

Bancolombia S.A. y Companias Subordinadas

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Bancolombia S.A. y Companias Subordinadas

Ratings Score Snapshot

Issuer Credit Rating

BB+/Stable/B

SACP: bb+

Support: 0

Additional factors: 0

Anchor	bb+	
Business position	Strong	+1
Capital and earnings	Constrained	-1
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
BB+/Stable/B

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Key strengths:

- Strong franchise and sound presence in the Colombian and Central American banking systems;
- Solid market position and strong brand recognition that enable the bank to withstand a cooling economy; and
- Large, stable, and diversified funding profile with conservative liquidity management that provides the bank financial flexibility.

Key risks:

- Lower risk-adjusted capitalization than those of the largest financial groups in Latin America;
- High pay-out ratio that limits internal capital generation, along with low quality of total adjusted capital due to its sensitivity to exchange rates; and
- Asset quality pressures in the Colombian consumer loan portfolio due to strong consumer loan book growth combined with households' weakening income capacity and rising debt levels.

We expect Bancolombia S.A. y Companias Subordinadas' lower credit growth, stable bottom-line results, and high dividend payout will constrain its capitalization metrics for the next two years. We believe the bank's credit growth will slow down during 2023-2024 due to the deceleration of the economic activity and lower domestic investor confidence in Colombia, which will dent private consumption and commercial credit demand in the country. However,

we believe Bancolombia will benefit from still high net interest margins (NIMs), which will support a steady operating revenue generation and business stability. Nonetheless, we forecast the bank will maintain a high dividend payout. Therefore, we expect its risk-adjusted capital (RAC) ratio will remain lower--at about 4.8% during the next 12-24 months--than those of the largest financial groups in the region.

In line with our expectation of the Colombian banking sector, we expect the bank's asset quality metrics to weaken during 2023-2024. We believe high inflation and rising financing costs will continue undermining corporations and households' payment capacity in Colombia, which will raise Bancolombia's nonperforming assets (NPAs) in the next two years. Nonetheless, we anticipate the bank will maintain a healthy reserve coverage, which along with a well-diversified loan portfolio in terms of geography and sector will enable the bank to restrain the erosion of its asset quality in the next couple of years.

Bancolombia's funding structure benefits from a large and stable deposit base. We think Bancolombia's brand recognition in Colombia will continue increasing its base of customer deposits in the country while it maintains adequate liquidity in 2023-2024. However, we anticipate the competition to attract deposits to peers, which coupled with tight financing conditions, will continue raising the bank's cost of funding during 2023-2024.

Outlook

Our stable outlook on Bancolombia for the next 12 months reflects our expectation that its sound market presence, brand recognition, and still relatively high margins will support business stability. Our outlook also incorporates our expectations of a RAC ratio at about 4.8% during the next 12-24 months, which incorporates our assumption of a slowdown of its loan portfolio growth pace and higher provisioning during 2023-2024, which will reduce profitability below that of the past two years. 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 Bancolombia because we consider them integral to the group's future strategy.

Downside scenario

We could lower the ratings on Bancolombia in the next 12 months if we take a similar action on Colombia. Additionally, we could take a negative rating action if the bank's credit fundamentals erode, which could occur if the bank's RAC ratio falls below 3% and/or if its NPAs deteriorate beyond our expectations, 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, given that we don't think that it would pass our sovereign stress test in the event of sovereign distress, mainly because of its large exposure to the country (about 67% of total loans). In this sense, we could upgrade Bancolombia if there's a similar rating action on the sovereign while the bank increases its RAC ratio above 5.25% in the next two years.

