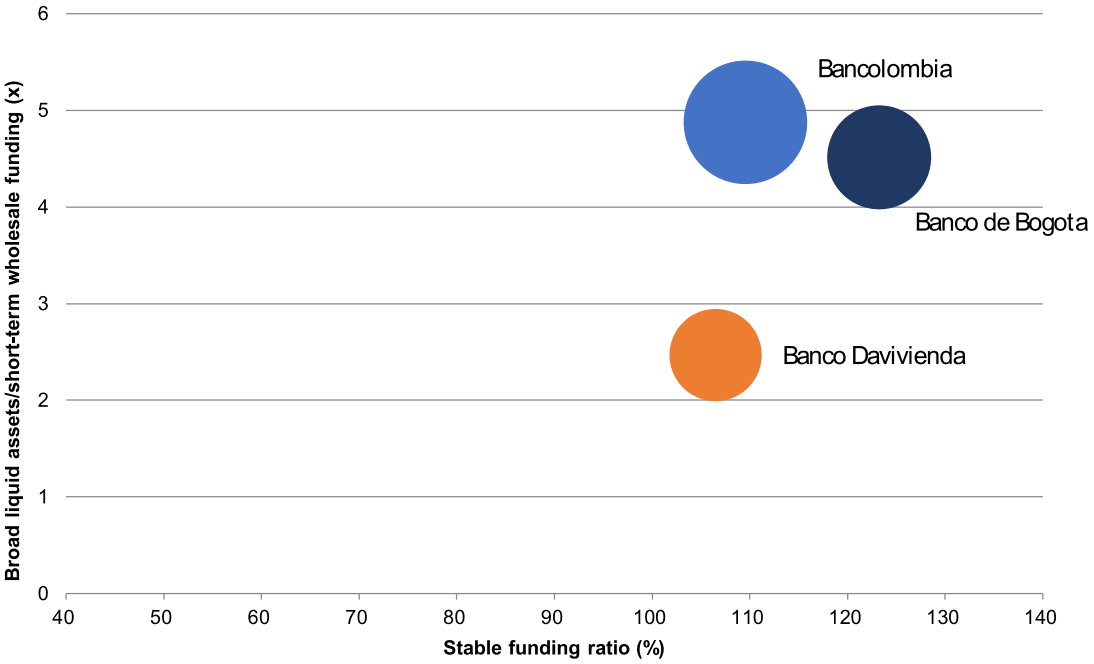
Well-diversified operations helped the bank keep asset quality manageable. BBogota doesn't have any particular concentrations in its loan portfolio in terms of clients or industries. The loan portfolio is distributed between consumer services (27%), mortgages (14%), commercial services (22%), food and beverage (6%), construction (6%), and other sectors representing less than 5%. Additionally, other high-risk segments such as tourism and hotels represent 1.7% of the bank's total loan portfolio and we believe that BBogota's growth appetite for these particular sectors will remain conservative. Finally, the bank's top 20 clients only represented around 10% of the total portfolio and we expect this to remain at similar levels.

Funding And Liquidity: Solid Deposit Base Supports BBogota's Funding Profile

BBogota's funding profile is composed of a highly pulverized deposit base that helped the bank to steer through the pandemic. Deposits represented the bulk (82%) of BBogota's funding profile as of December 2020--improving from 79% from last year, while the rest is composed of market debt and credit lines. BBogota's deposit base grew 25% in 2020, nearly a third of which was from the acquisition of MFG, while the rest was a product of market conditions (mainly foreign exchange [FX] rates) and internal growth, including flight-to-quality. On the other hand, even if 75% of the total deposit base comes from wholesale clients, we believe that they are long-lasting relationships that have proven stable over the years. This solid funding structure helped the bank navigate through the pandemic-related crisis. Because of deposit growth, its stable funding ratio (SFR) improved to 123% in 2020 from 109% the year before. We expect that the SFR will gradually decrease toward pre-pandemic levels as stable funding needs began to increase.

Chart 6

Funding And Liquidity Profiles
As of Dec. 31, 2020



Source: S&P Global Ratings and information from local regulators from Colombia, Costa Rica, Honduras, El Salvador, Guatemala, Nicaragua and Panama. Bubble size represents market share.

We expect liquidity to remain sufficient to face the prolonged adverse economic conditions. Prudent liability management and a larger deposit base have improved the bank's liquidity profile. Lower internal loan growth and the bank's conservative liquidity management in 2020 resulted in the bank prepaying nearly 13% of its short-term wholesale funding needs. The latter, coupled with an increase in its deposit base, resulted in broad liquid assets covering nearly 4.5x its short-term wholesale funding while in 2019 this ratio was 2.5x. We expect that economic recovery will generate higher liquidity needs that will lower its liquidity ratios toward historical levels.

Support: No Uplift To The SACP Despite High Systemic Importance In The Colombian Financial System

We consider BBogota a highly systemic important bank in the Colombian financial system, given its sound 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 SACP receives no notch uplift from the government and the rating reflects its SACP.

