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Banco de Bogota S.A. y Subsidiarias

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Table Of Contents

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

Major Rating Factors

Strengths:	Weaknesses:
• Strong market position in Colombia and Central America; • Well-diversified business activities by economic sectors, which stabilizes asset quality; and • Adequate funding profile with conservative liquidity management.	• Although gradually improving, still weak risk-adjusted capitalization; • Strong competition in the Colombian and Central American financial systems that could pressure margins; and • Subject to regulatory changes in Colombia that could hurt the bank's performance.

Outlook: Stable

The stable outlook on Banco de Bogota S.A.y Subsidiarias reflects our expectation that it will maintain its risk-adjusted capital (RAC) ratio about 4.0% for the next 12 months due to modest credit growth (approximately 7.5% in 2019 and 8.0% in 2020), relatively stable asset quality metrics, and a steady dividend payout ratio. We also expect the bank to keep its solid market position in its core markets and its funding and liquidity metrics in line with the system.

Downside scenario

We could lower the ratings 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. 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 maintains its solid internal capital generation and manageable asset quality metrics, coupled with a stable foreign currency rate in Colombia.

Rationale

The issuer credit ratings on Banco de Bogota continue to reflect its solid business position, thanks to its leading position in Colombia and in Central America through its main subsidiary, BAC International Bank Inc. (BB+/Stable/B). The ratings also reflect our projected RAC ratio of 4.0% for the next 12 months and stable asset quality metrics--despite economic challenges in the region--thanks to the bank's strong geographic diversification. Banco de Bogota's large and stable deposit base continues to support its funding, with no significant liquidity needs in the near future. The bank's stand-alone credit profile (SACP) is 'bb+'.

Anchor:'bb+' for Banco de Bogota

Table 1

Banco de Bogota S.A. y Subsidiarias Key Figures

		--Year-ended Dec. 31--			
(Mil. COP)	**2019***	**2018**	**2017**	**2016**	**2015**
Adjusted assets	154,534,811.0	157,294,607.6	143,798,770.0	135,814,131.5	131,209,438.6
Customer loans (gross)	108,401,703.9	109,543,478.3	102,404,367.3	97,009,316.0	91,633,989.8
Adjusted common equity	8,866,384.5	9,503,905.4	9,184,001.2	8,267,014.4	6,672,439.8
Operating revenues	3,259,339.5	12,889,142.5	11,585,782.5	13,282,046.6	9,532,945.0
Noninterest expenses	1,599,844.9	6,314,179.1	6,131,706.3	5,841,722.7	5,203,792.8
Core earnings	786,322.3	3,131,212.3	2,132,950.9	4,524,134.2	2,058,046.1

*Data as of March 31. COP--Colombian peso. Ratios for 2016 include the non-recurring income from Banco de Bogotá's loss of control over Corficolombiana and Casa de Bolsa, this income totaled COP2.2 trillion. Figures for December 2015 have been adjusted excluding Corficolombiana and Casa de Bolsa for comparative purposes between 2016 and 2015.

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--Colombia (53%), Panama (12%), Costa Rica (13%), Guatemala (9%), Honduras (6%), El Salvador (5%), and Nicaragua (3%). The industry risk score for Colombian banks is '5' with a positive trend.

Healthy competitive dynamics in Colombia's banking system, with moderate risk appetite and absence of market distortions, currently support the industry risk. The improving regulatory framework--including the recently approved conglomerates law, the introduction of standardized loan restructuring rules, and the expected adoption of Basel III capitalization rules--will strengthen the Colombian banking authority's capacity to address problems at earlier stages, ensuring that banks take corrective actions. Nevertheless, Colombia's financial system remains heavily dependent on wholesale funding, which we consider as less stable during times of economic and market distress. This is due to the low share (about 25%) of retail deposits in commercial banks' total deposits. However, the domestic debt capital market has mitigated this weakness because it has proven to be moderately broad and deep, allowing investment- and speculative-grade entities to access funds with medium- to long-term maturities. In our view, capitalization remains the main regulatory challenge for Colombia's financial institutions, but the potential implementation of Basel III capitalization rules could remove this risk.

