



Fitch Affirms Banco De Bogota and Related Entities; Outlook Negative

Fitch Ratings-New York-17 June 2019: Fitch Ratings has affirmed Banco de Bogota S.A. (Bogota) and selected related entities and subsidiaries' international and national ratings. Fitch has affirmed Bogota's Viability Rating (VR) and Long-Term (LT) Foreign and Local Currency Issuer Default Ratings (IDRs) at 'bbb' and 'BBB', respectively. The Rating Outlook for the LT IDRs is Negative. Under Criteria Observation (UCO) status on Bogota and related entities' short-term (ST) ratings was removed. A complete list of rating actions follows at the end of this release.

KEY RATING DRIVERS

VR, IDRS AND NATIONAL RATINGS

BOGOTA

The Negative Rating Outlook on the LT Foreign and Local Currency IDRs reflect the recent revision of Colombia's Rating Outlook to Negative and would be negatively affected by a downgrade of the sovereign rating. The IDRs are driven by Bogota's VR of 'bbb'. In the event of a sovereign downgrade, however, Fitch expects that the VRs of banks currently at the sovereign level will follow suit, since Fitch is unlikely to rate banks in Colombia higher than the sovereign rating, based on their intrinsic credit profiles.

Bogota's VR is highly influenced by the operating environment of the jurisdictions where Bogota does business. Additionally, the ratings consider its consistent financial performance, reasonable credit and risk policies, its ample and diversified funding base and its leading franchise. Capitalization remains the bank's main credit weakness relative to international peers (emerging market commercial banks in the 'bbb' category).

Bogota is Colombia's second largest bank by assets and deposits (14.6% and 13.8% market share respectively at December 2018), the largest bank by net income (29.2% market share) and third largest bank by loans. It is the largest bank by assets, loans and deposits in Central America (9.3%, 10.1% and 9.4% market share respectively at December 2018), as well as the second largest bank by net income. The bank is the main banking subsidiary of Grupo Aval (GA), Colombia's largest financial services group, which operates four commercial banks in Colombia. Bogota's Central American operations contribute to a diversified revenue base, a balanced credit portfolio and critical credit card and retail know-how.

Bogota's loan portfolio quality has remained sound in general, but the continued effect of specific corporate loans deterioration and the low growth of its loans portfolio during 2018 impacted the bank's past due loan (PDL) ratio, although this deterioration was below that of 2017. PDLs, defined as 90+ days past due, increased to 2.4% at December 2017, and reached 2.8% at December 2018 and March 2019. Loan loss ratio (LLR) coverage of PDLs averaged around 1.44x for the 2015-2017 period but improved during 2018 to around 1.65x, due to higher loan loss allowances for Electricaribe and the effect of IFRS 9 rules in 2018.

Fitch expects the deterioration in PDLs to reach an end during 2018 and will improve due to better economic activity and loan growth for 2019 and 2020. Nevertheless, Fitch notes that Bogota's asset quality compares

better than its local peers.

Bogota's capital has been sustained through a mix of sustained profitability and moderate dividend policies. At 10.5% at YE 2018, Bogota's FCC/risk-weighted assets ratio was in line with other large Colombian banks in 2018.

In Fitch's opinion, the bank's conservative profile and moderate dividend policy should underpin a stabilization of capital ratios near current levels. During 2019, it started the implementation of the new Basel III guidelines regulatory framework. In Fitch's opinion, this change would improve the FCC ratio for most banks, including Banco de Bogota. Fitch will closely monitor the final rules from the Superintendencia and the next steps to be taken by the bank in order to achieve the new capital requirements that could improve its FCC by 200 bps, which will make this ratio comparable with regional peers.

Bogota's performance improved during 2018 and 1Q19 due to higher equity method income from Corficolombiana and lower loan impairment charges (although it was impacted by IFRS 9). Stable margins and cost controls resulted in increasing efficiency, further contributing in the positive side. Fitch expects this recovery in profitability to be maintained in the mid-term due to stable income from Corficolombiana, expected loan growth and better credit cost. Nevertheless, Bogota's operating profit to risk weighted assets ratio remained robust, improving to 2.8% as of YE 2018, and comparing better than its local peers.