Key Metrics

Table 1

Bancolombia S.A. y Compañías Subordinadas Key Ratios And Forecasts*					
	--Fiscal year ended Dec-31 --				
	2020a	2021a	2022a	2023f	2024f
Growth in operating revenue (%)	-1.9	11.0	39.0	14.0-17.2	3.1-3.8
Growth in customer loans (%)	5.0	15.1	22.5	6.3-7.7	5.9-7.2
Growth in total assets (%)	8.3	13.4	21.7	5.4-6.6	5.1-6.3
Net interest income/average earning assets (NIM) (%)	5.0	4.9	6.6	6.4-7.0	6.2-6.8
Cost to income ratio (%)	50.5	52.2	44.6	42.1-44.3	43.3-45.6
Return on equity (%)	-1.7	14.9	20.2	16.4-18.2	14.9-16.5
Return on assets (%)	0.1	1.6	2.2	1.8-2.2	1.6-2.0
New loan loss provisions/average customer loans (%)	4.0	1.2	1.5	2.2-2.4	2.1-2.4
Gross nonperforming assets/customer loans (%)	4.4	3.5	2.2	3.3-3.6	3.2-3.6
Net charge-offs/average customer loans (%)	1.2	2.2	1.8	1.9-1.9	1.9-1.9
Risk-adjusted capital ratio (%)	4.8	5.3	4.8	4.7-4.9	4.7-5.0

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

Anchor: 'bb+' 'Anchor According To Bancolombia's Country-Risk Exposures

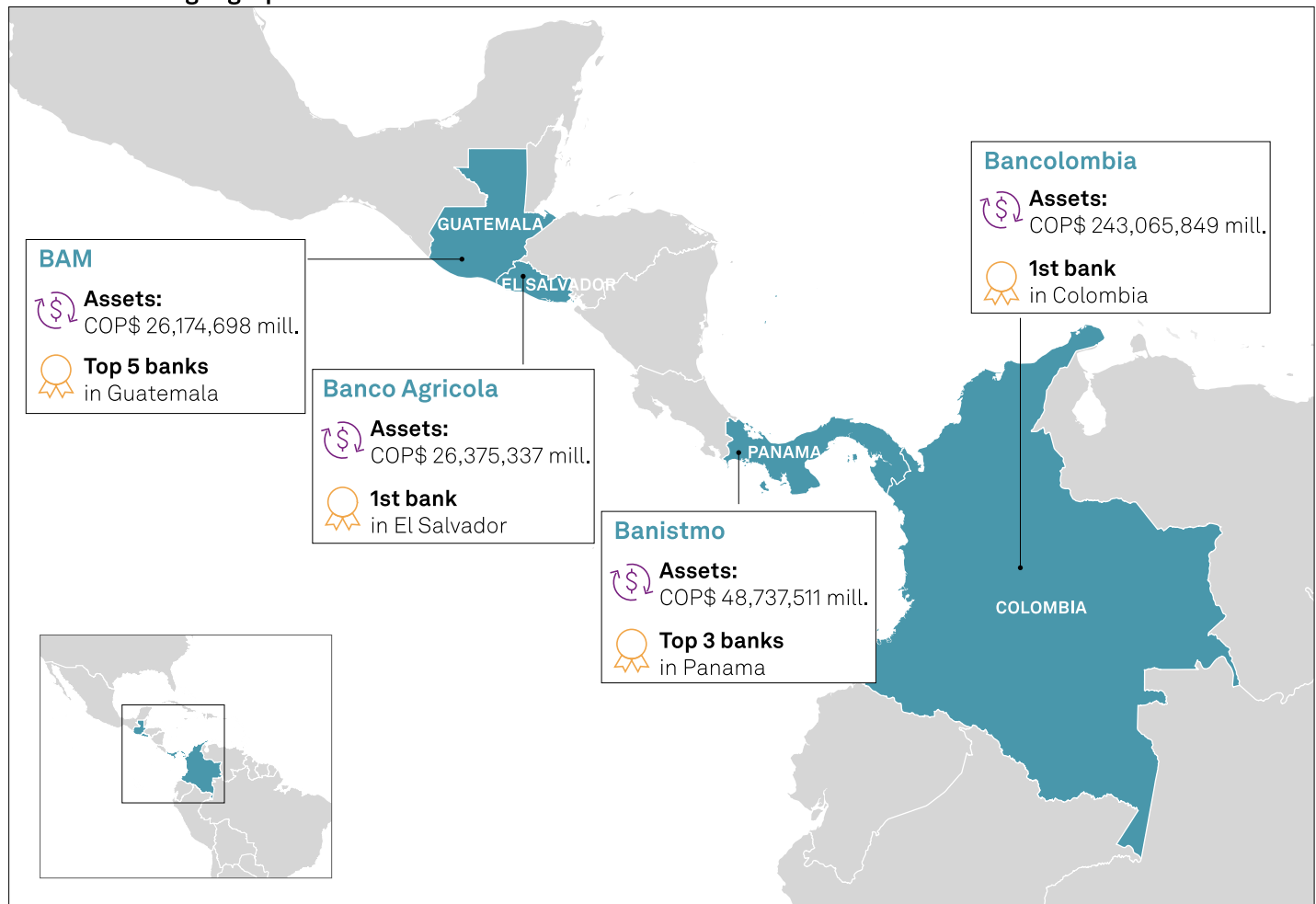
The anchor or starting point for our ratings for Bancolombia is 'bb+', which reflects our view of the weighted average economic risk in the countries where the bank has its major loan portfolio. As of March 2023, Bancolombia's largest exposures by loans were Colombia (67%), Panama (14%), Guatemala (8%), and El Salvador (7%). The anchor also reflects the industry risk for the Colombian banking system where the bank is domiciled.