Business position: A leading market position in Colombia and Central America

Table 2

Banco de Bogota S.A. y Subsidiarias Business Position

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (currency in millions)	3,259,339.5	12,889,142.5	11,585,782.5	13,282,046.6	9,532,945.0
Commercial & retail banking/total revenues from business line	87.2	84.5	91.1	73.3	87.6
Trading and sales income/total revenues from business line	6.2	5.7	6.7	6.1	6.6
Other revenues/total revenues from business line	6.6	9.8	2.2	20.6	5.7
Investment banking/total revenues from business line	6.2	5.7	6.7	6.1	6.6
Return on average common equity	17.2	17.5	12.7	28.3	15.2

*Data as of March 31. Ratios for 2016 include the non-recurring income from Banco de Bogotá's loss of control over Corficolombiana and Casa de Bolsa, this income totaled COP2.2 trillion. Figures for December 2015 have been adjusted excluding Corficolombiana and Casa de Bolsa for comparative purposes between 2016 and 2015.

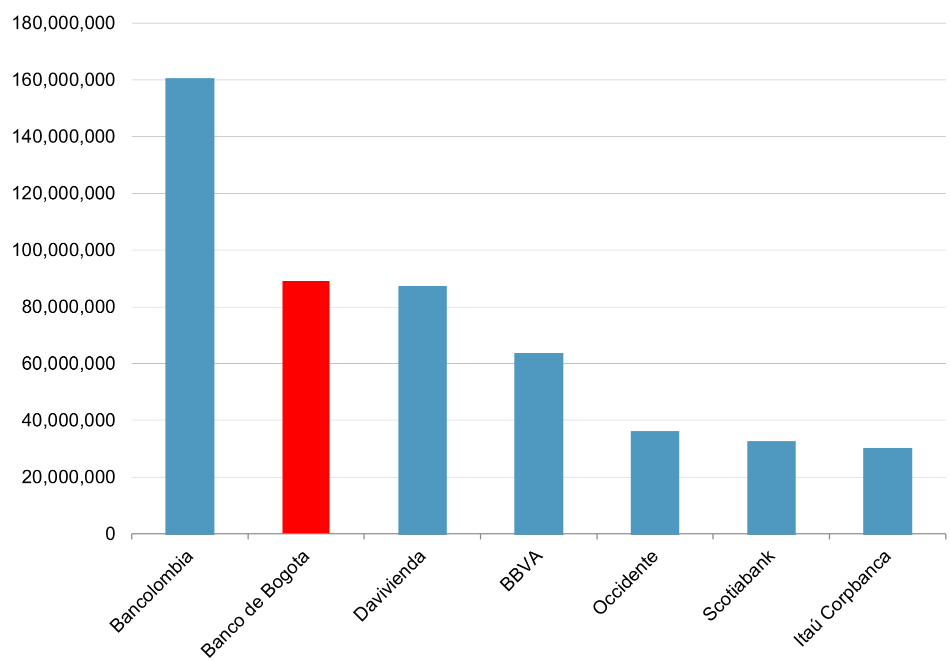
Our business position assessment reflect Banco de Bogota's prominent market position in Colombia and the Central American countries in which the bank operates through its core subsidiary, BAC International Bank. As of March 31, 2019, Banco de Bogota was the second-largest financial institution by total assets on a consolidated basis in Colombia, with a market share of 14.0%, following Bancolombia S.A. (BB+/Stable/B) with 25.1%.

Banco de Bogota participates in all banking segments; however, it has historically focused on the commercial segment, which represents about 58.3% of its total loans as of March 2019. Furthermore, its strong geographic diversification has supported Banco de Bogota's stable revenue because of the solid profitability levels at its Central American operations, which represent 47.1% of total loans and 48.8% of the operating revenue as of March 2019. Banco de Bogota's operating revenue mainly consists of net interest and fee income, stabilizing its profitability metrics.

Finally, our business position assessment of Banco de Bogota incorporates its highly experienced management and its achievements in terms of business stability, asset quality metrics, and capital levels. The bank plans to continue expanding the consumer loan segment while improving its ability to respond to customers' needs and implementing strategies to improve customer experience, which should bolster the bottom-line results.

