

## **FITCH AFFIRMS BANCO DE BOGOTA AND RELATED ENTITIES; OUTLOOK REVISED TO STABLE**

Fitch Ratings-New York-30 June 2017: 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 was revised to Stable from Negative.

Fitch has also revised the Outlook on the Long-term ratings of several of Bogota's affiliated companies to Stable from Negative. A complete list of rating actions is provided at the end of this release.

The Stable Outlook on Bogota's Long-Term IDRs now mirrors that of Colombia's Sovereign Rating Outlook. It has been revised to Stable from Negative as part of a peer review of major Colombian banks. The review included an update to Fitch's broad assessment of Bogota's capital adequacy, including recent progress toward rebuilding the country's Fitch Core Capital ratio to levels closer to 10% in the near future.

### **KEY RATING DRIVERS**

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

#### **BOGOTA**

Bogota's ratings consider its solid and consistent financial performance, sound asset quality and reserves, conservative 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). More importantly, its ratings remain constrained by Fitch's assessment on the operating environment of the jurisdictions in which Bogota's businesses are performed.

Bogota's operating profit to risk weighted assets ratio remained robust at 2.8% as if YE16 comparing favourably to international peers. The deconsolidation of Corficolombiana from Bogota's financial statements resulted in extraordinary income that positively influenced overall profitability in 2016. The bank registered a gain of COP2.2 trillion as a result of the difference between the fair value of the bank's investment in Corficolombiana at the date when control was lost and its book value at that date, plus reclassification of other comprehensive income items to income for the period.

Fitch expects moderate growth with loans increasing by 10%-12% over the medium term. A lower cost of funding related to an easing of monetary policy will support margins. Operating expenses should remain stable in relative terms, while the cost of credit is expected to grow above loan growth depending on the resolution of specific corporate exposures. Profitability should remain stable with ROAA expected to remain above 1.75% and ROAE inching toward the mid-teens by year-end 2017, in line with the bank's 1Q17 results.

Bogota's conservative credit and strong risk management policies have resulted in good asset quality despite a challenging economic environment in Colombia and Central America. PDL ratios (defined as 90+ days past due) deteriorated in 2016 and the first quarter of 2017, with PDLs reaching 2.02% of gross loans at end-March. Despite this cyclical deterioration, Fitch expects Bogota to maintain its asset quality ratios at levels commensurate with its current VR due to the bank's conservative risk culture.

Bogota's FCC ratio stabilized around 10% in 2016. Measures to strengthen the bank's capital position and focus the bank's activities on the financial business, as well as increased net income, conservative growth and improved efficiency increased Bogota's FCC to 10.06% at YE16 from 8.84% at YE15. In Fitch's opinion, Bogota's sound internal capital generation and sustained moderate growth will support the maintenance of the bank's FCC ratio at around 10%.

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 is Colombia's second largest bank by assets (14.6% market share at December 2016) and a market share of 14.4% of deposits and 12.9% of gross loans. It is the largest bank by assets in Central America (8.7% 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.

#### 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 subsidiaries, particularly its main operating subsidiary, Bogota. Low double leverage, 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 of the group's banks. On an unconsolidated basis, Grupo Aval's double leverage is moderate (1.09x at December 2016) 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.

#### CORPORACION FINANCIERA COLOMBIANA S.A. (CORFICOLOMBIANA)

Corficolombiana's ratings reflect the potential support it would receive from its main shareholder and its controlling companies, 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. 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. In addition, Corficolombiana has invested in agribusiness and hospitality. The entity's equity investment policy is focused on low risk, consistent dividend-generating companies.

#### CREDOMATIC INTERNATIONAL CORPORATION (CIC)

Credomatic International Corporation's (CIC) IDRs reflect the high probability of the support it would receive from its parent, Bogota, should it be required. Bogota's IDR reflects its ability to support CIC. Fitch considers the financial support to CIC would be timely and sufficient.

CIC's IDRs mirrors its parent's ratings because is a strongly performing subsidiary with generally good prospects and valuable experience in retail financing, therefore, in Fitch's view, it would be

somewhat more likely to be supported by its parent. Additionally, some of Bogota's debt issuances state that a CIC default will constitute a technical default on its obligations. In Fitch's opinion, these clauses provide strong incentives to prevent CIC's default.