The economic risk trend for banks operating in Colombia is stable. However, we expect Colombia's GDP growth to decelerate this year to 1.1% due to persistent and elevated inflation and rising interest rates. Uncertainty over the government's economic policies—including the implementation of ambitious social reforms—could weaken business confidence, amplifying obstacles for economic growth. Therefore, we expect lending to contract by about 2.5% in real terms this year, after expanding at an average of 6.7% in 2021-2022, due to the cooling economy and lower credit demand. Higher household debt and weakening income capacity, deteriorating labor market dynamics, and narrowing corporate margins amid elevated inflation will erode banks' asset quality beyond cyclically low levels. In 2024, once economic conditions improve and credit resumes growing, we believe asset quality metrics will return to more normal patterns.

Our industry risk trend for Colombian banks remains stable. Over the past few years, the regulator has strengthened its supervision capacity, proactive stance, and transparency in preventing the potential erosion of banks' credit fundamentals. Improving regulations are gradually strengthening banks' RAC levels and reducing wholesale funding concentrations. On the other hand, reliance on wholesale funding will persist in the next few years, although we expect it to lessen slightly due to the recent implementation of the regulatory net stable funding ratio. We expect competition

to remain strong, but competitive dynamics to remain healthy and profitability to remain resilient based on adequate risk appetite.

Bancolombia's geographic diversification



Source: S&P Global Ratings.
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Business Position: Operating Revenue Benefits From Stable Interest Margins And Sound Market Position In Colombia And Central America

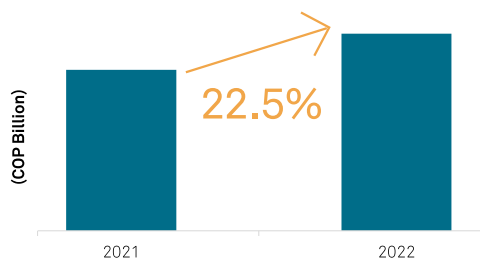
Bancolombia's business position reflects its ranking as the largest bank Colombia and its sound presence in Central America through its subsidiaries in Panama, Guatemala, and El Salvador. Its subsidiaries' market share in these countries enable Bancolombia to maintain its position as one of the largest financial groups in the region. We forecast Bancolombia's loan portfolio growth will slow down sharply during the next two years from the 2022 pace of 22.5%, which was due to strong economic growth that year coupled with the Colombian peso's depreciation effect on the bank's dollar-denominated loan book. Slower lending will be due to still high inflation, rising interest rates, and diminished domestic investor confidence, which could dent consumption and commercial credit demand in the

country. Nonetheless, we think the bank's operating revenues will continue benefiting from stable NIMs—which we estimate at 6.3%-6.6% for the next two years--especially considering that more than 70% of its borrowers have floating-rate loans. These factors, along with the bank's sound position in several business products and operations across diverse economic segments, will raise operating revenue by about 15% during 2023 and normalize at low-single digits in 2024.

