

FITCH MAINTAINS BANCO DE BOGOTA AND GRUPO AVAL ON RATING WATCH NEGATIVE

Fitch Ratings-New York-18 July 2016: Fitch Ratings has maintained the Rating Watch Negative on Banco de Bogota S.A.'s (Bogota) Viability Rating (VR) and Issuer Default Ratings (IDRs). Fitch has also maintained the Negative Watch on the following related entity ratings:

- Grupo Aval Acciones y Valores S.A. (Grupo Aval) IDR of 'BBB';
- Corporacion Financiera Colombiana S.A. (Corficolombiana) IDR of 'BBB+'.

At the same time, Fitch also affirmed other ratings for Bogota and related entities that were not directly affected by the Watch status. A complete list of rating actions is provided at the end of this release.

The Rating Watch Negative has been maintained pending an in-depth review of Bogota's capital optimization plans. Fitch will resolve the Negative Watch after assessing the potential evolution of Bogota's capital metrics within the context of the bank's overall financial and business profile as well as its operating environment.

KEY RATING DRIVERS

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

BANCO DE BOGOTA

Bogota's ratings are highly influenced by its strong franchise and generally sound and consistent financial metrics. In Fitch's view, capital adequacy is tight, and will be the main focus of our review to resolve the Negative Watch.

Capitalization was particularly affected by a change in accounting standards to IFRS from Colgaap in December 2014, as well as the significant depreciation of the local currency, which boosted Bogota's USD-denominated risk-weighted assets (RWA) and goodwill deductions from capital. Under IFRS, which provided new revelations in the issuer's financial statements, Bogota's Fitch Core Capital (FCC) ratio declined to 9.89% compared with 11.24% under Colgaap as of December 2014, since the change in accounting standards mainly affected goodwill and revaluations of fixed assets treatment, among others. In 2015, the bank's FCC ratio declined further to 8.84%, more than Fitch anticipated, as the currency 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-Credomatic's investments, will be merged with Banco de Bogota in Colombia. This operation, which is pending approval from the Panamanian and Colombian regulators, will result in less volatility in goodwill and tax savings. The group also decided that Corficolombiana will be consolidated (for accounting purposes) directly under Grupo Aval instead of with Bogota in order to strengthen the capital position of the bank and focus its consolidated management in the financial business. This change, which was implemented during June 2016, brings an immediate positive impact because the RWA and intangibles from infrastructure and 4G concessions will no longer detract from Bogota's capitalization.

According to Fitch's initial projections, these actions 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 its current rating

level and similarly rated international peers in the short term. Fitch's base case scenario of less dynamic economic growth and a stabilizing exchange rate also augurs well for the rebuilding of capital ratios. After appraising the real impact of the above-mentioned measures and the bank's actual performance, Fitch will re-assess its Negative Watch on Bogota's ratings.

Bogota is Colombia's second largest bank by assets (15.2% market share at December 2015) and the largest bank by assets in Central America (8.4% 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 conservative credit and strong risk management policies, amidst a challenging economic environment in Colombia (as well as relative stability in Central America) resulted in very good asset quality (90-day past-due loans [PDLs] remained stable at 1.47% at March 2016) which has remained fairly stable over time and is complemented by sufficient loan loss reserves (1.6x its PDL portfolio).

Overall profitability improved and remained quite robust with an ROAA at 1.93%, a level that compares well with that of similarly rated peers. Future growth is expected to be moderate, with loans increasing 10%-12%. Margins should be supported by rising interest rates and continued expansion into retail. Operating expenses should stabilize in relative terms, while the cost of credit is expected to grow due to changes in the economic cycle in Colombia while in Central America no changes are expected. Profitability should remain stable with Operating ROAA expected to remain close to 3%, with Operating ROAE inching toward mid-20%. These moderate profitability levels reflect a more balanced and mature portfolio and growth.

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 domestic and international capital markets. Furthermore, the bank has 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 from Grupo Aval.

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 maintained the Rating Watch Negative on Grupo Aval's Long-Term IDRs. In addition, low double leverage, moderate debt, adequate cash flow metrics and a sound competitive position in multiple markets also support Grupo Aval's ratings.

On a consolidated basis, asset quality remains strong, reflecting diversification and the specific strengths within each bank. On an unconsolidated basis, Grupo Aval's double leverage is moderate (1.04x at December 2015) and is expected to remain fairly stable unless the group embarks on rapid asset or inorganic growth, which is a scenario not expected by Fitch in the short term.

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.

BANCO DE OCCIDENTE

Occidente's VR, IDRs and National ratings reflect its solid capital ratios, low-risk and diversified business model, and stable though moderately concentrated funding. Fitch also considered potential profitability challenges within a less benign economic environment, the bank's moderate franchise, and its role as one of Grupo Aval's most important subsidiaries.

Consistent capital generation and moderate dividend policies underpin Occidente's capital metrics. The bank's Fitch Core Capital Ratio (FCC) ratio has declined over the past three years as asset growth exceeded capital formation. Occidente's FCC ratio decreased to 12.68% at December 2015 while tangible equity-to-assets decreased to 10.97%, though this level continues to exceed that of its domestic peers. In Fitch's view, Occidente's capital ratios are adequate given the bank's strong loan loss reserves and loan quality as well as its stable earnings generation.