Bogota boasts an ample, well-diversified and low-cost depositor base that funds all its lending activities. The bank's deposit mix has been rather stable for the past four years. At the end of March 2019, deposits growth outpaced loans (9.4% yoy), increasing the bank's liquidity. Fitch core indicator, loans to deposit, remained stable around 100% during the last four years supported by its low concentration, high diversified deposit structure in Colombia and Central America that have resulted in high liquidity coverage. The bank is very active in capital markets, through issuances of its own or from subsidiaries. In 2018, the regulator issued a decree bringing into effect the liquidity coverage ratio (LCR), to be implemented in 2019 and in line with international standards. Bogota's new LCR ratio result was still high at 203%, but Fitch expects this ratio to remain close to 150% in the in the mid-term.

Fitch has affirmed Bogota's ST rating at 'F2' as a result of the application of its updated Short-Term Rating Criteria. Under the revised criteria, Bogota's 'BBB' LT IDR is on a new cusp point. Fitch has applied the higher of the two ST IDR options mapping to the 'BBB' LT IDR, as Bogota's liquidity assessment of 'bbb+' is at the minimum liquidity assessment at which the higher option would apply at the 'BBB' cusp point.

GRUPO AVAL ACCIONES Y VALORES S.A. (GRUPO AVAL)

Grupo Aval Acciones y Valores S.A.'s (Grupo Aval) ratings are driven by the business and financial profile of its main operating subsidiary, Bogota. Low double leverage, good cash flow metrics and a sound competitive position in multiple markets also support Grupo Aval's ratings.

Grupo Aval has a consistent, multibrand strategy; each of its four banks in Colombia (and their subsidiaries in Colombia and Central America) caters to specific segments and carries out its own commercial strategy that, at times, involves competing with sibling banks. Some synergies exist and are exploited whenever possible, such as digital banking directions and IT investments, but the challenges of operating four largely independent banks are, according to management, offset by the group's ability to capture business that would otherwise be left to competitors. Grupo Aval closely monitor the performance of the banks, Corficolombiana, Porvenir and BAC, participating in developing the entities' long-term strategy and strategic plan as well as the appointment of Grupo Aval's members on the board of each entities and top management. Grupo Aval's internal control department regularly performs audits of the seven entities as well as their operating subsidiaries.

On a consolidated basis, asset quality remains good and reflects diversification and the specific strengths within

each of the group's banks. In 2018, profitability improved for Grupo Aval at the consolidated level, as a consequence of higher income from its banking business as well as the effect of the higher income from Corficolombiana. Operating profit to estimated risk weighted assets ratio hiked to about 3.7%, a level above that of the 2015-2017 average. Fitch expects this level to be constant for the next two years, and it could be sustained in the long term if Corficolombiana continues to increase its participation in infrastructure projects, and with increasing loan growth, which should be accompanied by better cost of risk.

On an unconsolidated basis, Grupo Aval's double leverage is moderate and stable (1.10x at December 2018) and is expected to remain fairly stable unless the group embarks on rapid asset or inorganic growth, which is not Fitch's base case scenario in the short term.

CORPORACION FINANCIERA COLOMBIANA S.A. (CORFICOLOMBIANA)

Fitch has assigned Corficolombiana a VR of 'bbb', which is highly influenced by the operating environment of the jurisdictions where Corficolombiana does business and its business model, as a merchant bank and holding company. Additionally, the rating considers strong and diversified financial performance, high capitalization and wholesale funding.

Corficolombiana's ratings reflect the potential support it would receive from its main shareholder and its controlling company, Bogota and Grupo Aval, respectively, should it be required.

In Fitch's opinion, Corficolombiana's long-term equity investments and active treasury activity make it a core part of the wider Grupo Aval businesses. Fitch's assessment of support also considers the negative reputational implications of a subsidiary default for Corficolombiana's main shareholder and its controlling company. Bogota's willingness to support the entity remains unchanged as long as the bank remains Corficolombiana's main shareholder.

Corficolombiana is an investment-holding company that controls or holds significant interests in various companies in Colombia and abroad. The entity's equity investment policy is focused on low risk, consistent dividend-generating companies.

