

## **FITCH AFFIRMS BANCO DE BOGOTA AT 'BBB+' AND GRUPO AVAL AT 'BBB'; OUTLOOK STABLE**

Fitch Ratings-New York-21 July 2015: Fitch Ratings has today affirmed Banco de Bogota S.A.'s (Bogota) Viability Rating (VR) at 'bbb+' and Issuer Default Rating (IDR) at 'BBB+'. Fitch has also affirmed the following ratings:

- Grupo Aval Acciones y Valores S.A. (Grupo Aval) IDR at 'BBB';
- Banco de Occidente S.A. VR at 'bbb'; IDR at 'BBB'; and
- Corporacion Financiera Colombiana S.A. (Corficolombiana) IDR at 'BBB+'.

The Rating Outlooks are Stable. A full list of rating actions follows at the end of this release.

### **KEY RATING DRIVERS**

#### **VR, IDRS, NATIONAL RATINGS AND SENIOR DEBT**

#### **BOGOTA**

Fitch has affirmed Bogota's VR and IDRs as the bank has maintained a sound performance and a solid balance sheet while adroitly integrating its new subsidiaries in Guatemala and Panama.

Bogota's ratings reflect its strong franchise, sound asset quality and reserves, consistent and improving performance, conservative credit/risk policies, ample, diversified funding, adequate capital and systemic importance. Fitch's view of Bogota's creditworthiness is tempered by its heightened competitive environment and the risk arising from its on-going diversification abroad and into retail.

In about five years, Bogota has acquired a sizable franchise in Central America that was seamlessly integrated, thoughtfully strengthened and adroitly managed. Hence the bank has consolidated as one of the top players in Colombia - where its market share is about 15% by assets - and a leading regional player in Central America (market share about 9% by assets); by the same token it has diversified its revenues, better balanced its portfolio and acquired critical credit card and retail know-how.

Bogota's conservative credit and risk management policies and stable economic environment in Colombia (as well as relative stability in Central America) resulted in very good asset quality (90-day PDL's stood at 1.4% at December 2014) that has remained fairly stable in the past few years and is complemented by sufficient loan loss reserves (1.9x its PDL portfolio).

Bogota's performance metrics remain sound as operating revenues are now better diversified and show a positive trend while operating expenses have increased after the integration of the new subsidiaries. On the bright side, credit cost stabilized in relative terms, thus underpinning profitability which has remained in the 1.6% - 2% range (ROAA for the past five years). Fitch acknowledges that past high profitability ratios of Colombian banks will gradually converge to the average of other growing emerging markets. ROAA levels may stabilize below 2% but above 1.5% in the medium term.

Bogota enjoys a wide customer base and relatively lower funding costs compared to its peers; customer deposits fund Bogota's loan portfolio in its entirety and the bank has ample access to Colombia's and international capital markets. Furthermore, it enjoys the full support of its shareholders as illustrated during the acquisition of BAC and the subsequent purchase of Grupo Reformador and BBVA Panama; which prompted timely capital injections.

Capital metrics have stabilized after the bank's expansion and the goodwill it created; the basic measure of capital - Fitch Core Capital (FCC) - stood at 11.2% at December 2014 while the tangible equity to assets stood at 10% at the same date. These levels compare well to those of similarly rated banks and are underpinned by the bank's profitability which is expected to be underpinned by synergies and continued growth. Bogota's capital must be seen in line with its loan loss reserves, asset quality, earnings generation, and generally stable economic background.

## GRUPO AVAL

Grupo Aval's ratings were affirmed as the group's operating companies showed overall sound performance and in particular, thanks to Banco de Bogota, stable performance in Colombia and its subsidiaries abroad. In addition, the group maintains low double leverage and adequate cash flow metrics. GA's capital was strengthened through an IPO that raised USD 1.3 billion during 2014.

Grupo Aval's ratings reflect the sound competitive position and strong performance of its operating companies, as well as the group's, moderate debt, adequate debt service coverage ratios and modest double leverage. Fitch's view of Grupo Aval's creditworthiness also considers the diversification of its business mix towards Central America - a region whose macroeconomic fundamentals lag behind those of Colombia - which introduces a somewhat higher risk in its asset and revenue mix; however, a relevant part of the group's operating income comes from investment grade Central American subsidiaries.

## GRUPO AVAL LIMITED

The ratings for Grupo Aval Limited's senior secured debt are driven by those of Grupo Aval as this entity guarantees the senior bonds.

## BANCO DE OCCIDENTE

Banco de Occidente's ratings were affirmed as the overall credit profile remains stable two months after Fitch assigned initial ratings to the bank.

Occidente's VR, IDRs and National ratings reflect its strong capital, low-risk and diversified business model and stable, though moderately concentrated, funding. The ratings also consider the bank's good asset quality as well as the challenges arising from the organizational changes that reduced its loan growth during 2014.

## CORPORACION FINANCIERA COLOMBIANA

Corficolombiana's ratings were affirmed as its parent's (Banco de Bogota) credit standing and willingness and ability to support the entity remain unchanged.