Market Indicators



Credit growth



Market Share in Colombia



Source: S&P Global Ratings.
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Capital And Earnings: High Payout Ratio Will Hinder Internal Capital Generation Despite Growing Operating Revenue

We base our capital and earnings assessment on our consolidated forecasted RAC ratio for Bancolombia of about 4.8% for the next two years. Bancolombia's RAC is below of those of other large financial groups in Latin America and is a rating constraint. In our view, Bancolombia currently has an aggressive payout policy that limits internal capital generation despite its steady operating performance and increasing bottom-line results over the last couple of years. Even though we believe the bank will slightly reduce its payout ratio in the next two years, we anticipate it will remain at high levels, which will result in a modest adjusted capital base growth rate and subdued capitalization metrics compared with those of other large banks in the region.

In addition, we 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 goodwill revaluation has a larger impact on its total adjusted capital than capital revaluation during the exchange-rate fluctuations. Our base-case scenario assumptions include the following factors:

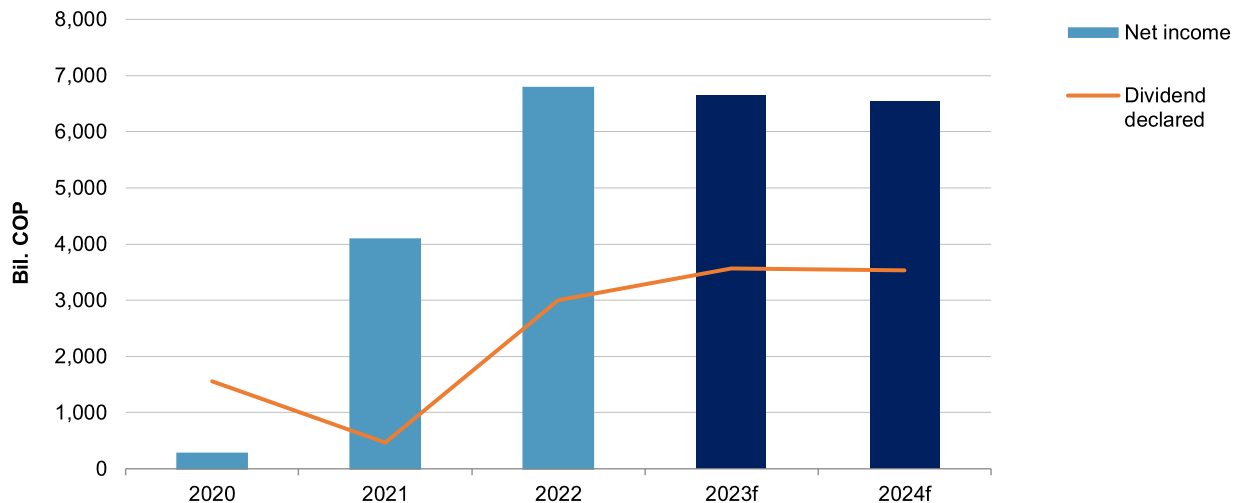
- Colombia's GDP to grow 1.1% in 2023 and about 2.6% in 2024;
- Consolidated loan portfolio growing at 5%-7% in 2023-2024;
- NIMs at 6.3%-6.6% during the next two years;
- Cost-to-income ratio of 43%-45% for the next 24 months;

- Payout ratio of about 50%;
- NPAs at about 3.4% and net charge-offs (NCOs) of 1.5%-1.7 the next two years; and
- No acquisitions and/or capital injections during the same period.

We believe Bancolombia's operating revenue will keep growing in 2023-2024 because of still high NIMs. However, we think the bank's provisioning will rise due to a potential deterioration of the consumer segment of its loan portfolio, which coupled with a recurrent increase of its administrative expenses--a large percentage of the bank's costs are fixed--will reduce profitability below that of 2022. In this sense, we forecast Bancolombia's return on average assets (ROAA)--measured as core earnings to adjusted assets--will be 1.8%-2.0% in 2023-2024.

Chart 2

Net income versus dividends declared



COP--Colombian peso. f--Forecast. Source: S&P Global Ratings.

