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Ratings

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Bancolombia, S. A. y Companias Subordinadas

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Bancolombia, S. A. y Companias Subordinadas

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

- Strong franchise with a prominent business position in the Colombian and Central American banking systems, and wide business diversification in terms of clients, sectors, and products;
- A systemically important bank in Colombia; and
- Stable and diversified funding profile with conservative liquidity management to deal with economic stress.

Weaknesses

- Weak risk-adjusted capitalization that reflects past debt-funded acquisitions;
- Low quality of total adjusted capital due to its sensitivity to exchange rates; and
- Regional economic and political challenges especially during the still ongoing pandemic.

Outlook

The stable outlook on Bancolombia, S. A. y Companias Subordinadas for the next year reflects our expectation the bank will keep manageable asset quality metrics and stable liquidity cushions to meet financial obligations, despite uncertainty about region's economic recovery. Additionally, we expect Bancolombia to keep its leading business position in Colombia and its solid franchise in Central America.

The stable outlooks on subsidiaries Banistmo S.A. and Bancolombia Panama S.A. reflect the outlook on Bancolombia. The ratings on the subsidiaries will move in tandem with those on their parent because we consider them integral to the group's current identity and future strategy.

Downside scenario

A downgrade of the bank in the next year would result from a downgrade of Colombia (foreign currency: BB+/Stable/B) and/or the worsening of the bank's credit fundamentals, driven by deteriorating asset quality beyond our base-case scenario, leading us to revise its stand-alone credit profile (SACP) downward.

Upside scenario

The sovereign ratings on Colombia (foreign currency: BB+/Stable/B; local currency: BBB-/Stable/A-3) limit those on Bancolombia because given its large exposure to the country (about 71%), we don't think that the bank would pass our sovereign stress test in the event of sovereign distress.

However, we could upgrade Bancolombia if there's a similar rating action on the sovereign while the bank withstands the depressed economic conditions without a sharp weakening of its asset quality metrics, and its risk-adjusted capital (RAC) ratio increases and remains consistently above 5.25%.

Rationale

The ratings incorporate the bank's leading market position in the Colombian banking system and sound operations in Central America that have lessened the impact of the recession on its business prospects compared to smaller and more concentrated banks in the region. A well-diversified loan portfolio in terms of geography and sector will help cushion the deterioration of the loan book and allow for manageable asset quality indicators in the next couple of years. However, we anticipate that the ongoing economic stress will continue pressuring the bank's profitability and future RAC ratio, forecasted at about 4.8% for 2021 and 2022. The ratings also consider that Bancolombia benefits from a large and stable deposit base that supported its funding even amid stringent market conditions. In our opinion, the bank will manage to have a sufficient liquidity position to cover expected and unexpected cash flows in the next 12 months. Its SACP remains 'bb+'. We consider Bancolombia Panama and Banistmo as core entities of their ultimate parent, Bancolombia. The parent views Panama as a strategic growth market and has continued to develop its presence in Central America.

Anchor: 'bb+' based on the blended economic risk that reflects the bank's operations in Colombia, Panama, El Salvador, and Guatemala

We use our Banking Industry Country Risk Assessment (BICRA) economic and industry risk assessments to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for Bancolombia is 'bb+', reflecting its weighted average exposures to the countries where the bank has its major loan portfolio operations as of March 2021: Colombia (71%), Panama (15%), El Salvador (7%), and Guatemala (7%). It also reflects the industry risk for the Colombian banking system where the bank is domiciled.

