

15 DEC 2020

## Fitch Affirms Banco De Bogota and Related Entities; Outlook Negative

Fitch Ratings - New York - 15 Dec 2020: 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.

The Negative Outlook on Bogota's ratings reflects the increased downside risks from the economic implications of the Coronavirus pandemic, reflected in the Negative Outlook for the operating environment score. It also incorporates the Negative Outlook on the sovereign rating as Fitch is unlikely to rate banks in Colombia higher than the sovereign based on their intrinsic credit profiles. Fitch believes the recession of at least 6.9% in 2020 will result in asset quality deterioration and will weigh on profitability.

### Key Rating Drivers

#### VR, IDRS AND NATIONAL RATINGS

#### BOGOTA

Bogota's VR is highly influenced by the operating environment of the jurisdictions where Bogota does business as well as its company profile, which is underpinned by its leading franchise. The bank's ratings also consider its consistent financial performance, reasonable credit and risk policies and its ample and diversified funding base. Capitalization remains the bank's main credit weakness relative to international peers (emerging market commercial banks in the 'bbb' category), especially after the consolidation of Multi Financial Group's (MFG) operations in Panama.

Bogota is Colombia's second-largest bank by assets and third by deposits (14.6% and 13.4% market share respectively at September 2020), the largest bank by net income (41% market share) and third-largest bank by loans. 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. However, the bank implemented various types of deferrals or grace periods to its clients in Colombia and Central America to support those affected by the coronavirus outbreak. In September 2020, the total relief program represented 14.8% of gross loans. The agency expects the data for 4Q20 and 1Q21 to present a clearer representation of loan quality deterioration for its Colombian operations. However, this will only be

apparent in Central America after 2Q21, as deferral measures vary by the country of operation and have been extended in some cases.

PDLs, defined as more than 90 days past due, increased to 3.13% of gross loans at September 2020, above the 2016-2019 period average of 2.39%. Nevertheless, Fitch notes that Bogota's asset quality is in line with its local peers' and includes controlled charge-off ratios. As of September, 2020, loan loss reserve coverage ratio returned to its historical level (1.49x) as a consequence of the increase on PDLs. Fitch expects the deteriorating trend in PDLs to continue in 1H21.

During 2020, peso depreciation, and to a greater extent, the MFG acquisition, which was consolidated in June 2020, weighted on capitalization. Nevertheless, the impact on Bogota's capital metrics following the acquisition has been in line with Fitch's initial projections, including FCC to RWAs and tangible equity to tangible assets ratios 130-160 basis points below those from before the acquisition, under a scenario of moderate growth and a conservative dividend payout. As of September 2020, the entity issued an AT1 of about USD520 million to enhance regulatory metrics. Bogota's FCC and tangible equity ratios reached 9.39% and 7.24%, respectively, while consolidated regulatory capital ratios stood at 12.7% above the 9% minimum required.

During 2021, the bank will start to implement the new Basel III guidelines under Colombia's regulatory framework. In Fitch's opinion, this change will improve the FCC ratio. Fitch will closely monitor the bank's next steps to meet the new requirements, which could improve its FCC ratio by 150 bps.

In 2020, higher loan impairment charges due to the impact of the coronavirus and a lower net interest margin (NIM), caused the bank's operating profit to risk weighted assets ratio to decline to 1.91% at 3Q20 from 2.81% at YE19. Higher RWA due to the peso depreciation, as well as the consolidation of MFG after June 2020 also weighed on profitability.

Bogota boasts an ample, well-diversified and low-cost deposit base that funds all its lending activities. In September 2020, peso depreciation and the acquisition of MSG underpinned deposit growth of 30% yoy. Fitch's core indicator, loans to deposits ratio, improved in September 2020 to 94.6%, comparing favorably with local and regional peers.

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

Grupo Aval's 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.

On a consolidated basis, asset quality remains stable despite the impact from the coronavirus, reflecting diversification. In September 2020, 15.5% of the consolidated gross loans remain under relief program. The holding company's operating profit to estimated risk weighted assets ratio declined to 2.34% in September 2020. Fitch expects a weakening of dividend flows due to the effects of the coronavirus.

On an unconsolidated basis, Grupo Aval's double leverage is moderate (1.11x at September 2020 or

1.17x when including the AT1 bonds acquired after MFG's acquisition). This ratio is expected to remain stable.

