



Fitch Downgrades Banco De Bogota and Related Entities' Ratings; Outlook Negative

Fitch Ratings-New York-17 August 2016: Fitch Ratings has downgraded Banco de Bogota S.A. (Bogota) and certain subsidiaries' selected international ratings. Bogota's Viability Rating (VR) and Issuer Default Ratings (IDRs) were downgraded to 'bbb' and 'BBB', respectively, after Fitch concluded its review of the bank's financial profile. These ratings had been placed on Rating Watch negative on April 27, 2016, as the bank reported capital adequacy metrics weaker than Fitch's expectations.

With the downgrade, they have been removed from the Negative Watch status, and a Negative Outlook was assigned to the Long-Term IDRs, which is in line with Colombia's sovereign rating outlook (see Fitch's press release 'Fitch Applies Criteria Changes to Global Sovereign Ratings' and 'Fitch Reviews Colombia's Ratings; Applies Criteria Changes'; both dated July 22, 2016, and available on www.fitchratings.com). The Negative Outlook is driven exclusively by Colombia's sovereign outlook revision, and the implications this could have on the operating environment for Colombian banks.

In addition, Fitch has affirmed the IDRs and removed from Rating Watch Negative Grupo Aval Acciones y Valores S.A.'s (Grupo Aval) IDR of 'BBB'. A Negative Outlook was assigned to the Long-Term IDRs in line with that of its main operating subsidiary, also driven by a similar outlook on Colombia's sovereign rating.

A complete list of rating actions is provided at the end of this release.

According to Fitch's initial projections, the bank's plans, along with a deceleration in balance sheet growth, sustained internal capital generation and a moderate dividend payout policy, will lead to a recovery of Bogota's capitalization ratios to a level more commensurate with similarly rated international peers in the mid-term. Fitch's base case scenario of a less dynamic economic growth and a stabilizing exchange rate also bodes for the rebuilding of capital ratios.

KEY RATING DRIVERS

VIABILITY RATING (VR), IDRS, NATIONAL RATINGS AND SENIOR DEBT

BOGOTA

Bogota's ratings are highly influenced by its tight capitalization metrics, which are no longer consistent with its previous ratings, especially in view of a less benign operating environment in the foreseeable future. Fitch also considers the bank's sound asset quality and reserves, consistent financial performance, conservative credit and risk policies, as well as its ample and diversified funding base and company profile.

Capitalization was particularly affected by a change in accounting standards to IFRS from Colombian GAAP in December 2014 as well as the significant depreciation of the local currency, which boosted Bogota's USD-denominated risk-weighted assets and goodwill deductions from capital. Under IFRS, Bogota's Fitch Core Capital (FCC) ratio declined to 9.89% compared with 11.24% under Colgaap at this date, since the change in accounting standards affected mainly, among other items, goodwill and revaluations of fixed assets treatment. In 2015, the bank's FCC ratio declined further to 8.84%, more than Fitch anticipated, as the Colombian peso depreciated by 32%.

Grupo Aval and Bogota announced measures in June 2016 to reverse the deterioration of the bank's capital base. Leasing Bogota Panama, which is the vehicle that carries BAC's investments, will be

merged with Banco de Bogota in Colombia. This operation, which is already approved by the Panamanian regulator and is pending for approval from the Colombian regulator, should result in less volatility of goodwill and tax savings. Grupo Aval and Bogota switched the accounting treatment for the 38% share of Corficolombiana to the equity method (versus full consolidation, which will be held on Grupo Aval's books) in order to strengthen the capital position of the bank and focus their consolidated management on the financial business. The latter change, which was implemented during June 2016, brings an immediate positive impact because the risk-weighted assets (RWA) and intangibles from infrastructure and 4G concessions will no longer detract from Bogota's capitalization.

GRUPO AVAL

Grupo Aval's ratings are driven by the business and financial profile of its subsidiaries, particularly its main operating subsidiary, Bogota. As such, Fitch has removed the Long-Term IDRs from Rating Watch Negative, affirmed its IDRs and assigned the ratings a Negative Outlook.

Low double leverage, moderate debt, adequate cash flow metrics and a sound competitive position in multiple markets also support Grupo Aval's ratings.