The Colombian banking sector has entered a correction phase, which will have a high impact. This stems from the economic shock because of COVID-19 and lower oil prices, repercussions from which will be felt in 2021 and 2022. Therefore, we expect banks' asset quality and profitability to deteriorate. Our base-case scenario assumes that the Colombian economy will grow 6% in 2021, and about 3.5% in 2022 and 2023. In this sense, we expect nonperforming assets (NPAs; past-due loans over 90 days and foreclosed assets) could peak at about 5% of total loans in 2020-2021 and drop to 3.5%-4.0% towards 2022. We assume NPAs would remain fully covered by reserves and that credit losses--estimated as new loan-loss provisions to total loans--would peak at 4% and moderate to historical average levels of below 3% in 2022, as the impact of the pandemic recedes. We expect total loans will expand at 7%-8% in 2021, after the modest credit growth in 2020 mostly because of commercial loans--including infrastructure projects that could boost the economy--and through secured consumer loans. Private-sector debt will remain moderate, given that credit to the private sector will be slightly above 50% of GDP in 2020-2021.

The Colombian banking regulator's continued efforts to strengthen and align regulations with international standards are strengthening supervision, proactivity, and transparency in order to prevent potential deterioration in banks' credit fundamentals. For instance, the regulator recently implemented the Financial Conglomerates law and the adopted Basel III capitalization rules, effective January 2021. However, we believe these measures won't address in the short term the main weakness in the banking system: the RAC of the three largest commercial banks whose total assets represent about 55% in the system. We currently assess these banks' RAC ratios at either the weak or moderate categories. This is because of the large goodwill that these entities generated through their acquisitions in Central America, which is deducted from total capital. In addition, about 30% of these banks' balance sheets are exposed to these countries, which in general face higher economic risks than Colombia, representing higher risk weights. Wholesale funding concentrations still represent a challenge for Colombian banks. However, we expect gradual improvements in the next 12-18 months based on the regulator's net stable funding (NSF) requirements that stress wholesale deposit outflows. In our view, the pandemic-related economic crisis is generating strains in the Colombian banking sector and will test the effectiveness of the recently improved institutional framework.

Table 1

Bancolombia S. A. y Companias Subordinadas--Key Figures					
	--Year ended Dec. 31--				
(Mil. COP)	**2021***	**2020**	**2019**	**2018**	**2017**
Adjusted assets	249,312,227.0	248,061,184.0	228,854,801.0	212,911,763.0	197,812,252.0
Customer loans (gross)	197,119,164.0	191,409,730.0	182,282,743.0	173,819,116.0	160,468,094.0
Adjusted common equity	17,498,377.0	16,913,105.0	17,788,477.0	15,812,643.0	14,906,785.0
Operating revenues	4,046,301.0	15,830,367.0	16,142,469.0	14,941,840.0	14,682,061.0
Noninterest expenses	1,992,894.0	7,995,145.0	8,253,817.0	7,482,898.0	7,227,445.0
Core earnings	565,399.0	(367,517.0)	2,778,757.0	2,543,621.7	2,383,190.0

*Data as of March 31. COP--Colombian peso. Source: S&P Global Ratings.

Business position: A prominent market share in Colombia and business diversification have lessened impact from the pandemic.

We consider that the bank's business stability has been less affected by the economic fallout than other smaller specialized banks in the region, thanks to its diversification and position as the largest bank in Colombia and one of the largest financial groups in Central America. Its market share in Colombia was 25.3% in terms of loans as of Feb. 28, 2021, and we consider it unlikely that Bancolombia will lose its leading position in upcoming years.

The bank's business diversification and development of its digital platform also make it less vulnerable to the economic slowdown and more likely to generate new clients. Bancolombia continues to participate in nearly all banking business lines, but we expect mortgages will grow slightly faster than the rest of the loan book while fees will continue to show resilience in the coming year. We also expect the bank's lending to grow 7% in 2021 despite some uncertainty over the economic recovery and the impact of recent social protests. We expect operating revenue to rise about 3.1% year on year, given lower trading gains than in the previous year and pressured net interest margin due to the drop in interest rates and loan quality deterioration. Finally, we consider the bank's management to have long experience in the banking sector. In our opinion, it will be fully capable of controlling risks amid the challenging conditions.