Occidente's business model is largely based on commercial banking, with an increasing participation of low-risk consumer banking products. Occidente has become Aval's vehicle to develop its leasing business in Colombia, where it had reached a market share of 18%, above its natural market share of about 6.3% by assets at end-December 2015. Occidente's conservative credit and risk management policies underpin its good asset quality indicators. The bank's impaired loans (i.e. greater than 90 days past due)-to-gross loans ratio has remained stable over the past five years at around 1.5% thanks to its commercial focus, minimal growth in PDLs and consistent charge-offs. Sufficient loan loss reserves (2x its 90-day PDL portfolio) also complement this metric.

As a medium-sized bank with ample presence throughout the country, Banco de Occidente boasts a stable and ample depositor 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 company profile relative to other larger Colombian banks could be a potential limitation to future rating upgrades.

Financial activity rather than non-recurring income supported Occidente's financial performance in 2015. Corporate reorganization and the resulting non-recurring income from the sale of two-thirds of Occidente's stake in Corficolombiana (one of Grupo Aval's subsidiaries) to the holding company (Grupo Aval) boosted revenues in 2014. Interest margins, consistent with the bank's business model, and the sustainable generation of non-interest revenues support normalized operations. However, changes in macroeconomic fundamentals, a less liquid market and the effects of central bank policy measures to control inflation could increase operational costs in 2016. The bank's operating profitability weakened to 1.5% (YE2015) from an average of 2.1% (2012-2014) but remains good compared with its closest international peers.

CORFICOLOMBIANA

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

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. As such, the entity allows Colombia's largest financial conglomerate to have a foothold in the non-financial sector and a key gauge of the local capital market.

This review takes into account Grupo Aval's decision that Corficolombiana will be consolidated (for accounting purposes) directly under Grupo Aval instead of with Bogota. In our view this change, which was implemented during June 2016, has no impact on Corficolombiana's ratings, since there is no change on ownership and Bogota continues to be its 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 maintained 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.

SUPPORT RATING AND SUPPORT RATING FLOOR

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 its sovereign rating ('BBB'/ 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 AND 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 respective ratings of 'BBB+' and 'BBB'.

SUBORDINATED DEBT

BANCO DE BOGOTA

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, as based on Fitch's criteria. The notching reflects higher expected losses in the 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

Bogota's Long-Term IDRs and VR are already above the sovereign. Therefore, there is limited upside potential for these ratings, as the bank's capitalization metrics will continue to compare unfavorably to international peers even if full implementation of Bogota's capital optimization plan is achieved. However, significant progress on the bank's capital optimization plan which leads to the restoration of its capital buffers could resolve the Negative Watch given the bank's overall financial and business profile.

On the other hand, a dismal performance (ROAA below 1.5%) and/or severely weaker asset quality that pressures loan loss provisions and erode the bank's capital/reserves cushion (FCC consistently below 9.5%) could lead to a ratings downgrade. Senior and subordinated debt ratings will move in tandem with Bogota's IDR'.

Fitch expects to resolve the Rating Watch Negative on Bogota's IDRs and VR once it has completed an in-depth review of the decisions taken in June and described above.

GRUPO AVAL and GRUPO AVAL LIMITED

Grupo Aval's IDR would remain one notch below Bogota's and would move in tandem with any rating actions on its main operating subsidiary. However, the relativity between these two entities could also be affected in the event of consistent material changes, positive or negative, 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].

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 deteriorates (Operating ROAA below 1%) or its capital weakens (FCC consistently below 10%), though 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 solid asset quality, capital and performance metrics over the medium term].

SUPPORT RATING AND SUPPORT RATING FLOOR

The SR is potentially sensitive to any change in assumptions as to 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 has taken the following rating actions:

Banco de Bogota

- Long-Term Foreign Currency Issuer Default Rating (IDR) 'BBB+', Rating Watch Negative maintained;
- Short-Term Foreign Currency IDR 'F2', Rating Watch Negative maintained;
- Long-Term Local Currency IDR at 'BBB+', Rating Watch Negative maintained;
- Short-Term Local Currency IDR at 'F2', Rating Watch Negative maintained;
- Viability rating at 'bbb+', Rating Watch Negative maintained;
- Senior unsecured debt rating of 'BBB+', Rating Watch Negative maintained;
- Subordinated debt rating of 'BBB', Rating Watch Negative maintained;
- Support rating affirmed at '2';
- Support rating floor affirmed at 'BBB-';

Grupo Aval

- Long-Term Foreign Currency Issuer Default Rating (IDR) 'BBB', Rating Watch Negative maintained;
- Short-Term Foreign Currency IDR affirmed at 'F3';
- Long-Term Local Currency IDR 'BBB', Rating Watch Negative maintained;
- 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. 'BBB', Rating Watch Negative maintained.

Corficolombiana

--Long-Term Foreign Currency IDR 'BBB+', Rating Watch Negative maintained;
--Long-Term Local Currency IDR 'BBB+', Rating Watch Negative maintained;
--Short-Term Foreign Currency IDR 'F2', Rating Watch Negative maintained;
--Short-Term Local Currency IDR 'F2', Rating Watch Negative maintained;
--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)'.

Occidente

--Long-Term Foreign Currency IDR affirmed at 'BBB', Outlook Stable;
--Long-Term Local Currency IDR affirmed at 'BBB', Outlook Stable;
--Short-Term Foreign Currency IDR affirmed at 'F3';
--Short-Term Local Currency IDR affirmed at 'F3';
--Viability rating affirmed at 'bbb';
--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 'BBB+', Rating Watch Negative maintained;
--Short-Term Foreign Currency IDR 'F2', Rating Watch Negative maintained;
--Support Rating affirmed at '2';

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Applicable Criteria

Global Bank Rating Criteria (pub. 15 Jul 2016)

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

Metodología de Calificación Global de Bancos (pub. 29 May 2015)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=866612

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