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Research Update:

Banco de Bogota S.A. y Subsidiarias 'BBB-/A-3' Ratings Affirmed; Outlook Remains Negative

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Overview

- Banco de Bogota continues to have a leading position in the Colombian and Central American market through its core subsidiary, BAC International Bank.
- The bank has adequate risk diversification and healthy asset quality metrics compared to other banks in the country, even though its exposures through Ruta del Sol and Electricaribe caused it significant deterioration.
- We are affirming our long-term 'BBB-' and 'A-3' short-term global issuer credit ratings on the bank.
- The negative outlook on BBogota reflects that on Colombia, and we continue to factor one notch of government support into the ratings, given the bank's high systemic importance to the Colombian financial system.

Rating Action

On July 18, 2017, S&P Global Ratings affirmed its long-term 'BBB-' and short-term 'A-3' global scale issuer credit ratings on Banco de Bogotá S.A. y Subsidiarias (BBogota). The outlook is negative.

Rationale

The issuer credit ratings on BBogota continue to reflect its prominent business position, as evidenced by its leading position in most of the countries where it has a presence through its main subsidiary, BAC International Bank. It also reflects our view of the bank's capital and earnings; we expect a risk-adjusted capital (RAC) ratio of 4.4% for the next 24 months, as well as healthy asset quality metrics, which in turn underpin its risk position. BBogota's funding continues to be supported by its large and stable deposit base, with no significant liquidity needs in the near future. Its stand-alone credit profile (SACP) is 'bb+'.

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 BBogota is 'bb+', reflecting the weighted average economic risk of '7', given the countries in which the bank has its major loan portfolio exposures--Colombia (55%), Panama (12%), Costa Rica (12%), Guatemala(8%), Honduras (5%), El Salvador (4%), and Nicaragua (4%). The industry risk score for Colombian banks is '5' with a stable trend (see "Banking Industry Country Risk Assessment: Colombia," published Aug. 31, 2016).

BBogota's business position continues to reflect its leadership in Colombia and in the Central American countries where it operates through BAC International Bank. During the first quarter 2017, BBogota was the second-largest bank in Colombia, with a market share regarding total assets of 14.8%, following Bancolombia (BBB-/Negative/A-3) which hold 24.7% and followed by Davivienda (BBB-/Negative/A-3) with a 13.2% of the market share. In terms of total loans it was the third-largest bank in Colombia, with a market share of 13.3%, following Bancolombia (BBB-/Negative/A-3) and Davivienda (BBB-/Negative/A-3) which hold 25% and 14.5% of the market in Colombia, respectively. BBogota participates in all banking segments; however, it has been historically focused on the commercial segment. In fact, that line of business represents around 61% of BBogota's total consolidated loans.

The bank's operating revenues have increased, consistently supported by its leading position in most of its business segments, which supports its business stability. However, operating revenues for 2016 are somewhat overestimated because of the deconsolidation of Corficolombiana representing COP2,190.4 billion in other income.

BBogota has been focused on improving its business diversification, by business activitiy and geography. In this sense, its exposure to the consumer segment has been increasing, especially within their Central American business lines. As of March 2017, BBogota's loan portfolio is composed by commercial loans (60.8 %), consumer loans (27%), microlending (0.4%), and mortgages (11.7%) on a consolidated basis. In terms of loan portfolio distribution by country, Colombia's participation has remained stable because it constitutes 55.6% of the bank's business (as of March 2017). We expect this figure to remain relatively stable, hovering in the 53%-58% range in terms of BBogota's total loan portfolio. We expect BBogota's total loans to grow around 8.5% on average for the next two years, with no expected acquisitions.