Table 2

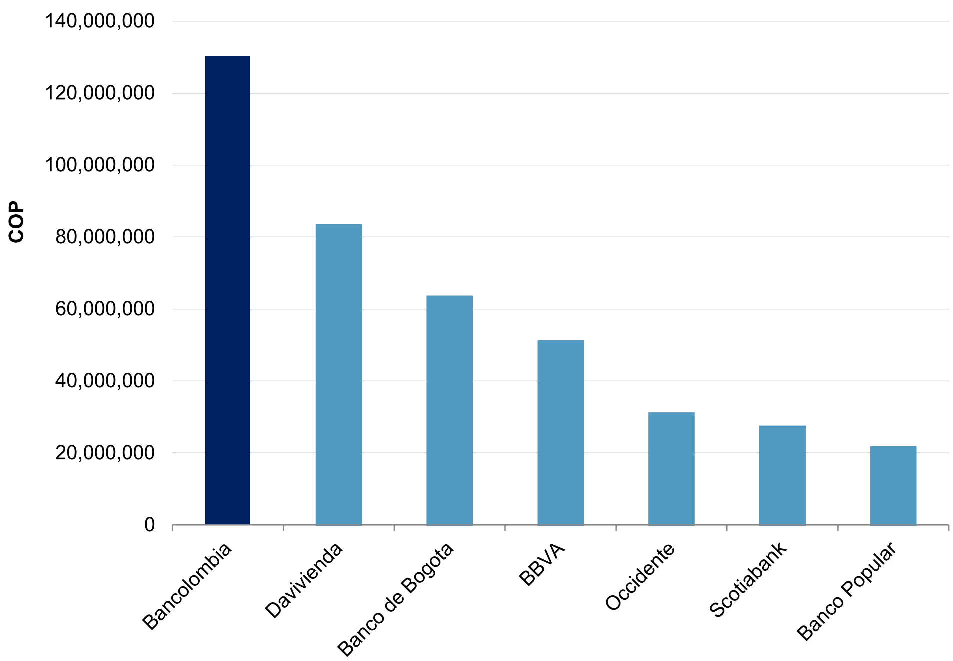
Bancolombia S. A. y Companias Subordinadas--Business Position

	--Year ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Total revenues from business line (currency in millions)	4,046,301.0	15,830,367.0	16,142,469.0	14,941,840.0	14,682,061.0
Commercial & retail banking/total revenues from business line	89.6	87.6	88.1	88.5	88.2
Trading and sales income/total revenues from business line	0.2	4.2	1.9	1.0	2.4
Other revenues/total revenues from business line	10.2	8.3	9.9	10.5	9.3
Investment banking/total revenues from business line	0.2	4.2	1.9	1.0	2.4

*Data as of March 31. Source: S&P Global Ratings.

Chart 1

Bancolombia's Share Of Total Loans In Colombia
Data as of February 2021



COP--Colombian peso. Source: Superintendencia Financiera de Colombia.

Capital and earnings: Ongoing economic stress will hurt the bank's profitability in 2021.

We anticipate that the impacts from the COVID-19 pandemic will still be felt in 2021 and take a toll on the bank's operating performance. We expect its profitability to remain subdued mainly due to weaker net interest margins and high provisioning. These factors, coupled with dividend payouts, will result on modest adjusted capital base growth rate. We expect its RAC ratio to be about 4.6% for the next couple of years, which will be the slightly below the level of December 2020 considering higher risk charges to Colombian sovereign exposures stemming from the downgrade to the sovereign rating. In addition, we still consider Bancolombia's quality of capital as low because of the notable amount of goodwill denominated in foreign currency in its capital structure. This is because its revaluation has a larger impact on its total adjusted capital than capital translation adjustments during exchange rate fluctuations.

