

FITCH AFFIRMS BANCO DE BOGOTA AND RELATED ENTITIES; OUTLOOK STABLE

Fitch Ratings-New York-21 June 2018: Fitch Ratings has affirmed Banco de Bogota S.A. (Bogota) and selected related entities and subsidiaries' international and national ratings. Fitch also affirmed Bogota's Viability Rating (VR) and Issuer Default Ratings (IDRs) at 'bbb' and 'BBB', respectively. The Rating Outlook is Stable. A complete list of rating actions is provided at the end of this release.

KEY RATING DRIVERS

VR, IDRS AND NATIONAL RATINGS

BOGOTA

The IDRs are driven by its Viability Rating (VR) of 'bbb'. 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 (14.3% market share at December 2017) and a market share of 14.2% of deposits and 13.0% of gross loans. It is the largest bank by assets in Central America (9.2% market share). Additionally, the bank'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 good in general and well anchored within its current rating category despite a challenging operating environment in Colombia and Central America. Nevertheless, as was the case at other large Colombian banks, the impact of specific corporate loans underpinned a material deterioration in the bank's PDL ratio to 2.4% in 2017 from 1.7% in 2016.

Bogota's FCC ratio stabilized around 10% for the past two years. Measures taken during 2016 to strengthen the bank's capital position and focus the bank's activities on the financial business, as well as its profitability, conservative growth and improved efficiency increased Bogota's FCC to 10.32% at YE17 from 10.06% at YE16. In Fitch's opinion, Bogota's sustained moderate growth will support the maintenance of the bank's FCC ratio at around 10%. Fitch expects that the forthcoming adoption of Basel III guidelines in Colombia will generally benefit Colombian banks capital ratios by between 150 basis points (bps) and 350 bps due to a lower risk weighted assets density, increased capital buffers and more comparable capital definitions.

Bogota's performance deteriorated in 2017 due to higher provision charges related to corporate loans. In addition, Bogota received lower profits from Corficolombiana due to higher impairment charges related to Concesionaria Ruta del Sol, although other investments performed well. However, improving margins and cost controls resulted in increased efficiency and partially offset higher credit costs. Nevertheless, Bogota's operating profit to risk weighted assets ratio remained robust at 2.5% as of YE17.

The bank enjoys a wide customer base and relatively lower funding costs compared to peers. Customer deposits fund Bogota's loan portfolio in its entirety, and the bank has ample access to

domestic and international capital markets. Bogota's liquidity is reasonable, with liquid assets covering 30% of deposits and short-term funding.

GRUPO AVAL ACCIONES Y VALORES S.A.

Grupo Aval Acciones y Valores S.A. (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 good and reflects diversification and the specific strengths within each of the group's banks. Given the lower economic activity in Colombia and Central America, and the slower growth in assets and loans in particular, impaired loan ratios deteriorated. In addition, isolated, specific corporate exposures affected the consolidated PDL ratio during 2017. As a result, an important increase in impairment losses during 2017 negatively affected GA's profitability. On an unconsolidated basis, Grupo Aval's double leverage is moderate (1.10x at December 2017) 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)

Corficolombiana's ratings reflect the potential support it would receive from its main shareholder and its controlling company, Banco de 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)

Occidente's IDRs are driven by its VR of 'bbb'. The bank's VR of 'bbb' is highly influenced by Colombia's operating environment and its solid capital ratios. The ratings also consider the bank's moderate franchise, its good asset quality metrics as well as its low-risk and diversified business model. The ratings reflect the recent decline in profitability, while the bank's main weakness is its moderately concentrated funding.

Consistent capital generation underpin Occidente's capital metrics. As profits did not keep pace with asset growth, the bank's Fitch Core Capital (FCC) ratio declined slightly in 2017 to 14.14%. 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 those of its domestic peers.

Occidente's reasonable credit and risk management policies underpin its good asset quality indicators. The bank's impaired loans/gross loans ratio deteriorated by 88 bps, reaching 2.8% as of December 2017. This was slightly better than the system average of 3.1%. Despite cyclical deterioration, Occidente's ratios remained commensurate to its rating level. Sufficient loan loss reserves (1.5x its 90-day PDL portfolio at YE17) also complement this metric.

Despite resilient margins and the sustainable generation of non-interest revenues, higher credit costs related to the weaker economic cycle, weighed on Occidente's profitability. In Fitch's opinion, Occidente's profitability is aligned to its corporate focus and the limited size of the bank.

As a medium-sized bank with ample presence throughout the country, Occidente boasts a stable and ample deposit base. Deposits come primarily from institutional and public investors, resulting in higher funding costs and 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. The bank's liquidity remains at reasonable levels, with a liquid assets/deposits and short-term funding ratio of 27% at YE17.

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

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

Fiduciaria Corficolombiana'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.

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'/Outlook Stable) 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 Stable.

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%).

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

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 Stable Rating Outlook reflects 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 deteriorates (Operating Profit to Risk Weighted Assets consistently below 1.5%) or its capital weakens (FCC consistently below 10%), although 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, in the event of a sovereign upgrade, Occidente's VR and IDR could benefit from a reduction in deposit concentration and more diversified funding, combined with the maintenance of its overall good asset quality and solid capital, while it improves its performance metrics 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.

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 affirmed the following ratings:

Banco de Bogota

- Long-Term Foreign Currency 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';
- Senior Unsecured Debt Rating at 'BBB';
- Subordinated Debt Rating at 'BBB-';
- Support Rating at '2';
- Support Rating Floor at 'BBB-'.

Grupo Aval Acciones y Valores S.A.

- Long-Term Foreign Currency 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'.

Banco de Occidente

- Long-Term Foreign Currency 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';
- 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)'.

Corficolombiana

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

Fiduciaria de Occidente S.A.

- National Scale Long-Term Rating at 'AAA(col)'; Outlook Stable;
- National Scale Short-Term Rating at 'F1+(col)'.

Fiduciaria Corficolombiana S.A.

- National Scale Long-Term Rating at 'AAA(col)'; Outlook Stable;
- National Scale Short-Term Rating at 'F1+(col)'.

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Applicable Criteria

Bank Rating Criteria (pub. 23 Mar 2018)

<https://www.fitchratings.com/site/re/10023430>

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

<https://www.fitchratings.com/site/re/889541>

Metodología de Calificaciones en Escala Nacional (pub. 27 Mar 2017)

<https://www.fitchratings.com/site/re/896229>

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

<https://www.fitchratings.com/site/re/892947>

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