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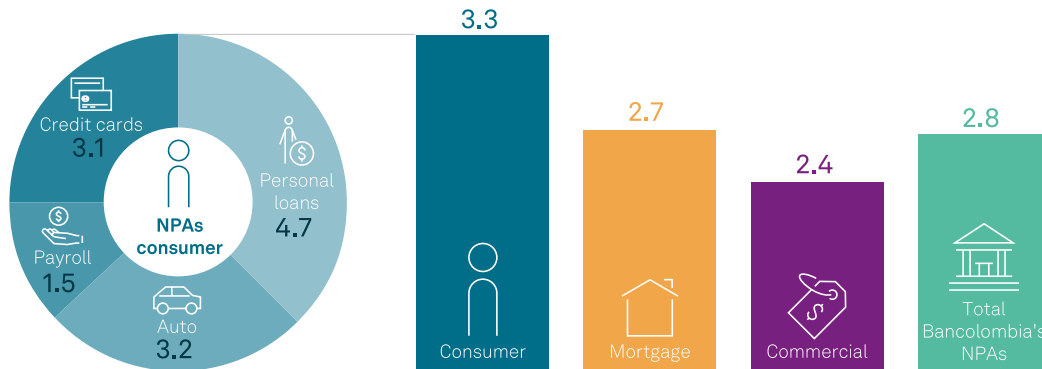
Risk Position: Weaker Asset Quality Although Sufficiently Covered By Provisioning

Our assessment of Bancolombia's risk position incorporates its robust corporate lending diversification in terms of economic sectors, single-name exposures, and adequate coverage of its nonperforming loans. We consider that Bancolombia has ample expertise in keeping manageable asset quality indicators; however, we expect a deterioration of its asset quality in the next couple of years, mostly in its consumer business. This is because we believe households will have to deal with mounting inflation as their disposable income continues to erode, while corporations will continue facing tight financing conditions and lower capacity to pass through prices, which could weaken their payment capacity. Additionally, we believe the infrastructure, transportation, and construction sectors in Panama and

Guatemala could face headwinds that could also dent the bank's credit quality. We project NPAs to increase to 3.4% and NCOs at about 1.6% for the next 12 months.

On the contrary, we expect Bancolombia to maintain loan-loss reserves at 1.8x-2.0x to cover its NPAs in during the next 12-24 months. In our view this as an adequate provisioning policy that will enable the bank to keep this metric above those of other large banks in the region.

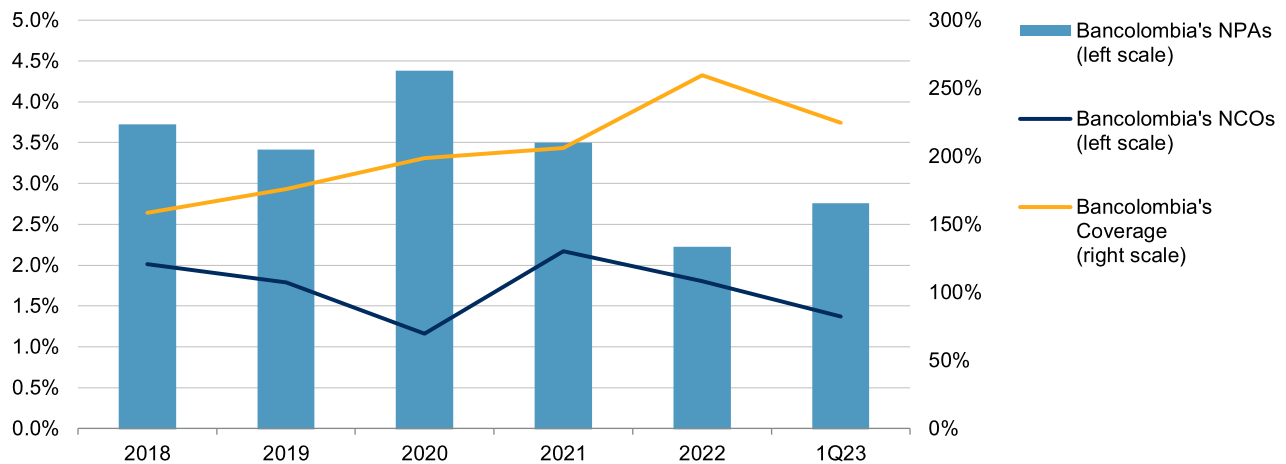
Bancolombia's NPAs breakdown (%)



Source: S&P Global Ratings.
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Chart 3

Bancolombia's main asset quality metrics



NPA's = Gross nonperforming assets / customer loans + other real estate owned. NCO's = Net charge-offs/average customer loans. Coverage = Loan loss reserves/gross nonperforming assets.