Our financial forecasts reflect our base-case assumptions, which include:

- Colombia's GDP to grow 6% in 2021 and about 3.5% in 2022;
- Foreign exchange rates of COP3,575 and COP3,600 per $1 for 2021 and 2022, respectively;
- Consolidated loan portfolio growing at about 7% in 2021 and 8% in 2022, including the Colombian peso's depreciation;
- Net interest margins (NIMs) at about 5% in 2021 and 5.2% in 2022;
- Core earnings to adjusted assets below historical levels at about 0.55% in 2021 and the cost-to-income ratio of about 51.4% for the next 12 months reflecting digitalization investments and higher employee compensations;
- Dividend distribution of COP250 billion in 2021and the payout ratio of about 33% afterwards;
- Nonperforming assets (NPAs) peaking at about 5% in 2021, and net charge-offs (NCOs) to average 2.0% in the next couple of years, and loan-loss reserves to NPA ratio above 180%; and
- Cost of risk at about 3% in 2021 and 2.1% in 2022; and
- No additional acquisitions for 2021 and 2022.

We view Bancolombia's earnings buffer--defined as the capacity for operating earnings to cover normalized losses--as sufficient, at about 1% of our risk-weighted assets in the next two years, despite challenges from the COVID-19 pandemic.

Table 3

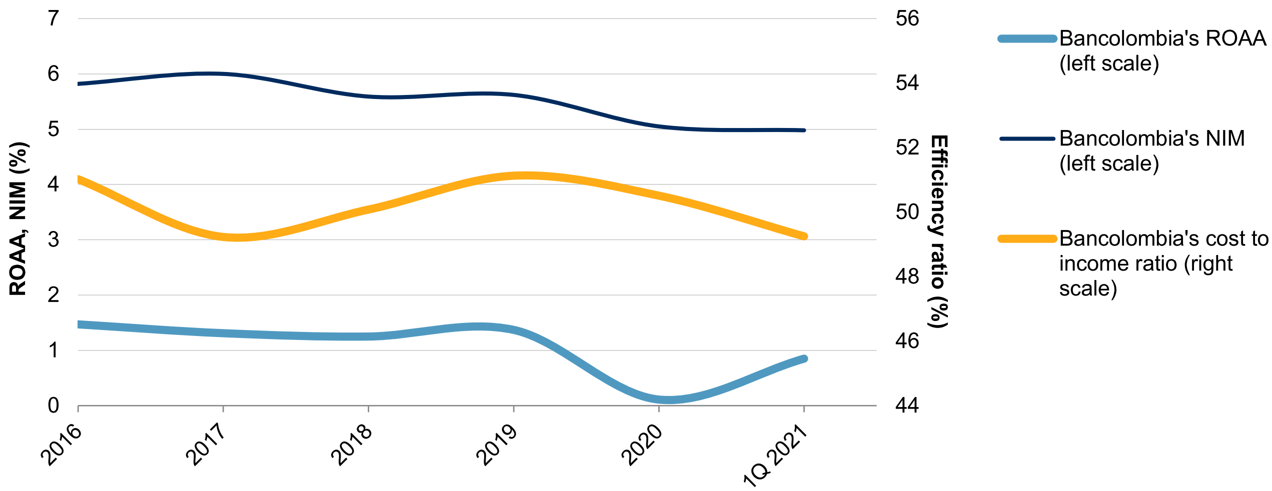
Bancolombia S. A. y Companias Subordinadas--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Tier 1 capital ratio	11.2	11.2	9.6	10.1	10.2
S&P Global Ratings' RAC ratio before diversification	N/A	4.8	5.0	4.8	4.7
S&P Global Ratings' RAC ratio after diversification	N/A	4.7	4.8	4.6	4.5
Adjusted common equity/total adjusted capital	88.4	88.1	88.6	87.3	86.7
Net interest income/operating revenues	69.8	68.4	69.4	69.9	71.2
Fee income/operating revenues	19.7	19.2	18.7	18.6	17.1
Market-sensitive income/operating revenues	0.2	4.2	1.9	1.0	2.4
Cost to income ratio	49.3	50.5	51.1	50.1	49.2
Preprovision operating income/average assets	3.2	3.2	3.5	3.5	3.7

*Data as of March 31. N/A--Not applicable. RAC--Risk adjusted capital. Source: S&P Global Ratings.

