

Banco de Comercio Exterior de Colombia S.A. (BANCOLDEX)

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Banco de Comercio Exterior de Colombia S.A. (BANCOLDEX)

Major Rating Factors

Strengths:

- Fulfills a major policy objective for the government of Colombia.
- Receives strong government support.
- Has exhibited a strong financial performance since its inception, with good asset quality, solid capitalization, and continued profitability.

Weaknesses:

- Continued challenges resulting from its broadened mandate to support small and midsize enterprises (SMEs) and microcredits.

Counterparty Credit Rating
Foreign Currency
BB+/Stable/--

Rationale

The rating on Banco de Comercio Exterior de Colombia S.A. (BANCOLDEX), the Republic of Colombia's state-owned development bank, reflects the support of the sovereign and the bank's record of good financial performance since its inception in 1992. The bank is 99.7%-owned by the Colombian government (with the remaining portion owned by the private sector), and it will likely remain under almost full governmental control, at least over the medium term.

The bank plays a key role in meeting the government's objective of promoting exports, industrial competitiveness, and the growth of SMEs and microcredits. The government is not involved in the daily management of the bank but has strong oversight of its activities, and has administrative mechanisms in place to monitor the bank's performance and respond in a timely manner in periods of stress. The government does not provide a direct guarantee on the bank's debts, except on debt incurred from multilateral creditors.

In 2003, BANCOLDEX formally took over a large part of the assets and liabilities of state-owned Instituto de Fomento Industrial (IFI), which ceased operations as part of the government's strategy to rationalize the public-sector financial system. As a result, BANCOLDEX's role was changed from dealing strictly with export finance and promotion to more broadly supporting SME development, and it now plays a central economic policy role in promoting and supporting the activities of the country's SMEs. BANCOLDEX provides wholesale credit at attractive rates by financing loans through private financial intermediaries, and the bank remains the government's key vehicle for supporting SMEs.

BANCOLDEX's management has effectively guided the bank through Colombia's changing financial system, and it has maintained the strong asset quality, capitalization, and profitability that have characterized the bank since its inception. The bank's credit quality has remained stronger than that of Colombia's overall financial system.

Outlook

The stable outlook on BANCOLDEX reflects the outlook on Colombia. As long as the government maintains its support of the bank, the ratings and outlook should parallel those on the government.

The nurturing of SMEs is important to the sovereign, and Standard & Poor's Ratings Services expects BANCOLDEX to retain its role as Colombia's primary financier of these enterprises. We anticipate that the sovereign's support will continue at least over the medium term. In the long term, even as the Colombian economy develops, BANCOLDEX should continue to play a significant role as an instrument of public policy and evolve into an institution similar to state-owned development banks in highly industrialized countries. We expect that the bank will successfully manage the transition toward becoming a multibank with a wider range of services and clients.

Profile

BANCOLDEX is among the largest financial institutions in Colombia, based on asset size and equity. As of Dec. 31, 2008, the bank had assets of Colombian pesos (COP)6.2 trillion, net loans of COP5.5 trillion, liabilities of COP4.9 trillion, and equity of COP1.3 trillion. BANCOLDEX is the largest provider of rediscount funding for SMEs in Colombia, making it a pivotal part of the country's development strategy (see table 1).