#### CORPORACION FINANCIERA COLOMBIANA S.A. (CORFICOLOMBIANA)

Corficolombiana's IDRs are driven by its Viability Rating (VR), which reflects with high importance the challenging operating environment and its company profile. The ratings also consider Corficolombiana's strong financial profile. The Negative Rating Outlook on the IDRs reflect the negative trend on the operating environment and the sovereign Negative rating Outlook.

Under Fitch's current assessment, Corficolombiana's IDR will likely remain at the level determined by its own Viability Rating (VR), or at the same level as its main shareholder and its controlling company, whichever is higher.

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. Corficolombiana profitability and capital metrics have sustained sound in spite of the current challenges in the operating environment.

#### BANCO DE OCCIDENTE S.A. (OCCIDENTE)

Occidente's IDRs are driven by its Viability Rating (VR) of 'bbb-'. The bank's VR reflects with high importance the already deteriorated operating environment and the impact of this factor in its company profile. The ratings also consider the bank's resilient asset quality metrics, recently weakened profitability and moderately concentrated funding that could be tested during this period. Fitch expects asset quality and profitability metrics to deteriorate due to the reduction in economic activity and social distancing measures. The Negative Rating Outlook on the IDRs reflects the negative trend on the operating environment and the sovereign Negative rating Outlook.

In September 2020, Occidente's loan growth of 11% was above the system average of 4.4%, due to a better business dynamic in 2H19 and a new business plan. In Fitch's view, the bank should see additional benefits once the business model which included a redefinition of the target market and strategic initiatives is fully implemented and once the economic activity resumes.

Occidente has reported relatively sound asset quality indicators through the cycles. However, the level of the bank's past due loans increased to 3.76% at September 2020 from an average of 3.0% from 2016 to 2019 and similar to the peak reached in 2H18. The take-up rate for payment relief initiatives stood at 36% as of Oct 2020. Fitch expects asset quality to deteriorate for all banks in all economic sectors and to continue pressuring credit costs. Reserve coverage decreased slightly to 1.4x from an average of 1.6x between 2016 to 2019.

Fitch's core metric ratio of operating profit to RWAs of 0.7% at September 2020 was less than half of the bank's historical average of 1.8% from 2016 to 2019. Fitch expects profitability to decline in the short-term, as a result of lower operating revenues, higher delinquency levels and decelerating credit expansion due to the coronavirus crisis.

The bank's Fitch Core Capital (FCC) ratio declined to 12.1% at September 2020. In Fitch's view, Occidente's capital ratios are adequate given the bank's excess loan loss reserves and asset quality. Fitch expects the bank to continue generating organic growth, which combined with lower profits, will pressure capital ratios. Like other banks, Occidente will benefit from the adoption of Basel III guidelines.

As a medium-sized bank with ample presence throughout the country, Occidente boasts a stable and ample deposit base and good liquidity. Its loans to deposits ratio of around 102% at September 2020 has benefited from a mix of deposits and several bond issuances in the local market. This has improved the bank's funding profile by providing a better match between short to medium term assets and short-term liabilities structure. Fitch does not anticipate major effects from the coronavirus in its evaluation of the funding and liquidity score.

#### BANCO DE OCCIDENTE (PANAMA) S.A. (BOP)

BOP's IDRs reflect the potential support it would receive from Occidente should it be required. The parent's ability to support its Panamanian subsidiary is primarily based on Occidente's IDR of 'BBB-' with a Negative Outlook. The propensity of support is based on the strategic role the Panamanian subsidiary plays in implementing its parent's global strategy of deepening the product reach offered to its corporate and private banks customers. BOP's IDRs also reflect the importance of the subsidiary in expanding Occidente's international presence while maximizing synergies with Grupo Aval, Occidente's and BOP's ultimate parent. Furthermore, Occidente's propensity to support its Panamanian subsidiary is considered high by Fitch given the reputational risk associated at the parent level associated with a default at the subsidiary level. Additionally, Occidente's expected support to BOP is bolstered by the operational synergies and alignment of risk controls and business practices.

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

Fiduciaria 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, Fiducaria de Occidente and Fiduciaria Corficolombiana are integral part of their respective parent's business models and core to their strategy. Fitch also incorporates in its support view the negative reputational implications of a potential subsidiary default for their respective parents.