Chart 2

Financial Metrics



ROAA--Return on average asset. NIM--Net interest margin. Source: S&P Global Ratings.

Risk position: Asset quality metrics will weaken during 2021 before improving in 2022.

For the next 12 months, we project NPAs to increase to 5.03% and NCOs to hover around 2%. Our expectation reflects the riskier profile of clients participating in the borrower relief programs and the conclusion of the latter during the first half of 2021. Credit relief represented 10% of Bancolombia's total portfolio as of March 30, 2021, including restructured loans. We believe that cost of risk will be lower in 2021 than in the previous year, given better economic prospects and the preventive provisions made in 2020. However, it will remain above historical levels at about 3% due to the further deterioration of asset quality. In addition, some clients with better risk profiles have asked for loan deferments due to the pandemic's prolonged impact on the economy. However, we consider that Bancolombia has a diversified corporate loan book and expertise in risk management that will enable it to keep still manageable asset quality indicators in the next couple of years; comparable with its main Colombian peers. However, if the bank's asset quality worsens beyond our expectations, we could reassess its risk position.

The consolidated group entered the currently adverse conditions with ample NPA reserve coverage at 176% as of the end 2019, which has remained high at 234% as of March 2021. We expect it to remain above 180% in the next couple of years. Furthermore, although the bank is concentrated in the commercial loans sector, its top 20 largest exposures only represented about 6.2% of its consolidated total loan portfolio and 0.6x of its total adjusted capital as of March 2021.

Table 4

Bancolombia S. A. y Companias Subordinadas--Risk Position

	--Year ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Growth in customer loans	11.9	5.0	4.9	8.3	5.7

Table 4

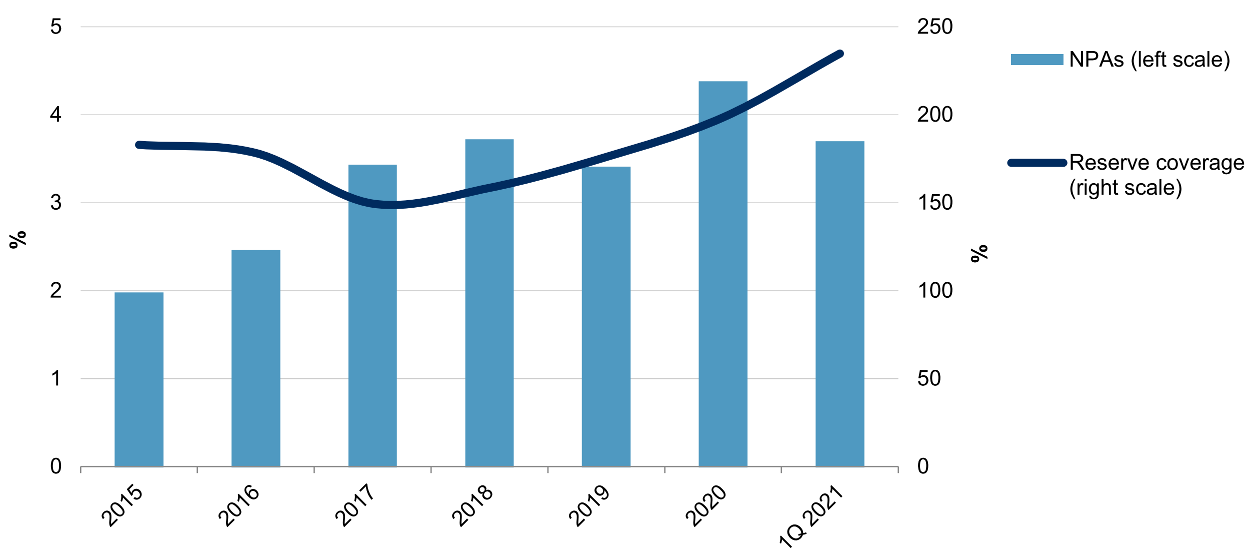
Bancolombia S. A. y Companias Subordinadas--Risk Position (cont.)