Table 1

Banco de Comercio Exterior de Colombia S.A./Financial Statistics					
--Year ended Dec. 31--					
Mil. COP	2008	2007	2006	2005	2004
Assets	6,193,406	4,840,352	3,373,776	3,683,792	4,093,933
% change	28.0	43.5	(8.4)	(10.0)	(3.3)
Loans	5,527,485	4,333,851	2,788,016	3,153,908	3,650,329
% change	27.5	55.4	(11.6)	(13.6)	(1.2)
Certificates of deposit	1,068,659	655,720	437,590	986,878	1,448,070
% change	63.0	49.8	(55.7)	(31.8)	(13.6)
Total equity	1,302,250	1,272,078	1,224,999	1,206,009	1,197,877
% change	2.4	3.8	1.6	0.7	0.3
Adjusted common equity	1,302,250	1,272,078	1,224,999	1,206,009	1,197,877
% change	2.4	3.8	1.6	0.7	0.3
Adjusted total equity	1,428,254	1,362,408	1,328,930	1,305,948	1,309,267
% change	4.8	2.5	1.8	(0.3)	(0.0)
Revenues	205,110	141,562	114,294	104,856	92,920
% change	44.9	23.9	9.0	12.8	(6.3)
Non-interest expense	40,022	30,893	(457)	17,992	15,366
% change	29.6	(6,853.1)	(102.5)	17.1	179.5
Net operating income before loan loss provisions	145,605	86,490	70,243	60,559	47,443
% change	68.3	23.1	16.0	27.6	(26.8)
Loss provisions	80,109	45,013	32,761	25,311	10,006
% change	78.0	37.4	29.4	153.0	(63.6)

Table 1

Banco de Comercio Exterior de Colombia S.A./Financial Statistics (cont.)					
Pretax income	84,978	65,656	81,991	61,552	67,547
% change	29.4	(19.9)	33.2	(8.9)	2.0
Net income	72,055	53,071	55,917	35,505	41,490
% change	35.8	(5.1)	57.5	(14.4)	2.7

BANCOLDEX operates on a for-profit basis. Its mandate is to provide financing for exports of Colombian goods and services, as well as to provide both working-capital and fixed-capital financing to local firms. It also promotes modernization of Colombian firms, with a special focus on SMEs. Given the high concentration of business activity in a few locations in Colombia, the promotion of regional development has recently become a growing part of its mandate.

BANCOLDEX works primarily as a "second-floor" bank, lending to other banks, nonbank finance companies, financial cooperatives, and non-government organizations (NGOs) that lend to the borrower. Only about 10% of its portfolio is lent directly to the borrower; the rest passes through another institution for on-lending to the final borrower. The on-lending banks are first in line to absorb any losses on the ultimate loan. BANCOLDEX can take over the intermediate bank's rights as creditor, if needed, for collection or for enforcing its security.

The bank has increasingly focused on providing services to the poorer segments of the nation's society by expanding its network of intermediary lenders, its products, and its regional presence. It has opened new business information centers in several locations to promote the growth of SMEs. It has also expanded its support for microcredit lending, mainly through NGOs, and has begun providing insurance to such borrowers. The focus on lending for microcredit has led the bank to screen NGOs for eligibility and to work to strengthen the organizations too weak to qualify for credit.

In November 2002, the Colombian government decided to terminate IFI's operations, transferring a large share of IFI's assets and liabilities to BANCOLDEX. At the same time, BANCOLDEX's mission was expanded to help finance the country's industrial sector, especially SMEs and microcredits. As part of this strategy, the bank added staff to oversee small-business lending. Although BANCOLDEX assumed many of IFI's assets and liabilities in 2003, it did not assume any of IFI's other obligations, such as pensions, labor, and taxes.

BANCOLDEX's significance as a policy tool of the government is also reflected in the fact that its public-policy activities have, at times, been outside its mission and occasionally, to its own detriment (such as the assumption of a large part of IFI's assets and liabilities in 2003). In addition to taking over the troubled IFI, BANCOLDEX transferred 23% of its capital to the also-troubled state-owned bank Caja Agraria in 1992 through an equity-for-debt swap designed to capitalize the bank; and this transaction reduced BANCOLDEX's high equity base. These swap bonds were subsequently repaid in 1999.