BBogota's capital and earnings assessment is mainly driven by our projected RAC ratio, which we expect to stand around 4.4% during the next 24 months. Our assessment also includes our view of the good quality of its earnings and its internal capital generation capacity, the latter being offset by the company's dividend policy. After the deconsolidation of Corficolombiana in 2016, the company's goodwill decreased by almost COP500,000 million to COP5,616,618 from COP6,143,900 million as of year-end 2016. Our financial forecast reflect our base-case assumptions, which include:

- Colombian GDP growth expectations of 1.7% in 2017 and 2.2% in 2018;
- Lower foreign exchange volatility in the next two years: COP3,000 and COP2,900 per $1 for 2017 and 2018, respectively;
- No expected additional acquisitions during the next 24 months;
- Consolidated loan portfolio growing on average 8% in 2017 and 9% 2018;
- Its net interest margin (NIM) gradually increases, reflecting the growing participation of small and midsize enterprises (SMEs) and consumer loans within BBogota's consolidated loan portfolio (around 5.3%-5.4%), which

would somewhat offset the increasing funding costs;
- Profitability levels to be at stable levels during the next 24 months, with core earnings to adjusted assets of 1.5% and an efficiency ratio (measured by non-interest expenses to operating revenues) of 56%. Additionally, we expect credit loss provisions to represent around 16% of operating revenues;
- Nonperforming assets (NPAs) and net charge off (NCHs) ratios of about 2.1% and 0.87%, respectively, with full reserve coverage.
- An average dividend payout ratio of 35% for the next two years.

The bank's quality of capital and earnings remains unchanged. BBogota's absence of hybrid capital instruments within our estimated total adjusted capital (TAC), coupled with sound profitability metrics, places the bank in a good position with respect to other peers in the region and globally. As of March 2017, core earnings to average adjusted assets stood at 1.63% and have averaged 2.43% over the past three fiscal years, which is higher than similar local and regional peers. In our view, BBogota's profitability levels will be supported by the bank's efforts to improve efficiency during the next two years, coupled with an increase in the retail segment loans. Efficiency levels have remained stable with sound levels, translating into a ratio of 54% as of March 2017.

BBogota's risk position, despite having some trouble with some important clients, such as Ruta del Sol and Electricaribe, is still supported by the bank's adequate risk diversification and healthy asset quality metrics in comparison with other banks in the country and in the region.

BBogota's loans portfolio growth normalized in 2016 after growing significantly during 2015 due to Colombian peso depreciation against the U.S. dollar, given that the bank's lending exposure in Central America is dollar-denominated. The bank's loan portfolio grew 5.8% as of March 2017 year-over-year and only 3.6% as of December 2016, compared to the 29.5% for 2015. We still consider these growth rates to be slightly lower-than-average for the Colombian banking system which grew 7.8% in 2016. For the next two years, we are considering an average annual growth of 8.5%, which is also in line with our projections for the Colombian banking system (10%). We believe that aggressive growth under weakening credit conditions in Colombia and Latin America, in general, could result in deteriorating asset quality metrics, and this could set pressure on the bank's risk position. Nevertheless, we believe BBogota will maintain its conservative underwriting standards, allowing it to cope with a harsh economic environment through the next 12 months.

BBogota's two main risk exposures, Ruta del Sol and Electricaribe, hurt its asset quality metrics in 2016. The consolidated impact of these entities caused a spike, to 2.6% from 1.54%, in our non-performing asset (NPA) ratio as of December 2016. The three-year NPA average is 1.97%.Management has already taken action to correct this asset deterioration, reflected in a 2.2% NPA ratio as of March 2017. These levels are still in line with other banks in the region and with the same economic risk. As of March 2017, the Colombian banking system had NPAs of 2.6%. Despite a significant increase of nearly 100 basis points (bps), the bank managed to maintain a good level of reserve coverage, dropping down from 100% to 92% only as of December 2016. As of March 2017, reserve coverage for those deteriorated loans increased, causing NPA coverage levels to increase to 114%. BBogota's NCHs decreased to around 0.6% as of December 2016, which follows management's strategy to try to recover bad loans, rather than charging them off immediately. We are forecasting NCHs to be 0.87% for the next two years and NPAs to be around 2.1% for the same time period, with full loan loss reserves.