BANCO DE OCCIDENTE (OCCIDENTE)

The Negative Rating Outlook on the Foreign Currency and Local Currency IDRs of Banco de Occidente (Occidente) reflect the recent revision of Colombia's rating Outlook to Negative and would be negatively affected by a downgrade of the sovereign rating. The IDRs are driven by Occidente's VR of 'bbb'. In the event of a sovereign downgrade, however, Fitch expects that the VRs of banks currently at the sovereign level will follow suit, since Fitch is unlikely to rate banks in Colombia higher than the sovereign rating, based on their intrinsic credit profiles.

The bank's VR of 'bbb' is highly influenced by its solid capital ratios and operating environment. The ratings also consider the bank's resilient asset quality metrics weak profitability, as well as its adjustments to the business model. The bank's moderately concentrated funding represent one of the main weakness.

Consistent capital generation and moderate dividend policies underpin Occidente's capital metrics. As profits generation did not keep pace with asset growth, the bank's Fitch Core Capital (FCC) ratio declined slightly in 2018 to 13.71%. In Fitch's view, Occidente's capital ratios are adequate given the bank's excess loan loss reserves and good asset quality. The bank's capital ratios continued to exceed that of its domestic peers.

Strategic adjustments to Occidente's business model were performed during 2018. The process included a redefinition of its specific target market, strategic projects for selected sectors and tactic initiatives based on analytics, as well as the integration with its subsidiaries and Grupo Aval general initiatives. In Fitch view, Occidente should see additional benefits once the business model is completed and the bank recovers its

profitability and market share.

Occidente's conservative credit and risk management policies underpin its resilient asset quality. The bank's impaired loans to gross loans ratio reached a peak during second half of 2018 and began to stabilize at around 2.8% (March 2019) comparing favorably with its immediate peers (3.41% NPL in the same period). Such improvements in asset quality are a result of strategic adjustments to the banks' business model and cautious approach in the banks' its intermediation activities. Furthermore, Occidente's asset quality is strengthened by its loan loss reserves, which cover 1.9x its 90-day PDL portfolio at March 2019 and deemed sufficient by Fitch.

Despite resilient margins and the sustainable generation of non-interest revenues, low growth of intermediation operations and higher credit costs, related to the weaker economic cycle weighed on Occidente's profitability. In Fitch opinion, the bank's new strategy will focus on boosting its banking revenue growth through expansion of its loan portfolio and commission generating banking services; however, Fitch believes the limited size of the bank will continue narrowing profitability. As a result of the new banking strategy, in March 2019, Occidente's profitability metrics started to show a change in the previously observed negative trend.

As a medium-sized bank with ample presence throughout the country, Occidente benefits from a stable and ample deposit base. Deposits come primarily from institutional and public investors, resulting in higher funding costs and higher depositor concentrations compared to banks with a wider retail deposit base. Fitch believes that Occidente's less diversified funding profile relative to other larger Colombian banks could be a potential limitation to future rating upgrades.

FIDUCIARIA DE OCCIDENTE S.A. AND FIDUCIARIA CORFICOLOMBIANA S.A.

Fiduoccidente de Occidente S.A. is a wholly owned financing subsidiary of Occidente whose debt ratings are aligned with the bank's national ratings.

Fiduciaria Corficolombiana S.A.'s national ratings reflect the potential support it would receive from its parent, Corficolombiana, should it be required. In Fitch's view, Fiduciaria Corficolombiana is an integral part of its parent's business model and core to its strategy.

Fitch also incorporates in its support view the negative reputational implications of a potential subsidiary default for their respective parents.

CREDOMATIC INTERNATIONAL CORPORATION (CIC)

CIC's IDRs are driven by the potential support it would receive from its owner, Banco de Bogota (BBB/Negative), if required. CIC's IDRs are aligned with those of its parent reflecting its role as the holding company of an important proportion of Banco de Bogota's operation in Central America. Fitch also considers that Banco de Bogota has high incentives to provide timely support to CIC given the existence of cross-default clauses, which state that CIC's default would grant acceleration rights to Banco de Bogota's creditors.