#### FIDUCIARIA CORFICOLOMBIANA S.A.

Fiduciaria Corficolombiana's 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 Corficolombiana's business model and core to its strategy.

#### BANCO DE OCCIDENTE (OCCIDENTE)

Occidente's Long-Term Local and Foreign Currency IDRs are driven by its viability rating (VR) of 'bbb'. The bank's ratings considers its solid capital ratios, healthy profitability and asset quality metrics, moderately concentrated funding, as well as its low-risk and diversified business model.

Consistent capital generation and moderate dividend policies underpin Occidente's solid capital metrics. The declining trend of recent years in the bank's Fitch Core Capital (FCC) ratio reverted in 2016, reaching 14.32% by year-end as internal capital generation materially exceeded asset growth. 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. This level continues to exceed that of its domestic peers and is in line with international peers.

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 company profile relative to other larger Colombian banks could be a potential limitation to future rating upgrades.

Occidente's conservative credit and risk management policies underpin its good asset quality indicators. The bank's impaired loan ratio decreased slightly to 1.9% as of December 2016, due to less dynamic economy, as expected by Fitch. Despite cyclical deterioration, Occidente's ratios compare well with those of similarly rated peers. Sufficient loan loss reserves (1.7x its 90-day PDL portfolio) also complement this metric.

In spite of resilient margins and the sustained generation of non-interest revenues, an increase in delinquency levels accompanied by the need for additional loan loss provisions weighed on profitability. In Fitch's opinion, Occidente's profitability is aligned to its corporate focus and the limited size of the bank. Furthermore, profitability metrics are in line with the bank's VR.

#### 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 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 AND CIC

Given their importance to the strategy and business of their respective parents, support for these entities would come from Grupo Aval and Banco de Bogota respectively. The parents' ability

to support their subsidiaries is reflected in their support rating of '2' and IDRs 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.

## SUBORDINATED DEBT

### BOGOTA

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).

## 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 Stable Outlook on the Sovereign. 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, 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 earnings 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 (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 secured debt would move in line with Grupo Aval's IDRs.

### CORFICOLOMBIANA, FIDUCIARIA CORFICOLOMBIANA AND CIC

Corficolombiana's, CIC's and Fiduciaria 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 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 Profit to Risk Weighted Assets below 1.5%) 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 relatively high rating level of the bank, Occidente's VR and IDRs could benefit over the medium term by the confluence of a sovereign upgrade, with material and sustained improvements in its competitive position, 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 around the propensity or ability of the Republic of Colombia or the entity's parent to provide timely support to Bogota. 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, CIC 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 and revised Outlooks where indicated:

### Banco de Bogota

- Long-Term Foreign Currency IDR at 'BBB'; Outlook revised to Stable from Negative;
- Short-term foreign currency IDR at 'F2';
- Long-term local currency IDR at 'BBB'; Outlook revised to Stable from Negative;
- Short-term local currency IDR at 'F2';
- Viability 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 revised to Stable from Negative;
- Short-Term Foreign Currency IDR at 'F3';
- Long-Term Local Currency IDR at 'BBB'; Outlook revised to Stable from Negative;
- 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 revised to Stable from Negative;
- Short-Term Foreign Currency IDR at 'F3';
- Long-Term Local Currency IDR at 'BBB'; Outlook revised to Stable from Negative;
- 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 revised to Stable from Negative;
- Short-Term Foreign Currency IDR at 'F2';
- Long-Term Local Currency IDR at 'BBB'; Outlook revised to Stable from Negative;
- 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)'.

#### CIC

--Long-Term Foreign Currency IDR at 'BBB'; Outlook revised to Stable from Negative;  
--Short-Term Foreign Currency IDR at 'F2';  
--Support Rating at '2'.

#### 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

Global Bank Rating Criteria (pub. 25 Nov 2016)

<https://www.fitchratings.com/site/re/891051>

Global Non-Bank Financial Institutions Rating Criteria (pub. 10 Mar 2017)

<https://www.fitchratings.com/site/re/895236>

National Scale Ratings Criteria (pub. 07 Mar 2017)

<https://www.fitchratings.com/site/re/895106>

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