	--Year ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	3.3	3.8	4.4	3.6
Total managed assets/adjusted common equity (x)	14.7	15.1	13.3	13.9	13.7
New loan loss provisions/average customer loans	2.6	4.0	1.9	2.3	2.2
Net charge-offs/average customer loans	2.2	1.2	1.8	2.0	1.2
Gross nonperforming assets/customer loans + other real estate owned	3.7	4.4	3.4	3.7	3.4
Loan loss reserves/gross nonperforming assets	234.8	198.5	176.0	158.4	149.5

*Data as of March 31. N/A--Not applicable. RWA--Risk weighted assets. Source: S&P Global Ratings.

Chart 3

Bancolombia's Asset Quality



NPA--Nonperforming assets. Source: S&P Global Ratings.

Funding and liquidity: High share of customer deposits in funding base, with highly manageable refinancing risk

Bancolombia's funding and liquidity profile has remained resilient despite the COVID-19 pandemic and the subsequent recession. Bancolombia's funding assessment is driven by a high and stable proportion of customer deposits that has shown to be resilient under stressed market conditions and has benefited from investors' tendency to shift to safer investments as conditions worsen. We expect the stable funding ratio (SFR) to remain about 100%, which we consider in line with its funding assessment and the Colombian banking system, as deposits remain stable and funding needs don't grow significantly. As of March 31, 2021, its funding base hadn't changed significantly, and customer deposits were about 85% of the total funding base. The rest is made up of debt issuances (9%), interbank loans (5%), and a small amount of repurchase agreements (1%). For the next 12 months, we don't expect the bank's funding structure to notably change, because we expect customer deposits to be its main funding source since the bank benefits from its sticky customer base and strong brand.

Our assessment of Bancolombia's liquidity reflects an adequate liquidity position, which is mainly composed of cash and government securities, and manageable refinancing risk with a satisfactory maturity profile. We consider that liquidity pressure will be mitigated by central bank contingency measures and supported by additional resources from available credit lines. Finally, Bancolombia's liquidity levels are reflected in its broad liquid assets to short-term wholesale funding indicator at 5.1x as of March 31, 2021, with a three-year average of 3x.

Table 5

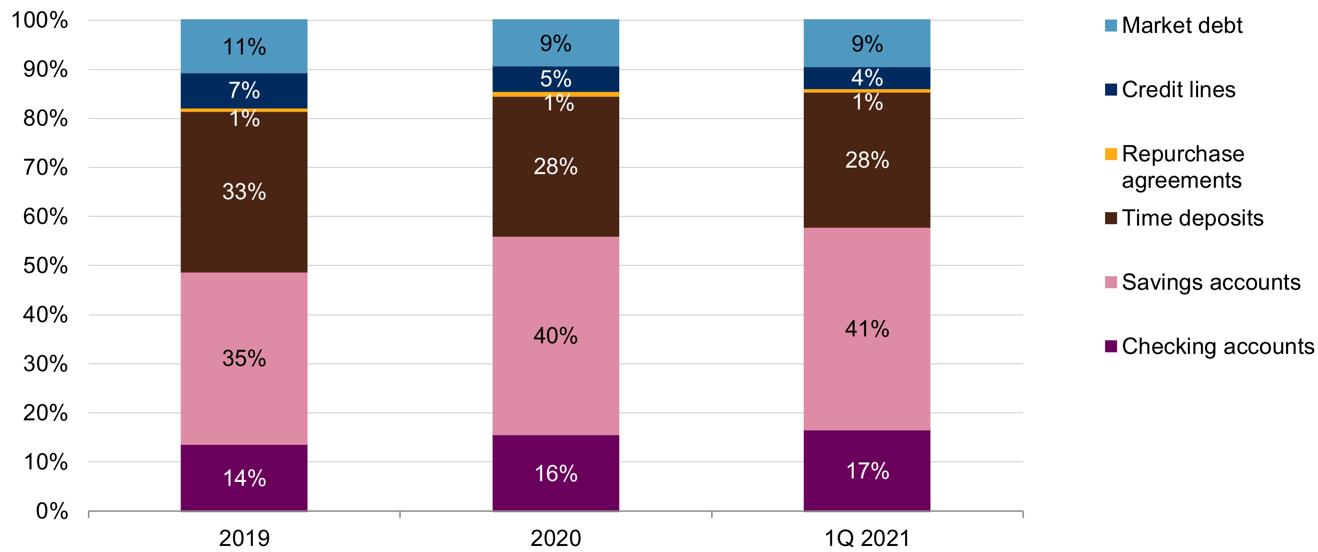
Bancolombia S. A. y Companias Subordinadas--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Core deposits/funding base	85.1	84.2	80.9	77.7	77.5
Customer loans (net)/customer deposits	97.6	96.7	109.0	115.1	115.4
Long-term funding ratio	96.9	96.5	94.2	91.8	92.3
Stable funding ratio	109.5	109.6	102.8	100.6	101.3
Short-term wholesale funding/funding base	3.4	3.8	6.5	9.0	8.6
Broad liquid assets/short-term wholesale funding (x)	5.2	4.9	2.5	1.7	1.8
Net broad liquid assets/short-term customer deposits	20.9	22.0	14.8	9.6	10.7
Short-term wholesale funding/total wholesale funding	21.5	22.6	31.8	38.2	35.9