Chart 1

Share Of Total Assets In Colombia
Data As Of March 2019



*Source: Superintendencia Financiera de Colombia

Capital and earnings: Projected RAC ratio at 4.0%, on average, over the next 24 months

Table 3

Banco de Bogota S.A. y Subsidiarias Capital And Earnings					
		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	9.6	8.9	8.8	9.0	9.4
S&P Global Ratings' RAC ratio before diversification	N/A	3.4	3.6	3.7	N/A
S&P Global Ratings' RAC ratio after diversification	N/A	3.1	3.3	3.4	N/A
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0

Table 3

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

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Net interest income/operating revenues	55.0	53.3	58.0	46.2	55.3
Fee income/operating revenues	32.2	31.2	33.1	27.1	32.4
Market-sensitive income/operating revenues	6.2	5.7	6.7	6.1	6.6
Noninterest expenses/operating revenues	49.1	49.0	52.9	44.0	54.6
Preprovision operating income/average assets	4.1	4.2	3.8	5.3	3.4
Core earnings/average managed assets	1.9	2.0	1.5	3.2	1.7

*Data as of March 31. N/A--Not applicable. Ratios for 2016 include the non-recurring income from Banco de Bogotá's loss of control over Corficolombiana and Casa de Bolsa, this income totaled COP2.2 trillion. Figures for December 2015 have been adjusted excluding Corficolombiana and Casa de Bolsa for comparative purposes between 2016 and 2015.

Our capital and earnings assessment of Banco de Bogota continues to reflect our forecasted RAC ratio for 2019-2020 of 4.0%. Although the foreign currency goodwill generation has limited the ration, it has been supported by stable internal capital generation, manageable credit losses, and a stable efficiency ratio.

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

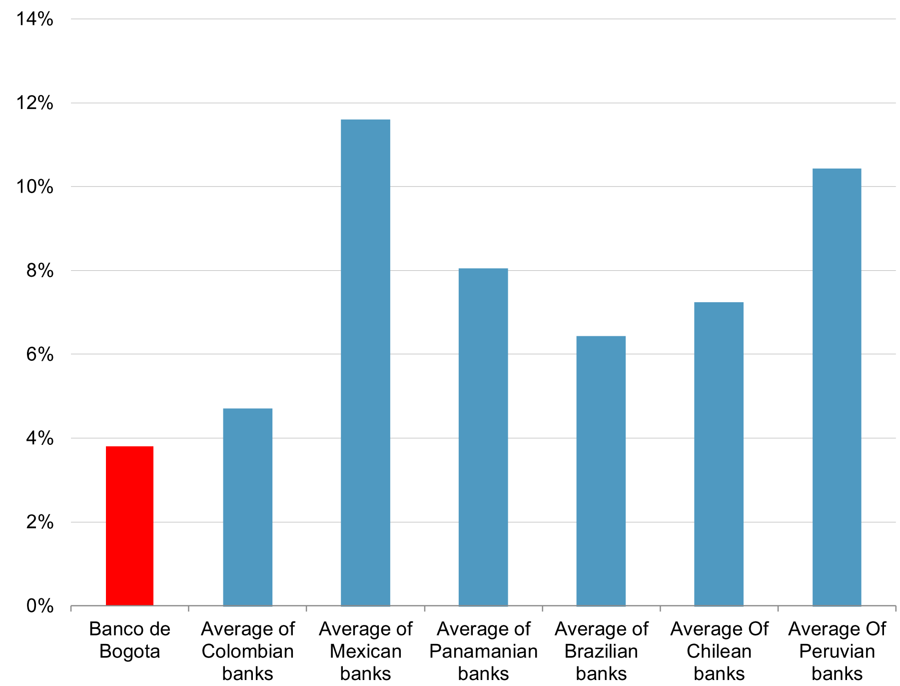
- Colombia's GDP growth of 2.9% for 2019 and 3.0% for 2020. Costa Rica's economic expansion in 2019 of 2.9%, Guatemala's 3.0%, Honduras' 3.7%, El Salvador's 2.4%, and Panama's 5.0%.
- Lower foreign exchange volatility in the next two years, with an average exchange rate of COP3,150 and COP3,175 per $1 in 2019 and 2020, respectively.
- Consolidated loan portfolio's average growth of 7.5% in 2019 and 8.0% in 2020, without acquisitions during the next 24 months.
- Net interest margins (NIMs) to increase gradually, reflecting the growing share of loans to small- and mid-size enterprises (SMEs) and consumers.
- Profitability to be stable in the next 24 months, with core earnings to adjusted assets of 1.97% and an efficiency ratio (measured by non-interest expenses to operating revenues) of 48%. Non-performing assets (NPAs) and net charge-offs (NCO) ratios of about 2.97% and 1.50%, respectively, with full reserve coverage. The latter two metrics reflect Colombia's likely stronger economic performance.
- An average dividend payout ratio of 40% for the next two years.