Source: S&P Global Ratings.

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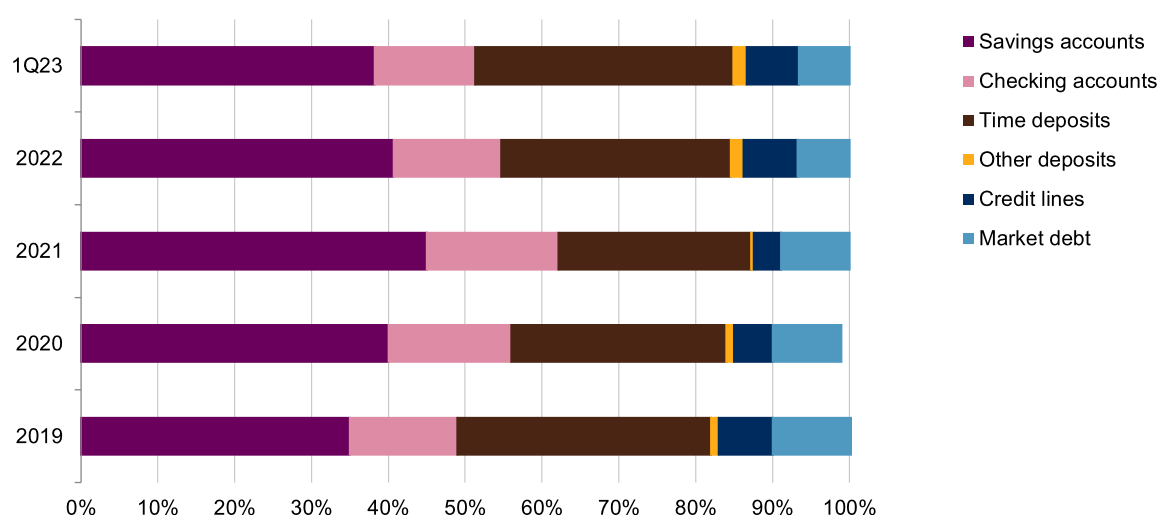
Funding And Liquidity: Stable Funding Base With Recently Higher Volumes Of Time Deposits Amid Rising Funding Costs

Our assessment of Bancolombia's funding incorporates its stable funding structure with a large and highly diversified deposit base that relies on core deposits—86% of its total funding base with more than 35% of the deposits coming from the retail segment. Nonetheless, we believe Bancolombia's funding costs will continue rising amid strong competition in the country to increase banks' retail and term deposits due to the requirement to comply with the 100% regulatory net stable funding ratio (NSFR). The implementation of the NSFR is encouraging banks to increase their retail and term deposits since this ratio penalizes deposit concentrations in wholesale sources. As of March 2023, Bancolombia's overall cost of deposits increased 350 basis points (bps) to 5.1% year over year, with time deposits having the largest increase during the period—up 543 bps to 9.14%. Additionally, the share of time deposits increased sharply within the bank's total funding mix, rising to 34% of as of the first quarter of 2023 from 25% for the same quarter last year. On the other hand, we believe Bancolombia's large market share and brand recognition will enable it to maintain its cost of funding as one of the lowest among Colombian banks.

We assess Bancolombia's liquidity as adequate, which mainly consists of cash and government securities, and manageable refinancing risk with a satisfactory maturity profile. Bancolombia's liquidity levels are reflected in its broad liquid assets to short-term wholesale funding indicator of 3.4x as of March 31, 2023, with a three-year average of 4.3x.

