



Fitch Places Banco De Bogota and Grupo Aval on Rating Watch Negative

Fitch Ratings-New York-28 April 2016: Fitch Ratings has placed selected International Scale Ratings of Banco de Bogota S.A. (Bogota), Grupo Aval Acciones y Valores S.A. (Grupo Aval) and other related entities on Rating Watch Negative. This action follows the release of financial reports reflecting weaker than expected capital metrics at Bogota. Fitch has also placed the Issuer Default Ratings (IDRs) of other related entities that are directly linked to, or driven by, the ratings of Bogota and/or Grupo Aval on Rating Watch Negative. A complete list of rating actions is provided at the end of this release.

KEY RATING DRIVERS

VR, IDRs, AND SENIOR DEBT BOGOTA

The Rating Watch Negative reflects that Bogota's ratings could be downgraded, after Fitch completes a full review of the bank's capital adequacy metrics. These were particularly affected by the significant depreciation of the local currency, which boosted its USD denominated risk-weighted assets. The Rating Watch Negative will be resolved over the next few months after Fitch forms an opinion on the expected capital metrics of Bogota and the consistency of such metrics with the current rating levels.

Bogota's capital ratios declined in 2015 due to changes in the accounting standards (International Financial Reporting Standards were introduced starting in 2015) and the significant depreciation, given its sizeable assets abroad. While Fitch expected a slight decline in Bogota's capital ratios due to continued growth, the reported ratio declined more than originally expected.

According to Fitch's analysis, Bogota's Fitch core capital (FCC) ratio fell around 100bps during 2015 (December 2014: 9.89% under IFRS). IFRS was introduced in Colombia in 2015, and this resulted in a decline of Bogota's capital mainly through adjustments in goodwill treatment, deferred taxes, employee benefits and consolidation of partly-owned subsidiaries.

During 2015, the USD appreciated approximately 32% against the Colombian peso, hence Bogota's sizable USD assets (about 40% of its assets a YE15) and the USD denominated goodwill from previous acquisitions (which the bank booked in its Panamanian subsidiary) increased significantly. Therefore, the currency effect drove larger deductions to get Bogota's FCC and a larger amount of its RWAs. Fitch estimates the depreciation impact on Bogota's FCC ratio was between 100bps and 150bps, although the ultimate effect was partially tempered by the higher contributions of foreign, USD-denominated revenues.

According to Fitch's initial projections, Bogota's slower growth plans and sustained internal capital generation, could aid in rebuilding its capital ratios amid a stable economic environment and less volatile exchange rates, which is Fitch's baseline scenario. In addition, the bank's management and holding company are currently working on a capital plan that should aim to restore the bank's currently stressed capital buffers.

GRUPO AVAL

Grupo Aval's ratings are driven by the business and financial profile of its subsidiaries, particularly Bogota's, although they also consider Grupo Aval's moderate leverage and adequate cash flow metrics. Its ratings are also related to those of Bogota and thus mirror the Rating Watch Negative on the group's

main operating subsidiary. The Rating Watch affects only the 'BBB' Long-Term IDRs, which are one notch below Bogota's; Fitch does not expect that a potential downgrade of Bogota would affect Grupo Aval's 'F3' Short-Term IDRs.

GRUPO AVAL LIMITED

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

CORPORACION FINANCIERA COLOMBIANA

Corficolombiana's ratings reflect the potential support it would receive from its main shareholder, Banco de Bogota, should it be required. Fitch has placed Corficolombiana's IDRs on Rating Watch Negative in line with its parent's ratings. Bogota's willingness to support the entity remains unchanged, but the ability could be affected in the event of a downgrade of Bogota's ratings.

CREDOMATIC INTERNATIONAL CORPORATION (CIC)

CIC's IDRs reflect the support it would receive from its parent, Banco de Bogota, should it be required. Fitch has placed CIC's IDRs on Rating Watch Negative in line with its parent's ratings. Bogota's willingness to support the entity remains unchanged, but its ability to do so could be affected in the event of a downgrade of Bogota's ratings.

BANCO DE BOGOTA - SUBORDINATED DEBT

Bogota's subordinated debt is rated one notch below the bank's VR and therefore mirrors the Rating Watch Negative on its VR. The bonds do not have equity-like features that would merit equity credit following Fitch's criteria. The notching reflects higher expected losses in case of liquidation but no additional notching for non-performance, given its gone concern characteristics (plain vanilla subordinated debt).

RATING SENSITIVITIES

VR, IDRS, SENIOR AND SUBORDINATED DEBT BOGOTA

Fitch expects to resolve the Rating Watch Negative on Bogota's IDRs and VR once it has more clarity on the expected capital ratios that the bank could report in the future. Fitch expects a downgrade of Bogota's VR and IDRs would be limited to one notch from current levels.

Senior and subordinated debt ratings would also be downgraded by the same degree should Bogota's IDRs be downgraded.

GRUPO AVAL and GRUPO AVAL LIMITED.

Fitch expects Grupo Aval's IDRs to remain one notch below Bogota's and therefore they would follow any potential downgrade of the latter's IDRs. However, the relativity between these two entities could also be affected, in the event of material changes in Grupo Aval's double leverage metrics or in the dividend flows from the operating companies that affects its debt coverage ratios.

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

CORFICOLOMBIANA AND CIC

Corficolombiana's and CIC's IDRs are support-driven, and therefore these ratings would mirror any changes in Bogota's IDRs.

Fitch has placed the following ratings on Rating Watch Negative:

Banco de Bogota, S.A.

--Long-Term Foreign Currency IDR 'BBB+';
--Short-Term Foreign Currency IDR 'F2';
--Long-Term Local Currency IDR 'BBB+';
--Short-Term Local Currency IDR 'F2';
--Viability Rating 'bbb+';
--Senior unsecured debt 'BBB+';
--Subordinated debt 'BBB'.

Grupo Aval Acciones y Valores S.A.

--Long-Term Foreign Currency Issuer Default Rating (IDR) 'BBB';
--Long-Term Local Currency IDR at 'BBB'.

Grupo Aval Limited

--Senior unsecured guaranteed debt issued by Grupo Aval Ltd. 'BBB'.

Corporacion Financiera Colombiana S.A. (Corficolombiana)

--Long-Term Foreign Currency IDR 'BBB+';
--Long-Term Local Currency IDR 'BBB+';
--Short-Term Foreign Currency IDR 'F2';
--Short-Term Local Currency IDR 'F2'.

Credomatic International Corporation (CIC)

--Long-Term Foreign Currency IDR 'BBB+';
--Short-Term Foreign Currency IDR 'F2'.

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Applicable Criteria

Global Bank Rating Criteria (pub. 20 Mar 2015)

(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501&cft=0)

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