FitchRatings

Fitch Affirms the Ratings of Grupo Aval, Banco de Bogota Ratings Endorsement Policy
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Fitch Ratings-New York-25 July 2013: Following the announcement that Grupo Aval Acciones y Valores S.A. (GA) and Banco de Bogota S.A. (Bogota) have agreed to acquire Banco Bilbao Vizcaya Argentaria (Panama) SA (BBVApa), Fitch Ratings has affirmed the ratings for GA and Bogota. The Rating Outlook for GA and Bogota is Stable but the national long term rating and the senior unsecured debt rating of BBVApa were placed on Rating Watch Evolving. A complete list of rating actions follows at the end of this press release.

On July 19, GA and its primary operating company Bogota announced an agreement to acquire 98.92% of BBVApa through Bogota's subsidiary Leasing Bogota S.A. Panama (LBpa). BBVApa is the eleventh largest bank in Panama, and GA intends to merge BBVApa with BAC International Bank, Inc (BAC), a subsidiary of BAC International Corporation (BAC). BAC is a subsidiary of Bogota that operates throughout Central America, has a strong regional franchise through multiple banks and a healthy retail business. BAC is Bogota's largest acquisition so far and is considered, as a whole, a core subsidiary of Bogota as it is key to Bogota's expansion abroad and a consistent contributor to Bogota's revenues. Similarly, BBVApa will be considered a core subsidiary of Bogota.

BBVApa will be acquired for $490 million and will be paid with LBpa's own funds, creating goodwill of about $300 million in LBpa's books as well as on Bogota's consolidated balance sheet. BBVApa had assets of $2 billion and equity of $321 million at May 2013. BBVApa will distribute an extraordinary dividend of about $140 million prior to the closing of the transaction. BBVApa is focused on the corporate and commercial segments which would complement BAC's retail portfolio. Based on total assets outstanding as of May 2013, the merged entity would be Panama's fourth largest general license bank.

From a strategic standpoint, Aval's recently announced acquisitions of Grupo Financiero Reformador (GFR, Guatemala) and BBVApa are consistent with the group's stated interest in deepening its market penetration and diversifying its product offering and target market in Central America. There is little overlap between the acquired entities. In Fitch's opinion, BAC's sound retail business in the region and the acquisitions will allow the bank to expand its customer base and help it achieve critical mass for its growing retail business while providing a sound footing in the corporate/ commercial market.

Although the acquisitions would not significantly affect Bogota's credit profile, these are not without risks. Integrating a bank is complex enough but integrating two banks in different countries poses a quite bigger challenge. Fitch believes that these entities' ample experience in mergers and acquisitions should mitigate this risk, but the group's resources will be tested over the next few quarters.

KEY RATING DRIVERS

BANCO DE BOGOTA

The impact of the transaction on Bogota's financial standing would be moderate but neutral to its ratings. Initial calculations by Fitch show that Bogota's capital ratios would decline due to the acquisition and the goodwill it will generate. This will add to the goodwill generated during 2Q'13 as Bogota acquired BBVA Horizonte's pension fund business in Colombia and to the goodwill to be generated by the acquisition of GFR during 2H2013. However, capital ratios would remain at a level compatible with Bogota's rating as Fitch expects the bank's FCC to RWA ratio to remain in the 10% - 11% range. In addition, Bogota could receive capital injections from its parent to carry out the transaction. Fitch's base case scenarios do not consider such capital injections.

The bank reported a strong improvement in profitability during 1Q'13 and this should not be affected by the transaction. However, profitability is expected to revert closer to Bogota's recent levels (ROAA in the 1.8% - 2% range in 2011 - 2012) as the exceptional conditions of 1Q'13 dissipate. Nevertheless, profitability should continue to compare well with that of similarly rated emerging market banks.

Bogota's 'bbb' Viability (VR) and 'BBB' Issuer Default Ratings (IDRs) reflect its strong franchise, sound asset quality and reserves, consistent performance, conservative credit/risk policies, ample, diversified funding, and adequate capital. Fitch's view of Bogota's creditworthiness is tempered by its heightened competitive environment in Colombia and abroad and the risk arising from its ongoing diversification into retail.

Bogota's support and support floor ratings reflect its systemic importance (the bank has a market share of about 15% by assets) and Fitch's view that support from the Colombian government (rated 'BBB-/BBB'; Outlook Positive by Fitch) would be forthcoming, should it be required.

GRUPO AVAL

Fitch has affirmed GA's ratings based on their linkage to Bogota's ratings. The transaction is not expected to increase debt levels at the holding company level (GA), while Bogota's financial profile remains consistent with its credit rating. In addition, GA's double leverage, debt service and debt coverage ratios remain moderate.

GA's IDRs and viability rating reflect its strong competitive position, sound financial standing, sustained operating performance, diversified franchises, M&A experience and robust asset quality. Fitch's view of GA's creditworthiness is tempered by the expected increase in its double leverage after all the acquisitions are consolidated, and higher debt service which, nevertheless, are only marginally affected by the recent acquisitions.

GA's support and support rating floor reflect Fitch's belief that the government will not extend its support for systemically important banks to the holding companies.