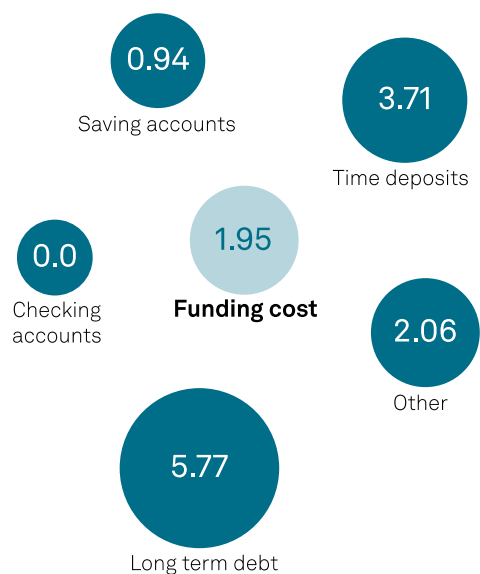
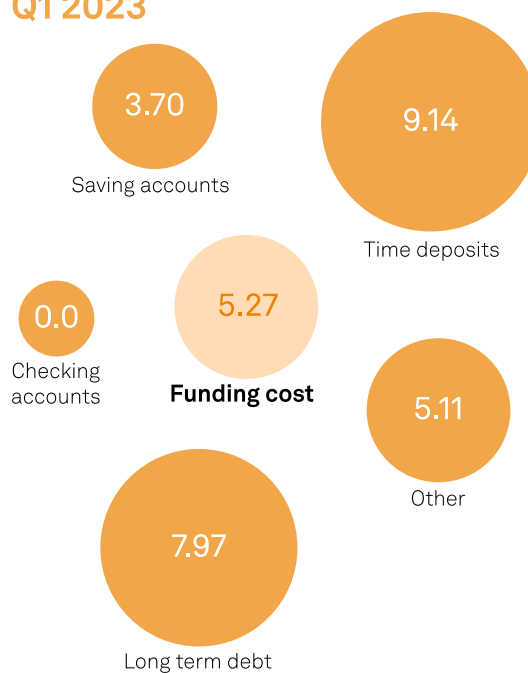
Chart 4

Bancolombia's funding breakdown



Source: S&P Global Ratings.

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Bancolombia's funding cost breakdown (%)**Q1 2022****Q1 2023**

Source: S&P Global Ratings.

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Additional Rating Factors: 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 a moderately high likelihood of extraordinary government support to the bank in case of need. Grupo de Inversiones Suramericana holds close to 25% of Bancolombia's equity, making it the largest shareholder. In our view, Bancolombia is a moderately strategic subsidiary of the investment holding company. Additionally, we consider Bancolombia Panama, Banistmo, and Banco Agrícola S.A. as core subsidiaries of their ultimate parent, Bancolombia. The parent views Central America as a strategic growth market and has continued to expand its presence in Panama and El Salvador.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
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ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

We view ESG credit factors for Bancolombia as neutral to its credit quality compared with its domestic peers. We believe the bank will continue implementing 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. We incorporate this factor in our assessment of Bancolombia's business position as strong. We believe the bank has modest exposure to environment risks, with a low direct exposure to the oil sector, although with higher indirect exposures (including the supply chain). Additionally, the bank has an experienced management with sound governance practices that have enabled the bank to execute its strategy successfully during the last years. From our perspective, these elements are broadly in line with those of industry and regional peers, therefore, they have no influence on the bank's credit quality.

Key Statistics

Table 1

Bancolombia S.A. y Compañías Subordinadas--Key figures					
--Year-ended Dec. 31--					
(Mil. COP)	2023*	2022	2021	2020	2019
Adjusted assets	339,230,370.0	342,375,541.0	281,226,276.0	248,061,184.0	228,854,801.0
Customer loans (gross)	267,269,115.0	269,923,739.0	220,323,483.0	191,409,730.0	182,282,743.0
Adjusted common equity	25,471,224.0	26,047,610.0	22,217,345.8	16,913,105.0	17,788,477.0
Operating revenues	7,465,970.0	24,424,126.0	17,567,795.0	15,830,367.0	16,142,469.0
Noninterest expenses	3,071,662.0	10,887,643.0	9,163,253.0	7,995,145.0	8,253,817.0
Core earnings	1,747,456.0	6,938,664.0	4,147,936.0	(367,517.0)	2,778,757.0

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

Table 2

Bancolombia S.A. y Compañías Subordinadas--Business position					
--Year-ended Dec. 31--					
(%)	2023*	2022	2021	2020	2019
Total revenues from business line (currency in millions)	7,465,970.0	24,424,126.0	17,567,795.0	15,830,367.0	16,142,469.0
Commercial & retail banking/total revenues from business line	85.2	90.6	86.6	87.6	88.1
Trading and sales income/total revenues from business line	4.4	(0.8)	2.9	4.2	1.9
Other revenues/total revenues from business line	10.4	10.2	10.4	8.3	9.9
Investment banking/total revenues from business line	4.4	(0.8)	2.9	4.2	1.9
Return on average common equity	19.1	20.2	14.9	(1.7)	11.4

*Data as of March 31.