CIC's ST IDR was affirmed following a similar rating action on Banco de Bogota's ST IDR. The short-term ratings subject to today's rating actions were determined primarily by correspondence tables, linking short-term to long-term ratings. Fitch has affirmed Bogota's short-term rating at 'F2' as a result of the application of its updated Short-Term Rating Criteria. Given that CIC's ratings are based on the parent's support, its ST IDR is aligned with the Banco de Bogota's ST IDRs of 'F2'.

SUPPORT RATING AND SUPPORT RATING FLOOR

BOGOTA

Given its size and systemic importance, Bogota is likely to receive support from Colombia's government, should it be required. Colombia's ability to provide such support is reflected in the sovereign's Long-Term IDR

(BBB/Negative) and drives Bogota's support rating floor of 'BBB-'.

GRUPO AVAL

As the focus of regulators is on protecting banks' depositors, not their shareholders, it is not likely that they would support a bank holding company. Hence, Grupo Aval's SR and SRF are rated '5' and 'No Floor', respectively.

CORFICOLOMBIANA

Given its importance to the strategy and business of the parent, support for Corficolombiana would come from its main shareholder. Its ability to support Corficolombiana is reflected in its support rating of '2' and IDR of 'BBB'/Outlook Negative.

OCCIDENTE

The bank's Support Rating of '2' reflects its role as one of the most important subsidiaries of Grupo Aval, as the second largest bank of the Group. In Fitch's opinion, Occidente is core for Grupo Aval's strategy and institutional support should be forthcoming, if required. Grupo Aval has a consistent track record of support for its subsidiaries and its ability to support them is illustrated by its 'BBB' rating.

SENIOR AND SUBORDINATED DEBT

BOGOTA

Bogota's senior unsecured obligations are rated at the same level than the bank's IDR. In turn, Bogota's subordinated debt is rated one notch below the bank's VR. The notching reflects higher expected losses in case of liquidation but no additional notching for non-performance given its gone concern-only characteristics (plain-vanilla subordinated debt).

GRUPO AVAL LIMITED

The ratings for Grupo Aval Limited's senior unsecured debt are aligned with those of Grupo Aval, as this entity guarantees the senior bonds issued by the former.

RATING SENSITIVITIES

VR, IDRS, NATIONAL RATINGS, SENIOR AND SUBORDINATED DEBT

BOGOTA

There is limited upside potential for Bogota's ratings given the sovereign's current rating and Outlook. On the other hand, any negative rating action on the sovereign would also lead to a similar action on Bogota's IDRs, VR and debt ratings. Furthermore, Bogota's ratings could also be negatively affected if the bank is not able to sustain a FCC ratio of around 10%, its impaired loan ratio deteriorates to a level consistently above 4% or its financial performance weakens (operating profit relative to risk-weighted assets consistently below 1.5%), though this is not Fitch's base case scenario. ST IDRs would be negatively affected by a downgrade in the LT IDR.

The ratings of Bogota's debt would move in line with the bank's IDRs.

GRUPO AVAL and GRUPO AVAL LIMITED

Grupo Aval's IDR would remain at the same level as Bogota's and would move in tandem with any rating actions on its main operating subsidiary. However, the relativity between these two entities' ratings could also be affected, in the event of a material and sustained increase in Grupo Aval's double-leverage metrics (above 1.2x), but also considering the holding company's liquidity position and its management. Additionally a change in the dividend flows from the operating companies or debt levels at the holding company that affects its debt coverage ratios could also be detrimental to its ratings.

The ratings for Grupo Aval Limited's senior unsecured debt would move in line with Grupo Aval's IDRs.

CORFICOLOMBIANA

There is limited upside potential for Corficolombiana's VR given the sovereign's current rating and Outlook. On the other hand, any negative rating action on the sovereign would also lead to a similar action on Corficolombiana's VR.

Corficolombiana's IDRs and National ratings are support-driven and, therefore, these ratings would mirror any changes in its main shareholders' IDRs.