#### SUPPORT RATING AND SUPPORT RATING FLOOR

##### BOGOTA

Fitch has affirmed the bank's Support Rating (SR) of '3' and Support Rating Floor (SRF) of 'BB+', reflecting the agency's estimation of a moderate probability of sovereign support, if required, given the

bank's systemic importance. The ability of the sovereign to provide support is based on its 'BBB-' Long-term IDRs, which have Negative Rating Outlook.

#### 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 Group's second largest bank. 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.

#### BOP

The Support Rating of '2' reflects Fitch view on Occidente's high propensity and willingness to support BOP if required, given the Panamanian subsidiary's core importance to the parent's business strategy and regional expansion.

#### SENIOR AND SUBORDINATED DEBT

##### BOGOTA

Bogota's Senior Unsecured obligations are rated at the same level than the bank's IDR. Its subordinated debt is rated two notches below the bank's VR. The notching reflects change in baseline notching for loss-severity to two notches, from one notch previously.

##### 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.

##### CORFICOLOMBIANA

Corficolombiana's Senior Unsecured obligations are rated at the same level than the bank's long-term national-scale rating.

## RATING SENSITIVITIES

VR, IDRS, NATIONAL RATINGS, SENIOR AND SUBORDINATED DEBT

### BOGOTA

Factors that could, individually or collectively, lead to negative rating action/downgrade

-- Any negative rating action on the sovereign would also lead to a similar action on the Foreign Currency and Local Currency IDRs for Bogota;

-- An extended period of economic disruption as a result of the Coronavirus that leads to a significant deterioration in the operating environment, asset quality and/or profitability, resulting in an erosion of capital cushions would also be negative for ratings;

-- Bogota's ratings could also be negatively affected if the bank fails to restore its core and tangible capital ratios according to Fitch's expected projections during the 12 months after completion of MFG acquisition (tangible capital to tangible asset ratio consistently above 8.5%). A further downside could occur if the bank's operating profit relative to risk-weighted assets consistently deteriorates 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.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-- The ratings currently have a Negative Outlook, which makes an upgrade highly unlikely in the near future as the banks' IDRs are constrained by the sovereign rating, while the VRs are constrained by the worsening operating environment;

-- Rating Outlooks could be revised to Stable if the operating environment stabilizes and if the bank is in a good path to sustain or rebuild capital metrics and profitability to pre pandemic levels;

-- 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

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-- Corficolombiana's VR is sensitive to any further rating actions on Colombia's sovereign ratings or a material deterioration in the local operating environment. However, if the VR were downgraded, the IDR could become support-driven and remain at equalized to its main shareholder's, given Fitch's "higher of" approach and our assessment of the subsidiary being core for Grupo Aval. In this latter case, the Rating Outlook or Watch would mirror that of the parent.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-- There is limited upside potential for Corficolombiana's VR given the sovereign's current rating and Outlook;

--Ratings could be revised to Stable if the operating environment stabilizes and if the entity is in a good path to sustain or rebuild capital metrics and profitability to pre pandemic levels.

## OCCIDENTE

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-- Occidente's VR and IDRs are sensitive to any further rating actions on Colombia's sovereign ratings or a material deterioration in the local operating environment;

-- The Rating Outlook implies that ratings could be downgraded from a continued deterioration of the operating environment due to an extended period of economic disruption as a result of the coronavirus that leads to a significant deterioration of the asset quality and/or profitability, resulting in an erosion of capital cushions (FCC consistently below 10%).

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-- The ratings currently have a negative outlook, which makes an upgrade highly unlikely in the near future as the banks' IDRs are constrained by the sovereign rating and country ceiling, while the VRs are constrained by the worsening operating environment;

-- Ratings could be revised to Stable if the operating environment stabilizes and if the bank is in a good path to sustain or rebuild capital metrics and profitability to pre pandemic levels.

## 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 National-scale ratings, respectively.

## BANCO DE OCCIDENTE PANAMA (BOP)

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--BOP's IDRs would change if Fitch's assessment of its parent's ability and/or willingness to support BOP changes. In general, the IDRs would move in line with those of its parent.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--BOP's IDRs would change if Fitch's assessment of its parent's ability and/or willingness to support BOP changes. In general, the IDRs would move in line with those of its parent.