Table 3

Bancolombia S.A. y Compañías Subordinadas--Capital and earnings					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Tier 1 capital ratio	9.7	10.4	11.9	11.2	9.6
S&P Global Ratings' RAC ratio before diversification	N/A	N/A	5.3	4.8	5.0
S&P Global Ratings' RAC ratio after diversification	N/A	N/A	5.2	4.7	4.8
Adjusted common equity/total adjusted capital	91.8	91.9	90.7	88.1	88.6
Net interest income/operating revenues	71.8	75.1	67.1	68.4	69.4
Fee income/operating revenues	13.4	15.5	19.5	19.2	18.7
Market-sensitive income/operating revenues	4.4	(0.8)	2.9	4.2	1.9
Cost to income ratio	41.1	44.6	52.2	50.5	51.1
Preprovision operating income/average assets	5.0	4.2	3.1	3.2	3.5
Core earnings/average managed assets	2.0	2.2	1.5	(0.1)	1.2

*Data as of March 31. N/A--Not applicable.

Table 4

Bancolombia S.A. y Compañías Subordinadas--Risk position					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Growth in customer loans	(3.9)	22.5	15.1	5.0	4.9
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	N/A	2.9	3.3	3.8
Total managed assets/adjusted common equity (x)	13.7	13.5	13.0	15.1	13.3
New loan loss provisions/average customer loans	3.0	1.5	1.2	4.0	1.9
Net charge-offs/average customer loans	1.4	1.8	2.2	1.2	1.8
Gross nonperforming assets/customer loans + other real estate owned	2.7	2.2	3.5	4.4	3.4
Loan loss reserves/gross nonperforming assets	224.7	259.5	206.0	198.5	176.0

*Data as of March 31. N/A--Not applicable.

Table 5

Bancolombia S.A. y Compañías Subordinadas--Funding and liquidity					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Core deposits/funding base	85.7	85.4	86.8	84.2	80.9
Customer loans (net)/customer deposits	99.9	101.4	97.2	96.7	109.0
Long-term funding ratio	96.3	96.3	96.5	96.5	94.2
Stable funding ratio	N/A	104.9	107.5	109.6	102.8
Short-term wholesale funding/funding base	4.1	4.1	3.9	3.8	6.5
Broad liquid assets/short-term wholesale funding (x)	3.4	3.6	4.3	4.9	2.5
Broad liquid assets/total assets	11.7	12.1	14.1	15.6	13.2
Broad liquid assets/customer deposits	16.3	17.0	19.5	22.1	19.8
Net broad liquid assets/short-term customer deposits	14.4	15.3	18.7	22.0	14.8

Table 5

Bancolombia S.A. y Compañías Subordinadas--Funding and liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Short-term wholesale funding/total wholesale funding	26.9	26.4	27.8	22.6	31.8

*Data as of March 31. N/A--Not applicable.

Bancolombia--Rating component scores	
Issuer Credit Rating	BB+/Stable/B
SACP	bb+
Anchor	bb+
Economic risk	7
Industry risk	5
Business position	Strong
Capital and earnings	Constrained
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions , Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology , Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- 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
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Ratings Detail (As Of June 22, 2023)*

Bancolombia S.A. y Compañías Subordinadas

Issuer Credit Rating	BB+/Stable/B
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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

<i>Foreign Currency</i>	BB+/Stable/B
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<i>Local Currency</i>	BBB-/Stable/A-3
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Related Entities**Banco Agrícola S.A.**

Issuer Credit Rating	B-/Negative/B
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Bancolombia Panama S.A.

Issuer Credit Rating	BB+/Stable/B
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Banistmo S.A.

Issuer Credit Rating	BB+/Stable/B
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