GRUPO AVAL LIMITED

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

CORPORACION FINANCIERA COLOMBIANA S.A. (CORFICOLOMBIANA)

Corficolombiana's ratings reflect the potential support it would receive from its main shareholder, Banco de Bogota, should it be required. Fitch has downgraded Corficolombiana's IDRs and assigned them a Negative Outlook in line with its parent's ratings. Bogota's willingness to support the entity remains unchanged as long as the bank remains Corficolombiana's main shareholder.

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 downgraded CIC's IDRs and assigned them a Negative Outlook in line with its parent's ratings. Bogota's willingness to support the entity remains unchanged.

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 Colombia's sovereign rating ('BBB'/ Outlook Negative') and drives Bogota's support 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 AND CIC

Given their importance to the strategy and business of the parent, support for these entities would come from Banco de Bogota. The parents' ability to support their subsidiaries is reflected in their ratings of 'BBB'/Outlook Negative.

SUBORDINATED DEBT

BOGOTA

Bogota's subordinated debt is rated one notch below the bank's 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, NATIONAL RATINGS, SENIOR AND SUBORDINATED DEBT

BOGOTA

There is limited upside potential for Bogota's ratings given the bank's capitalization metrics and the negative trend of the operating environment. Any potential upside to the bank's ratings could occur only over the medium term, and is contingent on a material strengthening of its loss absorption capacity, and also reliant on a stabilization of the sovereign rating and the operating environment.

On the other hand, any negative rating action on the sovereign would also lead to a similar action on Bogota's IDRs, VR and senior debt ratings. Furthermore, further negative actions could also arise if the bank is not able to rebuild its capital metrics to levels closer to a FCC ratio of 10% over the next 18-24 months, an impaired loans ratio consistently above 4%, or a weaker performance (operating ROAA relative to risk-weighted assets consistently below 1.5%).

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 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 its main shareholder's IDRs.

SUPPORT RATING AND SUPPORT RATING FLOOR

The SR is potentially sensitive to any change in assumptions around the propensity or ability of the Republic of Colombia or the entity's parent to provide timely support to the bank. 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.

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

Fitch has taken the following rating actions:

Banco de Bogota

- Long-Term Foreign Currency IDR downgraded to 'BBB' from 'BBB+'; Outlook Negative;
- Short-term foreign currency IDR affirmed at 'F2', removed Rating Watch Negative;
- Long-term local currency IDR downgraded to 'BBB' from 'BBB+'; Outlook Negative;
- Short-term local currency IDR affirmed at 'F2', removed Rating Watch Negative;
- Viability rating downgraded to 'bbb' from 'bbb+', removed Rating Watch Negative;
- Senior unsecured debt rating downgraded to 'BBB' from 'BBB+' removed Rating Watch Negative;
- Subordinated debt rating downgraded to 'BBB-' from 'BBB'; removed Rating Watch Negative;
- Support rating affirmed at '2';

--Support rating floor affirmed at 'BBB-'.

Grupo Aval

--Long-term Foreign Currency IDR affirmed at 'BBB'; Outlook Negative;

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

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

--Short-Term 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', removed Rating Watch Negative.

Corficolombiana

--Long-Term Foreign Currency IDR downgraded to 'BBB' from 'BBB+'; Outlook Negative;

--Long-Term Local Currency IDR downgraded to 'BBB' from 'BBB+'; Outlook Negative;

--Short-Term Foreign Currency IDR affirmed at 'F2', removed Rating Watch Negative;

--Short-Term Local Currency IDR affirmed at 'F2', removed Rating Watch Negative;

--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)'.

CIC

--Long-Term Foreign Currency IDR downgraded to 'BBB' from 'BBB+'; Outlook Negative;;

--Short-Term Foreign Currency IDR affirmed at 'F2', removed Rating Watch Negative;

--Support Rating affirmed at '2'.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Global Bank Rating Criteria (pub. 15 Jul 2016)

(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=884135)

Global Non-Bank Financial Institutions Rating Criteria (pub. 15 Jul 2016)

(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=884128)

National Scale Ratings Criteria (pub. 30 Oct 2013)

(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=720082)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1010501)

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