Despite the difficulties seen in 1999 and 2000 and the assignment of the IFI assets and liabilities to the bank, BANCOLDEX continues to be among Colombia's strongest banks in terms of asset quality, capitalization, and profitability. As a second-floor bank, its credit exposure consists primarily of loans to Colombia's highest-quality commercial and investment banks. BANCOLDEX's past-due loans remain well below the average for the nation's overall financial system, and its profitability and capitalization ratios remain robust. BANCOLDEX's return on average assets (ROAA) remained positive throughout the 1999-2000 banking crisis and the post-crisis recovery period. The bank's adjusted total equity-to-assets ratio, after falling significantly in 2003 as a result of the IFI

takeover, rose to 39% in 2006 from a low of 28.2% in 2003, before declining to 23% in 2008 due to rapid asset growth.

The shift in the bank's lending profile in recent years has been notable. Larger firms received only 31% of the bank's total disbursements in 2008, down from 74% in 2002. The share of disbursements going to microcredits and SMEs rose to 56% in 2008 from only 8% in 2002. Lending for modernization of productive capacity has grown in recent years (it was up 64% in 2008) and now accounts for well above half of total lending. The average term of loans has also increased over the years, reflecting the longer-term nature of assets being funded. Medium- and long-term loans accounted for 61% of total disbursements in 2008, up from 42% in 2002.

The geographical spread of the bank's loans has also increased rapidly in recent years. The bank made disbursements to borrowers in 690 municipalities in the country in 2008, up from only 83 in 2002. Recently, demand for working capital loans has held up better than demand for long-term loans, reflecting the poor economy in 2009. Overall credit demand has been subdued, due to the economic downturn.

Support And Ownership

BANCOLDEX was founded in 1992, when the government separated Proexpo's export finance activities from its export promotion activities (now held in trust by Fiducoldex, BANCOLDEX's subsidiary). Proexpo was left in charge of export promotion activities, while BANCOLDEX was formed to manage export financing. The board of directors, which is appointed by the government and chaired by the Minister of Commerce, Industry and Tourism, oversees all bank activities and relies on management to implement the government's development plan.

BANCOLDEX is regulated by Colombia's banking superintendency and is subject to the same prudent regulations as private financial institutions, including capital adequacy and loan-loss provisioning. The bank has recently come under the Superintendency's guidelines for liquidity, as well. As a public-sector institution, the bank's activities are also monitored by Consejo Nacional de Política Económica y Social (the government's interministerial economic policymaking body), the controller general, the Ministry of Finance, and the central bank.

The bank is incorporated as a mixed-capital entity under Colombian law, allowing for both public- and private-sector equity ownership. Nevertheless, the bank is almost entirely owned by the Colombian government; only 0.3% is held privately. Colombia's Ministry of Commerce, Industry and Tourism owns 91.87% of the bank's shares, and the Ministry of Finance holds 7.85%. The remaining 0.28% is held by investment funds, employee funds, and other individuals.

In late 1998, the government contemplated selling an 11% stake in BANCOLDEX to the public, but a lack of interest led to a decision to maintain control and postpone any sale. Despite almost full government ownership, BANCOLDEX's status as a mixed-capital entity places it under the same legal regime as private institutions, thereby granting it greater operational flexibility than other state-owned enterprises. The bank has recently gained both domestic and external certifications (ISO 9001:2000) in an effort to improve the quality of its processes and services.

Strategy

BANCOLDEX is likely to continue broadening the range of its products, focusing on extending more medium- to longer-term loans rather than short-term loans, and to continue expanding its loan portfolio to SMEs over the next few years. Over the years, its mandate has widened beyond export-oriented lending and has shifted toward that of a development bank. The bank has placed growing emphasis on providing services to poorer segments of society by expanding its network of intermediary lenders, its products, and its regional presence. Such activities require more time and effort to implement (compared to loans to traditional large borrowers), but they generate a modest level of added lending. In addition, they are an important part of the bank's policy mandate.

The bank is also participating in other initiatives to modernize the country, including investments in Colombia's infrastructure fund (along with multilaterals like Corporacion Andina de Fomento {CAF} and the Inter-American Development Bank {IADB} and private investors). The infrastructure fund is likely to play a key role in developing infrastructure such as roads, highways, and ports over the coming years. The bank would also like to promote the Colombian private equity sector in cooperation with multilaterals and local pension funds.

