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INVESTORS SERVICE

CREDIT OPINION
1 July 2016

Update

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RATINGS

Banco de Bogota S.A.

Domicile	Bogota, Distrito Capital, Colombia
Long Term Rating	Baa2
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information.The ratings and outlook shown reflect information as of the publication date.

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Banco de Bogotá S.A.

Ratings Confirmed On Corporate Restructuring Plans

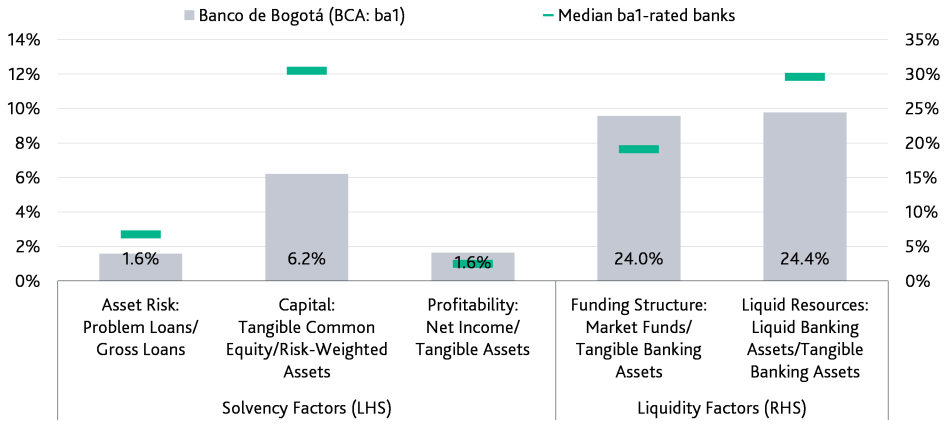
Recent Events

On 28 June 2016, Moody's confirmed Banco de Bogota S.A's ba1 standalone baseline credit assessment (BCA), and confirmed the Ba2 subordinated debt ratings. The bank's Baa2 deposit and senior unsecured debt ratings were also confirmed with a negative outlook. This concludes the review initiated on 9 March 2016.

Summary Rating Rationale

In confirming Banco de Bogotá's ba1 BCA, Moody's took into account the corporate restructuring announced by management on 14 June 2016, which is intended to strengthen the bank's capitalization ratios, which Moody's sees positively. The measures include the deconsolidation of its merchant bank, Corporacion Financiera Colombiana S.A. (Corficolombiana, unrated), and the merger of Leasing Bogotá Panama (LBP, unrated), the holding company of, BAC International Bank (BAC, Baa3 stable), with Banco de Bogotá S.A. Colombia. While the proposed restructurings are yet to be reflected in Bogotá's capitalization ratios, they fall short of bringing fresh core capital to the bank, leaving it still weakly positioned relative to regional and global peers.

Exhibit 1
Rating Scorecard - Key Financial Ratios



Note: Data for Banco de Bogotá's TCE/RWA considers Moody's estimates of capital after the deconsolidation of Corficolombiana.
Source: Moody's Financial Metrics

We assign a Baa2 global local currency rating to the bank's deposits and senior obligations, these ratings carry a negative outlook. The bank's deposit and senior debt ratings benefit

from Moody's continued assessment of high likelihood that Banco de Bogotá would benefit from government support in the event of severe financial stress given its importance for Colombia's banking system. The ratings carry a negative outlook to reflect potential negative pressure on the BCA should the bank underperform in asset quality or earnings metrics.

Moody's also assigns long- and short-term Counterparty Risk (CR) Assessments of Baa1(cr)/Prime-2(cr) to Banco de Bogotá.

Credit Challenges

» Corporate reorganization plans are yet to be completed

» Low core capitalization

» Large credit concentrations

Credit Strengths

» Strong generation of earnings largely supported on Central American operations; a fundamental driver for future ratings stability

» Good asset quality metrics; a fundamental driver for future ratings stability

» Moderate Macro Profile

Rating Outlook

Banco de Bogotá's deposit and senior debt ratings carry a negative outlook to reflect negative pressure on the bank's BCA should the bank underperform in asset quality or earnings metrics. The bank's ratings are no longer on review for downgrade.