BBogota has remained well diversified, with no significant exposure to oil and gas (or related). As of March 2017, its loan portfolio was mainly comprised by: residential loans, credit cards, construction industry, oil and gas, transportation, payroll, automotive industry, among other industries. An increase in infrastructure projects because of the domestic expansion of 4G hasn't weakened loan portfolio diversification. The expected projects will be 2.5% of the bank's consolidated commercial loan portfolio until 2023. Moreover, its top 20 largest exposures only represented 8.9% of its loan portfolio and 82% of its total adjusted capital (TAC) as of March 2017, which compares positively against other regional peers that maintained higher levels of concentration.

In our view, the bank's funding assessment reflects its funding structured, mainly composed of deposits (43% are time deposits), which accounted for 79% of total funding sources as of March 2017--the majority of these deposits are wholesale, especially in Colombia. The remaining 21% are interbank loans (14%), bonds (5%) and other (3%). In terms of deposit concentration, its top 20 depositors accounted for around 16% of BBogota's total consolidated deposit base as of first-quarter 2017. We expect this to remain below 20% for the next 24 months. The bank's ample deposit base translates into satisfactory stable funding ratios (SFRs). As of March 2017, it was 107.5% and has averaged 109% for the past three fiscal years. Given our expectations for its stable funding needs and funding structure for the next two years, we anticipate that its SFR will remain above 100%, which we view as adequate. We believe it will continue to compare adequately with other banks in the Colombia.

Our liquidity assessment remains adequate, primarily because its liquid assets adequately cover its short-term wholesale funding. Our broad liquid asset to short-term wholesale funding ratio stood at 2.04x as of March 2017, with a three-year average of 2.7x. BBogota's short-term wholesale funding is low--representing 11.3% of its funding base--and it has manageable refinancing risk over the next 12 months. The bank's outstanding market debt is now, more than ever, issued in foreign currency because of the deconsolidation of Corficolombiana, which was the subsidiary that BBogota used to issue in Colombian pesos. Now the bank has shifted this participation to debt issued in foreign currency. However, this debt represents less than 5% of total funding. We anticipate adequate liquidity management with comfortable debt maturities going forward.

BBogota's ratings incorporates one notch of government support, given the bank's high systemic importance, coupled with our view of the government as supportive towards its financial system, which results in a moderately high likelihood of extraordinary government support to BBogota. The combination of its 'bb+' SACP and Colombia's 'BBB+' local currency rating results in a 'BBB-' credit rating. If the local currency (negative outlook) rating on the government decreases to 'BBB' from 'BBB+', we will remove the bank's one notch of support and the rating will fall to 'BB+'. Additionally, if the bank's SACP decreases to 'bb' from 'bb+', we will only incorporate one notch of government support; however, we do not see this scenario occurring in the next 24 months.

Outlook

The negative outlook on BBogota reflects that on Colombia. We still consider the bank to have high systemic importance within the Colombian financial system, so the ratings continue to maintain one notch of government support. Moreover, we believe the bank will remain one of the largest players in Colombia and Central America while maintaining a conservative approach toward risk and liquidity management.

Downside scenario

If we were to downgrade the sovereign rating in the next 24 months, we would also lower the ratings on BBogota.

Upside scenario

If we revise the outlook on the sovereign ratings to stable, we would take a similar action on BBogota. Additionally, if the bank's RAC ratio in the next 24 months crosses the 5% threshold, we could revise the bank's capital and earnings assessment upwards, which would in turn improve BBogota's SACP, allowing us to raise it to 'bbb-'. This would translate into a stable outlook, given the current level of government support, but we view this as an unlikely scenario.

Ratings Score Snapshot

Issuer Credit Rating	BBB-/Negative/A-3
SACP	bb+
Anchor	bb+
Business Position	Strong (+1)
Capital and Earnings	Weak (-1)
Risk Position	Adequate (0)
Funding and liquidity	Average and Adequate (0)
Support	0
GRE Support	0
Group Support	0
Government Support	+1

Additional Factors 0

Related Criteria

- 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: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- 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
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

Banco de Bogota S.A. y Subsidiarias	
Counterparty Credit Rating	BBB-/Negative/A-3

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.