Environmental, Social, And Governance (ESG)

We see ESG credit factors for BBogota as neutral to its credit quality compared with its domestic peers. 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.

On the other hand, the bank's broad client base across different countries grants it a leading 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.

Group Structure, Rated Subsidiaries, And Hybrids

Our ratings on both BAC International Bank and Multibank don't incorporate any notches of uplift from their SACPs. Although we assess both entities as core for the group, we consider that their individual creditworthiness is sufficiently strong and doesn't benefit from any kind of group support. BIB is the main subsidiary of the group, representing nearly 43% in terms of assets and equity. Furthermore, we consider that it operates in the same business lines as its parent and is closely linked to BBogota's reputation and risk management. Similarly, Multibank also operates similar business lines as BBogota and its acquisition follows a strategic decision from the group to increase its exposure in Panama by becoming the second largest lending group in that country.

Key Statistics

Table 1

Banco de Bogota S.A. y Subsidiarias Key Figures

	--Year-ended Dec. 31--				
(Mil. COP)	**2020**	**2019**	**2018**	**2017**	**2016**
Adjusted assets	201,847,153.0	168,968,644.0	157,294,607.6	143,798,770.0	135,814,131.5
Customer loans (gross)	135,845,475.0	116,483,706.4	109,543,478.3	102,404,367.3	97,009,316.0
Adjusted common equity	10,664,364.0	11,060,332.0	9,503,905.4	9,184,001.2	8,267,014.4
Operating revenues	15,073,341.0	13,817,145.0	12,889,142.5	11,585,782.5	13,282,046.6
Noninterest expenses	7,513,145.0	7,118,852.0	6,314,179.1	6,131,706.3	5,841,722.7
Core earnings	2,504,606.0	3,073,657.0	3,131,212.3	2,132,950.9	4,524,134.2

COP--Colombian peso.

Table 2

Banco de Bogota S.A. y Subsidiarias Business Position

	--Year-ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (currency in millions)	15,073,341.0	13,817,145.0	12,889,142.5	11,585,782.5	13,282,046.6
Commercial & retail banking/total revenues from business line	83.0	87.2	84.5	91.1	73.3
Trading and sales income/total revenues from business line	11.2	6.5	5.7	6.7	6.1
Other revenues/total revenues from business line	5.8	6.2	9.8	2.2	20.6
Investment banking/total revenues from business line	11.2	6.5	5.7	6.7	6.1
Return on average common equity	12.0	15.7	17.5	12.7	28.3

Table 3

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

	--Year-ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	7.8	9.1	8.9	8.8	9.0
S&P Global Ratings' RAC ratio before diversification	3.9	3.7	3.4	3.6	3.7
S&P Global Ratings' RAC ratio after diversification	3.7	3.3	3.1	3.3	3.4
Adjusted common equity/total adjusted capital	85.7	100.0	100.0	100.0	100.0
Net interest income/operating revenues	54.8	54.2	53.3	58.0	46.2
Fee income/operating revenues	28.2	33.0	31.2	33.1	27.1
Market-sensitive income/operating revenues	11.2	6.5	5.7	6.7	6.1
Cost to income ratio	49.8	51.5	49.0	52.9	44.0
Preprovision operating income/average assets	3.9	4.0	4.2	3.8	5.3
Core earnings/average managed assets	1.3	1.8	2.0	1.5	3.2

Table 4

Banco de Bogota S.A. y Subsidiarias Risk Position

	--Year-ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	16.6	6.3	7.0	5.6	5.9
Total diversification adjustment/S&P Global Ratings' RWA before diversification	6.3	9.2	8.3	7.4	7.6
Total managed assets/adjusted common equity (x)	19.5	15.8	17.2	16.3	17.1
New loan loss provisions/average customer loans	3.4	2.3	2.4	2.4	1.9
Net charge-offs/average customer loans	1.7	2.5	1.6	1.5	1.5
Gross nonperforming assets/customer loans + other real estate owned	3.4	2.8	3.0	2.5	1.9
Loan loss reserves/gross nonperforming assets	158.0	158.2	157.5	125.1	126.5

Table 5

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

	--Year-ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	82.8	80.0	79.1	80.0	78.4
Customer loans (net)/customer deposits	87.2	94.5	96.3	98.2	101.0

Table 5

Banco de Bogota S.A. y Subsidiarias Funding And Liquidity (cont.)

	--Year-ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Long-term funding ratio	94.0	91.7	91.2	92.6	90.5
Stable funding ratio	123.2	109.8	109.2	108.1	107.0
Short-term wholesale funding/funding base	6.6	9.2	9.6	8.2	10.4
Broad liquid assets/short-term wholesale funding (x)	4.5	2.5	2.4	2.5	2.1
Net broad liquid assets/short-term customer deposits	35.3	21.3	21.9	19.1	17.5
Short-term wholesale funding/total wholesale funding	36.5	46.3	46.2	40.7	48.3

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, 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: 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: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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 May 19, 2021)*	
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
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.