Corficolombiana's ratings reflect the potential support it would receive from its main shareholder, Banco de Bogota, should it be required. In Fitch's opinion, Corficolombiana's long-term equity investments and active treasury activity make it a core part of Banco de Bogota and the wider Grupo Aval businesses. As such, the entity allows Colombia's largest financial conglomerate to have a foothold in the real sector and a key gauge in the local capital market.].

## BANCO DE 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'/Rating Outlook Stable') 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, BANCO DE OCCIDENTE

Given their importance to the strategy and business of their parents, support for these entities would come from Banco de Bogota and Grupo Aval, respectively. The parents' ability to support their subsidiaries is reflected in their ratings ('BBB+' and 'BBB').

## SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Bogota's subordinated debt is rated one notch below its VR to reflect the bonds lack of equity-like features that would earn it equity credit following Fitch's criteria. The notching reflects one notch for higher expected losses in case of liquidation but no additional notching for non-performance, given its gone concern characteristics (plain vanilla subordinated debt). It has thus been affirmed due to the affirmation of Bogota's VR.

## RATING SENSITIVITIES

### IDRS, NATIONAL RATINGS AND SENIOR DEBT

#### BOGOTA

While there is limited upside potential given the current level of the bank and the sovereign's ratings, Bogota's ratings would be underpinned if the bank sustains its performance while adequately consolidating its recent acquisitions and gradually improving its profitability (ROAA around 2%) and strengthening its capital (FCC above 11%) under an scenario of a sovereign rating upgrade.

On the other hand, a dismal performance (ROAA below 1.5%) and/or severely weaker asset quality that would pressure loan loss provisions and erode the bank's capital/reserves cushion (FCC consistently below 9.5%) would pressure its VR and IDRs.

Senior and Subordinated debt ratings will move in tandem with Bogota's IDR'.

#### OCCIDENTE

Occidente's Rating Outlook is Stable reflecting Fitch's expectation of no substantial changes in the bank's financial profile over the rating horizon. Nevertheless, the bank's VR, IDRs, and National ratings could be pressured if its performance declines (Operating ROAA below 1%) or its capital weakens (FCC consistently below 13%), though this is not Fitch's base case scenario.

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

## GRUPO AVAL

Grupo Aval's IDR would be underpinned by a sustained performance at each operating company; stronger debt service coverage ratios; improved operating conditions in Central America that would reduce the risk the group takes in this region. Further improvements in the regulation of bank holding companies in Colombia may also be beneficial. On the other hand, a substantial increase in the group's leverage (double leverage above 120%) or a decline in the dividend flows from the operating companies that would, as a whole, result in a deterioration of its debt coverage ratios would pressure Grupo Aval's ratings.

#### GRUPO AVAL LIMITED.

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

#### CORFICOLOMBIANA

Corficolombiana's ratings generally should move in line with those of Banco de Bogota. Should Fitch's assessment of the importance of Corficolombiana to its main shareholder change, its ratings could be affected negatively.

#### 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 and Banco de Occidente's SR would be affected if Fitch changes its assessment of their respective parents' willingness and/or ability to provide them support.

Fitch affirms the following ratings:

##### Banco de Bogota

- Long-term foreign currency Issuer Default Rating (IDR) at 'BBB+'; Outlook Stable;
- Short-term foreign currency IDR at 'F2';
- Long-term local currency IDR at 'BBB+'; Outlook Stable;
- Short-term local currency IDR at 'F2';
- Viability rating at 'bbb+';
- Support rating at '2';
- Support rating floor at 'BBB-';
- Senior unsecured debt at 'BBB+';
- Subordinated debt at 'BBB'.

##### Banco de Occidente S.A.

- Long-Term Foreign Currency IDR at 'BBB'; Outlook Stable;
- Long-Term Local Currency IDR at 'BBB'; Outlook Stable;
- Short-Term Foreign Currency at IDR 'F3';
- Short-Term Local Currency at IDR 'F3';
- Viability Rating at 'bbb';
- Support Rating at 2;
- National Scale Long-Term Rating at 'AAA(col)'; Outlook Stable;
- National Scale Short-Term Rating at 'F1+(col)'.

##### Grupo Aval

- Long-term foreign currency Issuer Default Rating (IDR) at 'BBB'; Outlook Stable;

--Short-term foreign currency IDR at 'F3';  
--Long-term local currency IDR at 'BBB'; Outlook Stable;  
--Short-term local currency IDR at 'F3';  
--Support rating at '5';  
--Support rating floor at 'NF';

#### Grupo Aval Limited

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

#### Corficolombiana

--Long-Term Foreign Currency IDR at 'BBB+'; Outlook Stable;  
--Long-Term Local Currency IDR at 'BBB+'; Outlook Stable;  
--Short-Term Foreign Currency at IDR 'F2';  
--Short-Term Local Currency at IDR 'F2';  
--Support Rating at '2';  
--National Scale Long-Term Rating at 'AAA(col)'; Outlook Stable;  
--National Scale Short-Term Rating at 'F1+(col)'.

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

National Scale Ratings Criteria (pub. 30 Oct 2013)

[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=720082](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=720082)

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