The bank's quality of capital remains unchanged, given the absence of hybrid capital instruments in our estimated total adjusted capital (TAC). However, the goodwill generated by past acquisitions represents about 30% of total equity. Given that the goodwill is in foreign currency, the bank's RAC ratio could fluctuate, although this isn't in our base-case scenario.

Profitability has remained stable and in line with our expectations. As of March 31, 2019, core earnings to average adjusted assets was 2.04% and has averaged 2.2% in the past three fiscal years, which is in line with the metric of domestic and regional peers. Moreover, efficiency has also remained stable with a ratio of 49% for the same timeframe. The efforts to improve efficiency in the next two years and the higher share of retail loans, which provide higher interest margins, will support profitability.

Chart 2

Average RAC Ratio Comparison



Source: S&P Global Ratings.

Risk position: Despite economic challenges in Colombia and Central America, asset quality is manageable.

Table 4

Banco de Bogota S.A. y Subsidiarias Risk Position					
		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	7.0	7.0	5.6	5.9	27.2
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	8.4	7.4	7.6	(0.5)
Total managed assets/adjusted common equity (x)	18.1	17.2	16.3	17.1	19.4
New loan loss provisions/average customer loans	2.2	2.4	2.4	1.9	1.5
Net charge-offs/average customer loans	2.5	1.6	1.5	1.5	1.3
Gross nonperforming assets/customer loans + other real estate owned	3.0	3.0	2.5	1.9	1.7

Table 4

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

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Loan loss reserves/gross nonperforming assets	156.2	157.5	125.1	126.5	136.6