Asset Quality

One of BANCOLDEX's distinguishing characteristics has been its superior asset quality. Its gross nonperforming loans (NPLs) remain below 1% of gross loans, and loan loss reserves have risen above 3% of gross loans. (NPLs were less than 0.2% of gross loans in September 2009.) This compares favorably with the Colombian financial system as a whole, where NPLs rose to 4.1% of the total portfolio in 2008.

Table 2

Banco de Comercio Exterior de Colombia S.A./Asset Quality					
	--Year ended Dec. 31--				
Mil. COP	2008	2007	2006	2005	2004
Loan loss provisions/average loans	2.90	2.08	1.10	0.74	0.27
Loan loss reserves/loans (gross)	3.11	2.83	3.14	3.19	2.66
Nonperforming assets (gross)/loans (gross)	0.04	0.04	0.11	0.35	0.98
Loan loss reserves/nonperforming assets	3,553.6	2,520.1	2,842.3	904.3	272.6

As a second-floor bank, BANCOLDEX is exposed primarily to Colombia's higher-quality financial institutions rather than to lesser-quality financial entities or exporters. The bank works with 47 financial intermediaries, which it ranks from 1 to 5 according to creditworthiness (1 being the highest quality). The board of directors established the bank's limit exposure to any one institution rated in Category 1 to 100% of BANCOLDEX's eligible equity, 600% of the borrower's equity, or 80% of the borrower's earning assets, whichever is lowest. The limits are lower for institutions rated below Category 1. Loans to institutions in Category 4 are restricted to 10% of equity, and those in Category 5 are ineligible for loans.

The bank's total assets grew 28% in 2008, while NPLs stayed below 1% of total loans (mainly a residual from the 1998 portfolio from an old bank). Total disbursements leaped to COP3.89 billion in 2008, 66% above the planned level. The resulting increase in total outstanding credit was about COP1.2 billion. Credits issued in U.S. dollars rose

by \$202 million. About 36% of the loan book was in foreign currency at the end of 2008, compared with 32% at the end of 2007. The bank's investment assets made up 8% of its total assets in 2008.

The bank expects loan growth to continue in coming years, in line with an economic recovery. BANCOLDEX signed a US\$650 million loan from the IADB for the support of competitiveness of local firms and borrowed US\$300 million from CAF in 2008. It was also active in gaining funding through the local market in 2009.

Profitability

BANCOLDEX's profitability compares well with other state-owned and private-sector Colombian financial institutions. The bank's net income rose by 36% in 2008, to COP72 billion, thanks largely to an increase in its net financial margin. Profitability, as measured by ROAA and return on average equity (ROAE), rose in 2008. ROAA grew modestly to 1.31% in 2008 from 1.29% in the previous year, while ROAE rose to 5.6% from 4.3% in the same period. In addition, net interest income rose as a share of average assets during 2008.

Table 3

Banco de Comercio Exterior de Colombia S.A./Profitability					
	--Year ended Dec. 31--				
(%)	2008	2007	2006	2005	2004
Revenues/average assets	3.72	3.45	3.24	2.70	2.23
Net interest income/average assets	3.72	3.45	3.24	2.70	2.23
Noninterest expense/average assets	0.73	0.75	(0.01)	0.46	0.37
Net operating income before loan loss provisions/average assets	2.64	2.11	1.99	1.56	1.14
Net operating income after loan loss provisions/average assets	1.19	1.01	1.06	0.91	0.90
Loan loss provisions/average assets	1.45	1.10	0.93	0.65	0.24
Pretax profits/average assets	0.00	1.60	2.32	1.58	1.62
Net income/average assets (ROAA)	1.31	1.29	1.58	0.91	1.00
Noninterest expense/revenues	19.51	21.82	(0.40)	17.16	16.54
Net operating income before loan loss provisions/revenues	70.99	61.10	61.46	57.75	51.06
Net operating income after loan loss provisions/revenues	31.93	29.30	32.79	33.62	40.29
Loan loss provisions/revenues	39.06	31.80	28.66	24.14	10.77
Pretax profits/revenues	41.43	46.38	71.74	58.70	72.69
Net income/revenues	35.13	37.49	48.92	33.86	44.65
Net income/average adjusted common equity (ROAE)	5.60	4.25	4.60	2.95	3.47