OCCIDENTE

Occidente's Rating Outlook is Negative since Fitch is unlikely to rate banks in Colombia higher than the sovereign rating, based on their intrinsic credit profiles. Nevertheless, the bank's VR, IDRs, and National ratings could be pressured if its performance deteriorates (Operating Profit to Risk Weighted Assets below 1.5%) or its capital weakens (FCC consistently below 10%), though this is not Fitch's base case scenario.

While there is limited upside potential given the current level of the bank's and the sovereign's ratings, Occidente's VR and IDR could benefit from a reduction in deposit concentration and more diversified funding, combined with the maintenance of its solid capital metrics and a better financial performance over the medium term.

FIDUCIARIA DE OCCIDENTE AND FIDUCIARIA CORFICOLOMBIANA

Fiduciaria de Occidente's and Fiduciaria Corficolombiana's National ratings are support-driven and, therefore, these ratings would mirror any changes in Banco de Occidente's and Corficolombiana's IDRs, respectively.

CIC

CIC's ST IDR mirror Bogota's rating. Therefore, these ratings should reflect any change in Bogota's ST IDR.

SUPPORT RATING AND SUPPORT RATING FLOOR

Bogota's and Grupo Aval's SR and SRF would be affected if Fitch changes its assessment of the government's ability and/or willingness to support the bank or the holding company.

Corficolombiana's and Occidente's SR would be affected if Fitch changes its assessment of the parents' willingness and/or ability to provide support.

Fitch has taken the following rating actions:

Banco de Bogota

- Long-Term Foreign and Local Currency IDR affirmed at 'BBB', Outlook Negative;
- Short-Term Foreign and Local Currency IDR affirmed at 'F2', UCO removed;
- Viability Rating affirmed at 'bbb';
- Senior Unsecured Debt Rating affirmed at 'BBB';
- Subordinated Debt Rating affirmed at 'BBB-';
- Support Rating affirmed at '2';
- Support Rating Floor affirmed at 'BBB-'.

Grupo Aval Acciones y Valores S.A.

- Long-Term Foreign and Local Currency IDR affirmed at 'BBB', Outlook Negative;
- Short-Term Foreign and Local Currency IDR affirmed at 'F3';
- Support Rating affirmed at '5';

--Support Rating Floor affirmed at 'NF'.

Grupo Aval Limited

--Senior Unsecured Guaranteed Debt Issued by Grupo Aval Ltd. affirmed at 'BBB'.

Banco de Occidente

--Long-Term Foreign and Local Currency IDR affirmed at 'BBB', Outlook Negative;

--Short-Term Foreign and Local Currency IDR affirmed at 'F3';

--Viability rating affirmed at 'bbb';

--Support Rating affirmed at '2';

--National Scale Long-Term Rating affirmed at 'AAA(col)'; Outlook Stable;

--National Scale Short-Term Rating affirmed at 'F1+(col)'.

Corficolombiana

--Long-Term Foreign and Local Currency IDR affirmed at 'BBB', Outlook Negative;

--Short-Term Foreign and Local Currency IDR affirmed at 'F2', UCO removed;

--Viability rating assigned at 'bbb';

--Support Rating affirmed at '2';

--National Scale Long-Term Rating affirmed at 'AAA(col)'; Outlook Stable;

--National Scale Short-Term Rating affirmed at 'F1+(col)'.

Fiduciaria de Occidente S.A.

--National Scale Long-Term Rating affirmed at 'AAA(col)'; Outlook Stable;

--National Scale Short-Term Rating affirmed at 'F1+(col)'.

Fiduciaria Corficolombiana S.A.

--National Scale Long-Term Rating affirmed at 'AAA(col)'; Outlook Stable;

--National Scale Short-Term Rating affirmed at 'F1+(col)'.

CIC

--Short-Term Foreign Currency IDR affirmed at 'F2', UCO removed.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

Metodología Global de Calificación de Instituciones Financieras no Bancarias (pub. 21 Oct 2016)

Metodología de Calificaciones en Escala Nacional (pub. 02 Aug 2018)

Metodología de Calificación Global de Bancos (pub. 09 Jan 2017)

Non-Bank Financial Institutions Rating Criteria (pub. 12 Oct 2018)

Short-Term Ratings Criteria (pub. 02 May 2019)

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