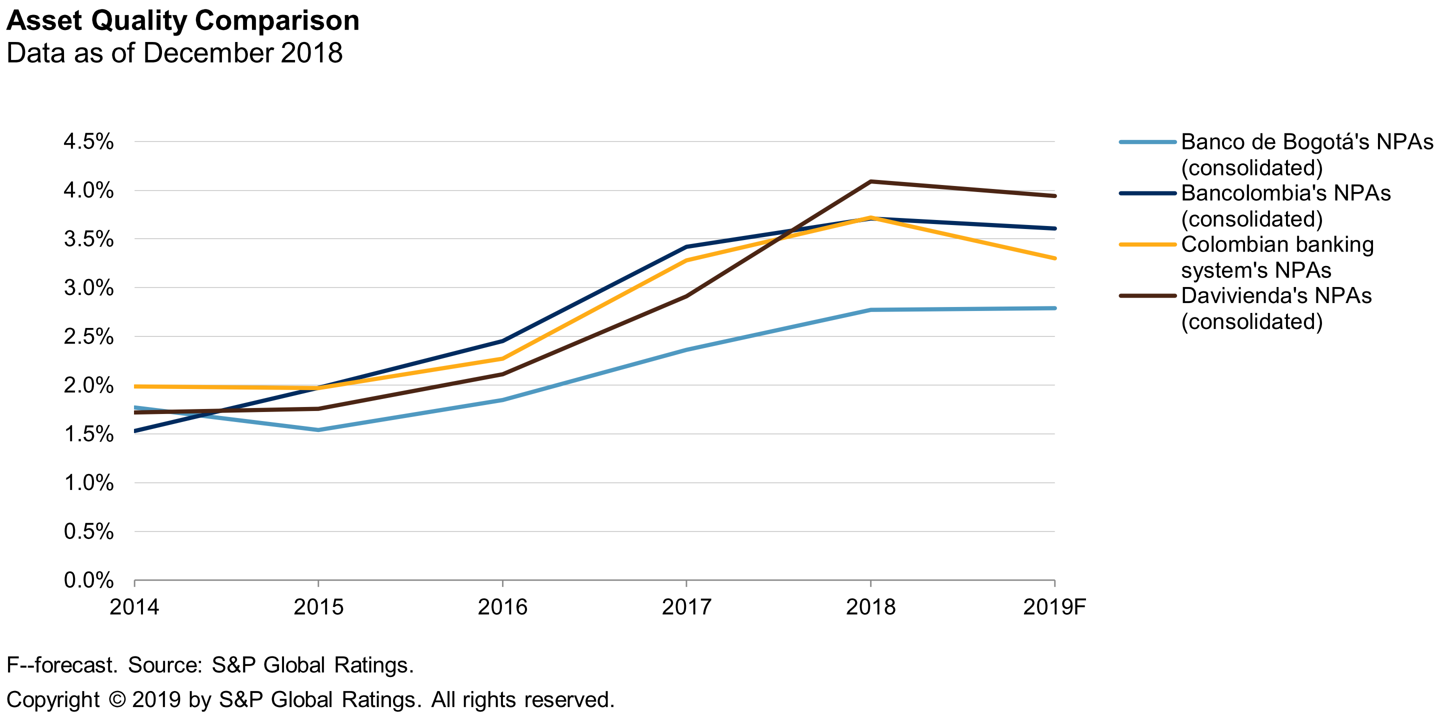
*Data as of March 31. N/A--Not applicable. Ratios for 2016 include the non-recurring income from Banco de Bogotá's loss of control over Corficolombiana and Casa de Bolsa, this income totaled COP2.2 trillion. Figures for December 2015 have been adjusted excluding Corficolombiana and Casa de Bolsa for comparative purposes between 2016 and 2015.

Our risk position assessment remains unchanged, with asset quality in line with the industry standard. Banco de Bogota's loan portfolio grew 8.1% in 2018, and we expect the bank to maintain a manageable loan growth, consistent with its capital capacities and in sectors it has historically operated. We believe Banco de Bogota's growth rate will be in line with that of the Colombian banking system, at about 8% for the next couple of years.

Banco de Bogota's loan composition hasn't changed significantly in the past 12 months. As of March 31, 2019, corporate and commercial loans accounted for 59% of total loans, while consumer loans and mortgages represented 28% and 12%, respectively. Banco de Bogota's top 20 largest exposures only represented 7.1% of its total consolidated loan portfolio and 1.18x of its total adjusted capital as of the end of 2018.

Banco de Bogota's NPAs have been increasing gradually in the past three years; however, they're manageable and similar to those of regional peers. Despite some industry challenges, particularly in Colombia, we expect the bank's NPA ratio to slightly improve amid stronger economic performance in 2020. As of March 2019, bank's NPA ratio was 2.94%, with a three-year average of 2.38%. Banco de Bogota reported better figures than the Colombian banking system with NPAs about of 3.4%. This reflects the bank's large Central American operations that have posted historically solid asset quality metrics with NPAs below 1.5%. Banco de Bogota has also stabilized its delinquency levels and has increased reserve coverage, mainly after it implemented IFRS 9 in Panama in 2018. As of March 2019, reserve coverage represented 150% of total NPAs, and we expect to remain at that level for upcoming years. Finally, net charge-offs were 2.54% for the same timeframe, and we expect them to remain below 2.0% for the next couple of years.