According to Fitch's calculations (assuming a conservative dividend growth scenario), the EBITDA to interest expense ratio would remain in the 7x - 8x range and its debt to EBITDA ratio would gradually decline from its 2.9 peak at December 2012. Current third party financial debt has an adequate weighted average tenor of almost six years while related parties' debt represented around 24% of total financial debt at end-2012.

Accordingly, the debt service ratio (EBITDA to Interest Expense + Debt Amortizations) will fluctuate between 3x and 4x in the next three years. When considering only third party debt, the debt service ratio will fluctuate between 6x and 7.6x. For its part, the net debt to EBITDA ratio will become a very moderate 2.2x that will gradually fall down to about 1.3x.

The expected increase on the dividend flows from the main operating subsidiaries and the possible inclusion of dividends from the recently acquired pension fund business may result in a steady enhancement of such metrics in the medium term under the absence of new financial debt. GA also manages a sizable portfolio of liquid assets that may be used to fund additional acquisitions, capitalize its subsidiaries or cover unexpected shortfalls on its revenue stream.

Grupo Aval Limited is a wholly owned GA Special Purpose Vehicle that issues debt guaranteed by GA. Hence, its debt ratings are equalized to those of GA.

BANCO BILBAO VIZCAYA ARGENTARIA (PANAMA) SA

The ratings of BBVApa were placed on Rating Watch Evolving as its parent BBVA (rated 'BBB+/RON') announced that it would sell the bank to BLpa. The transaction is subject to regulatory approval and should be closed during 1Q'14. The potential support BBVApa would receive from its current parent, should it be required, drives BBVApa's ratings. In Fitch's view, and in spite of BBVA's intention to sell the bank, support for BBVApa should be forthcoming as long as BBVA is its owner and until the transaction is closed. The ratings carried a RON until today, in line with the parents' RON and reflecting the fact that BBVApa's ratings would move in tandem with those of BBVA while BBVA maintains control of BBVApa.

The Rating Watch Evolving expresses Fitch's view that BBVApa's ratings could be downgraded if its current parent's ratings are downgraded prior to the sale as explained above. They also reflect the fact that once the transaction is closed, Fitch expects that BBVApa will be considered a core subsidiary of Bogota, as the banks pertaining to BAC are, given its importance to Bogota's expansion strategy in the region and its expected contribution to consolidating Bogota/BAC's operations in Panama. This would lead to the affirmation of BBVApa's ratings at their current levels and the removal of the Rating Watch Evolving and the assignment of a Stable Outlook.

RATING SENSITIVITIES

BOGOTA

Bogota's ratings could be upgraded if the bank maintains its structural strengths and sustains its performance while adequately managing BAC - and the subsidiaries it will acquire - achieving synergies and better diversification in Colombia and Central America.

On the other hand, a dismal performance and/or severely weaker asset quality that would pressure loan loss provisions and erode the bank's capital/reserves cushion would pressure its VR and IDRs downwards. Likewise, a disruptive integration of the newly acquired banks that would affect BAC's operations and Bogota's performance would be seen as credit negatives. Fitch considers this scenario unlikely.

GRUPO AVAL

GA's ratings would benefit from higher capital levels
(i.e. lower leverage and double leverage levels), a sustained performance at each operating company (i.e. maintaining asset quality and reserve coverage) and stronger debt service coverage ratios. GA's ROS reflects Fitch's expectations of sustained performance at each operating company (i.e. maintaining adequate asset quality and reserve coverage), declining leverage and adequate debt service coverage ratios in the medium term and, a moderate double leverage.

On the other hand, a substantial increase in the group's leverage or a decline in the dividend flows from the operating companies would be credit negatives for GA as they would hinder its ability to serve its debt.

Grupo Aval Limited's ratings would move in line with those of Grupo Aval.

BANCO BILBAO VIZCAYA ARGENTARIA (PANAMA) SA

BBVApa's ratings could be affirmed with a RON (in line with that of its current parent) if the sale is not completed or they could be downgraded to 'AA(pan)' or lower should its current parent be downgraded. On the other hand, once the transaction is completed and Bogota/BAC takes control of the bank, the ratings would likely be affirmed at 'AA+(pan)', they would be removed from Rating Watch and assigned a ROS. Further upside to the ratings is contingent upon improvements in Bogota's creditworthiness which are not foreseen in the very short run.

Fitch has affirmed the following ratings:

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';
--Support Rating at '3';
--Support floor at 'BB+';
--Senior unsecured debt at 'BBB':
--Subordinated debt at 'BBB-'.

GRUPO AVAL
--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 '5';
--Support rating floor at 'NF';

GRUPO AVAL LIMITED
--Senior unsecured bonds at 'BBB-'.

BANCO BILBAO VIZCAYA ARGENTARIA (PANAMA) SA
--National Long Term Rating at 'AA+(Pan)'; Placed on Rating Watch Evolving;
--National Short Term Rating at 'F1+(Pan)';
--Senior unsecured bonds at 'AA+(Pan)' Placed on Rating Watch Evolving.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Global Financial Institutions Rating Criteria' (Aug. 15, 2012);
--'Rating FI subsidiaries and Holding Companies' (Aug. 12, 2012).

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Additional Disclosure
Solicitation Status