*Data as of March 31. Source: S&P Global Ratings.

Chart 4

Bancolombia's Funding Mix



Source: S&P Global Ratings.

Support: High systemic importance

We continue to view Bancolombia as having high systemic importance in the Colombian financial system because of its leading market share in deposits, its importance to the country's payment system, and our belief that the government is supportive of the financial system. In this sense, we expect moderately high likelihood of extraordinary government support to the bank in case of need.

Grupo de Inversiones Suramericana S.A. (BB+/Stable/--) holds about 25% of Bancolombia's equity, making it the largest shareholder. In our view, Bancolombia is moderately strategic for the investment holding company. Therefore, its rating could reflect a notch of group support if the bank's SACP worsens.

Environmental, social, and governance (ESG):

We see ESG credit factors for Bancolombia as neutral to its credit quality compared with its domestic peers. Bancolombia has built sound governance practices that have enabled the bank to execute its acquisition and diversification strategy throughout Central America with success, and to face a wider range of legal and non-financial risks. At the same time, we think that its solid framework will allow the bank to adapt and implement the regulatory changes that will take place in the next two to three years, as well as social challenges.

The bank has implemented top-notch sustainability standards to encourage its long-term success. In this context, we expect that the bank's leading sustainability efforts--reflected in its underwriting policies and customer service--will support the bank's reputation and client loyalty, which we already incorporate in our strong business position assessment. Nevertheless, the bank, like others in the Colombian banking system, has been affected by recent corruption scandals at the government level such as the Ruta del Sol case. Finally, we consider that the bank's digitalization efforts have resulted in cost efficient operations, although the rest of the Colombian banks are also implementing their digital transformations and we consider their efforts comparable to Bancolombia.

The bank has modest exposure to environment risks. Direct exposure to the oil sector is low, but indirect exposures (including the supply chain) are higher. However, the loan book remains well diversified.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- 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: 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: 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 20, 2021)*	
Bancolombia, S. A. y Companias Subordinadas	
Issuer Credit Rating	BB+/Stable/B

Ratings Detail (As Of May 20, 2021)*(cont.)	
Issuer Credit Ratings History	
21-Apr-2020	BB+/Stable/B
23-May-2019	BB+/Positive/B
12-Dec-2017	BB+/Stable/B
Sovereign Rating	
Colombia	
Foreign Currency	BB+/Stable/B
Local Currency	BBB-/Stable/A-3
Related Entities	
Banco Agricola S.A	
Issuer Credit Rating	B-/Stable/B
Bancolombia Panama S.A.	
Issuer Credit Rating	BB+/Stable/B
Banistmo S.A.	
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.