Chart 3



Funding and liquidity: In line with the industry and supported by a comfortable debt maturity profile

Table 5

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

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	78.6	79.1	80.0	78.4	76.6
Customer loans (net)/customer deposits	97.1	96.3	98.2	101.0	100.8
Long-term funding ratio	92.5	91.2	92.6	90.5	92.6
Stable funding ratio	111.5	109.2	108.1	107.0	109.3
Short-term wholesale funding/funding base	8.3	9.6	8.2	10.4	8.0
Broad liquid assets/short-term wholesale funding (x)	2.9	2.4	2.5	2.1	2.6
Net broad liquid assets/short-term customer deposits	24.7	21.9	19.1	17.5	21.5
Short-term wholesale funding/total wholesale funding	38.6	46.2	40.7	48.3	34.3

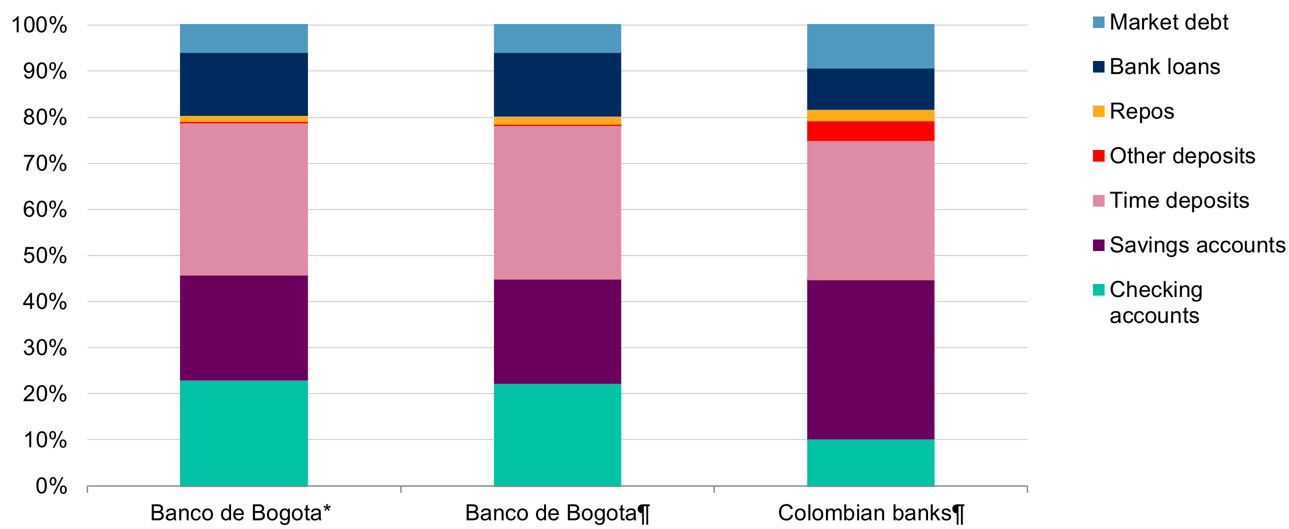
*Data as of March 31. Ratios for 2016 include the non-recurring income from Banco de Bogotá's loss of control over Corficolombiana and Casa de Bolsa, this income totaled COP2.2 trillion. Figures for December 2015 have been adjusted excluding Corficolombiana and Casa de Bolsa for comparative purposes between 2016 and 2015.

Deposits account for 78.6% of Banco de Bogota's funding structure as of March 2019. The majority of those deposits are wholesale, especially in Colombia, which represent 75% of the total deposits. The remaining 21% of funding sources are loans from banks, interbank funds (13%), bonds (6%), and other sources (2%). In terms of deposit concentration, top 20 depositors accounted for around 10.2% of Banco de Bogota's total consolidated deposit base as of March 2019, reflecting below-average retail deposit share than those of Latin American peers. The bank's ample deposit base translates into satisfactory stable funding ratios (SFRs). As of March 31, 2019, its SFR was 111% and had averaged 108% for the past three years.

Coverage of short-term wholesale funding with liquid assets and its comfortable debt maturity profile support the bank's liquidity. Our broad liquid asset to short-term wholesale funding ratio was 2.88x as of March 2019, with a three-year average of 2.32x. Banco de Bogota has above-average liquidity ratios that offset the impact of the high share of wholesale deposits. Finally, the bank's main subsidiary, BAC International Bank, is a highly liquid entity because of the lack of a lender of last resort in certain Central America countries.

Chart 4

Funding Mix Comparison



*As of December 2018. ¶As of March 2019. Source: S&P Global Ratings.

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 17, 2019)*

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

*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.