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

### **Best/Worst Case Rating Scenario**

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

### **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

#### **Public Ratings with Credit Linkage to other ratings**

Banco Comercial Av Villas S.A. and Banco Popular S.A.'s ratings are driven by the support of Grupo Aval Acciones y Valores S.A.

Grupo Aval Acciones y Valores S.A.'s ratings are driven by Banco de Bogotá, S.A.'s ratings.

Banco de Occidente (Panamá) S.A.'s ratings are driven by the support of Banco de Occidente S.A.

Fiduciaria Corficolombiana S.A.'s ratings are driven by the support of Corporación Financiera Colombiana S.A.

Fiduciaria de Occidente S.A.'s ratings are driven by the support of Banco de Occidente S.A.

Grupo Aval Limited's ratings are driven by the support of Grupo Aval Acciones y Valores S.A.



## ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

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## Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Fiduciaria Corficolombiana S.A.	Natl LT	AAA(col)	Affirmed	AAA(col)
	Natl ST	F1+(col)	Affirmed	F1+(col)
Banco de Occidente (Panama), S. A.	LT IDR	BBB-	Affirmed	BBB-
	ST IDR	F3	Affirmed	F3
	Support	2	Affirmed	2
Fiduciaria de Occidente S.A.	Natl LT	AAA(col)	Affirmed	AAA(col)
	Natl ST	F1+(col)	Affirmed	F1+(col)
Banco de Bogota, S.A.	LT IDR	BBB-	Affirmed	BBB-
	ST IDR	F3	Affirmed	F3
	LC LT IDR	BBB-	Affirmed	BBB-
	LC ST IDR	F3	Affirmed	F3
	Viability	bbb-	Affirmed	bbb-
	Support	3	Affirmed	3
	Support Floor	BB+	Affirmed	BB+

ENTITY/DEBT	RATING		RECOVERY	PRIOR
• senior unsecured	LT	BBB-	Affirmed	BBB-
• subordinated		BB	Affirmed	BB
Corporacion Financiera Colombiana S.A. (Corficolombiana)	LT IDR	BBB- ●	Affirmed	BBB- ●
	ST IDR	F3	Affirmed	F3
	LC LT IDR	BBB- ●	Affirmed	BBB- ●
	LC ST IDR	F3	Affirmed	F3
	Natl LT	AAA(col) ●	Affirmed	AAA(col) ●
	Natl ST	F1+(col)	Affirmed	F1+(col)
	Viability	bbb-	Affirmed	bbb-
	Support	2	Affirmed	2
• senior unsecured	Natl LT	AAA(col)	Affirmed	AAA(col)
Grupo Aval Acciones y Valores S.A.	LT IDR	BBB- ●	Affirmed	BBB- ●
	ST IDR	F3	Affirmed	F3

ENTITY/DEBT	RATING		RECOVERY	PRIOR
	LC LT IDR	BBB- 	Affirmed	BBB- 
	LC ST IDR	F3	Affirmed	F3
	Support	5	Affirmed	5
	Support Floor	NF	Affirmed	NF
Grupo Aval Limited				
	• senior unsecured LT	BBB-	Affirmed	BBB-
Banco de Occidente S.A.	LT IDR	BBB- 	Affirmed	BBB- 
	ST IDR	F3	Affirmed	F3
	LC LT IDR	BBB- 	Affirmed	BBB- 
	LC ST IDR	F3	Affirmed	F3
	Natl LT	AAA(col) 	Affirmed	AAA(col) 
	Natl ST	F1+(col)	Affirmed	F1+(col)
	Viability	bbb-	Affirmed	bbb-
	Support	2	Affirmed	2

#### RATINGS KEY OUTLOOK WATCH

POSITIVE



NEGATIVE



## RATINGS KEY OUTLOOK WATCH

EVOLVING



STABLE



### Applicable Criteria

[Bank Rating Criteria \(pub.28 Feb 2020\) \(including rating assumption sensitivity\)](#)

[Metodología de Calificaciones en Escala Nacional \(pub.08 Jun 2020\)](#)

[Metodología de Calificación de Bancos \(pub.18 Sep 2019\)](#)

[Metodología de Calificación de Instituciones Financieras no Bancarias \(pub.18 Sep 2019\)](#)

[National Scale Rating Criteria \(pub.08 Jun 2020\)](#)

[Non-Bank Financial Institutions Rating Criteria \(pub.28 Feb 2020\) \(including rating assumption sensitivity\)](#)

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