Asset-Liability Management

BANCOLDEX seeks to match the maturities, repricing, and currency denominations of its assets and liabilities. Dollar-denominated loans are priced at LIBOR plus a spread, and are funded by external borrowings, also generally priced at LIBOR plus a spread. Peso-denominated loans are priced at a spread above the term deposit rate (the local commercial bank average cost of funds) and are funded by CDs, bonds, and shareholders' equity. Because the bulk of BANCOLDEX's lending is still largely medium-term in nature, the bank remains highly liquid. However, to ensure that the bank has adequate funds to meet its future obligations, its treasury department maintains a portfolio

of marketable securities.

The bank uses its own capital, internally generated funds, and peso-denominated debt attained in a 1993 debt-for-equity swap to fund peso lending. However, due to the dramatic rise in demand for peso funds, the bank was forced to limit these resources. As a result, it entered the local money markets for the first time in 1999. In June of that year, BANCOLDEX issued COP12.4 billion in peso-denominated CDs. Since then, the bank has continued to issue peso-denominated CDs and short-term notes; and, subsequently, it has become one of the most active local market issuers. At year-end 2008, BANCOLDEX had just over COP1 trillion in local-currency CDs and notes outstanding, in addition to COP1.4 trillion in local currency bonds. The bank's foreign-currency debt--mainly loans from external banks and some multilaterals--rose by 29%, to US\$793 million (COP1.78 trillion) at the end of 2008.

BANCOLDEX benefits from its reliance on local markets. The bank enjoys a competitive advantage that allows it to issue domestic debt at lower rates and longer maturities than other financial institutions. As a result, the bank enjoys higher net interest margins in its peso-lending business.

Capital

Despite the significant expansion of its assets after it received a significant portion of IFI's assets in 2003 and the reduction of its capital as a result of its 1993 equity-to-debt swap, BANCOLDEX continues to be one of Colombia's most highly capitalized financial institutions. The bank had equity of COP1.3 trillion at year-end 2008, up from COP 1.27 billion at the end of the previous year. This represents an equity-to-assets ratio of 21%, down from 36% at year-end 2006 (due largely to loan growth). We believe that BANCOLDEX still has the ability to meet both the Bank for International Settlements' 8% minimum risk-weighted capital ratio and the Colombian banking superintendency's 9% requirement (see table 4).

Table 4

Banco de Comercio Exterior de Colombia S.A./Capital Statistics					
	--Year ended Dec. 31--				
(%)	2008	2007	2006	2005	2004
Adjusted common equity/assets	21.03	26.28	36.31	32.74	29.26
Adjusted common equity/loans	23.56	29.35	43.94	38.24	32.82
Adjusted equity plus total reserves/loans	29.05	34.34	50.91	44.70	38.60
Adjusted total equity/assets	23.06	28.15	39.39	35.45	31.98
Adjusted total equity/loans(net)	25.84	31.44	47.67	41.41	35.87

Ratings Detail (As Of January 26, 2010)*

Banco de Comercio Exterior de Colombia S.A. (BANCOLDEX)

Counterparty Credit Rating

Foreign Currency

BB+/Stable/--

Certificate Of Deposit

Foreign Currency

BB+

Counterparty Credit Ratings History

07-Mar-2007

Foreign Currency

BB+/Stable/--

22-Feb-2006

BB/Positive/--

Ratings Detail (As Of January 26, 2010)* (cont.)	
14-Jul-2003	BB/Stable/--
Sovereign Rating	
Colombia (Republic of)	
<i>Foreign Currency</i>	BB+/Stable/B
<i>Local Currency</i>	BBB+/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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