Factors that Could Lead to an Upgrade

The BCA would benefit from substantial and sustained improvements in core capitalization ratios, provided that asset quality metrics and profitability are at least maintained at good levels as observed to date.

Factors that Could Lead to a Downgrade

Moody's estimates of the bank's prospective TCE ratio are sensitive to deviations in earnings or asset quality performance, therefore the BCA would be downgraded if: (i) the bank fails to execute its proposed corporate reorganization plans, or (ii) the TCE/RWA ratio does not improve sustainably, or conversely, falls below 6%, or (iii) higher than expected deterioration in asset risk materializes and leads to delinquency ratios (measured as non-performing loans as a percentage of gross loans) consistently higher than the levels reported to date, and/or if sub-par earnings performance leads to return on assets ratios lower than 1.5% (measured as net income as a percentage of tangible assets). Conversely, pressure on the BCA would lessen if capitalization, asset quality and profitability improve.

Key Indicators

Exhibit 2

Banco de Bogota S.A. (Consolidated Financials) [1]

	3-16[2]	12-15[2]	12-14[2]	12-13[3]	12-12[3]	Avg.
Total Assets (COP billion)	149858.7	152957.0	119729.6	100402.0	80506.4	11.9[4]
Total Assets (USD million)	49898.5	48183.0	50381.0	51968.1	45561.0	-0.5[4]
Tangible Common Equity (COP billion)	4951.8	5049.0	4303.2	5342.2	4573.5	7.3[4]
Tangible Common Equity (USD million)	1648.8	1590.5	1810.7	2765.1	2588.3	-4.6[4]
Problem Loans / Gross Loans (%)	1.6	1.6	1.7	1.3	1.2	1.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	3.9	4.0	4.1	6.0	6.3	4.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	20.9	21.4	20.1	11.0	9.6	20.8[5]

Net Interest Margin (%)	4.2	2.1	2.0	5.1	5.3	2.8[5]
PPI / Average RWA (%)	4.4	2.3	2.1	4.5	4.2	2.9[6]
Net Income / Tangible Assets (%)	1.6	1.0	0.9	1.4	1.7	1.2[5]
Cost / Income Ratio (%)	53.5	51.3	65.2	58.6	60.2	56.6[5]
Market Funds / Tangible Banking Assets (%)	24.0	23.6	21.0	17.1	17.8	22.9[5]
Liquid Banking Assets / Tangible Banking Assets (%)	24.4	12.2	16.7	31.6	33.5	17.7[5]
Gross loans / Due to customers (%)	101.8	104.1	100.4	90.7	89.0	102.1[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Basel I; LOCAL GAAP [4] Compound Annual Growth Rate based on IFRS reporting periods [5] IFRS reporting periods have been used for average calculation [6] Basel II & IFRS reporting periods have been used for average calculation
Source: Moody's Financial Metrics

Detailed Rating Considerations

CORPORATE REORGANIZATION PLANS ARE YET TO BE COMPLETED

The corporate restructuring plans announced by management on 14 June 2016 are intended to strengthen the bank's capitalization ratios. The deconsolidation of Corficolombiana will significantly reduce volatility in Banco de Bogotá's balance sheet, as Bogotá's investment in the merchant bank, in the form of a 38.3% shareholding, will now be carried as an equity investment. The volatility has been essentially derived from Corficolombiana's investments in the real sector, namely in concessions of toll roads and oil and gas pipelines, which under IFRS are treated as intangible assets, and thus subject to deduction from Moody's calculation of tangible common equity (TCE) ratios.

In addition, the proposed merger of LBP will help mitigate the effect currency swings have on Banco de Bogotá's financial statements stemming from the bank's foreign currency-denominated assets that are booked at its Central American subsidiaries. By merging LBP into Banco de Bogotá, the sizable goodwill originated from regional acquisitions, including BAC, will be recognized in Colombia, in pesos, rather than in Panama where LBP is based, potentially reducing the balance sheet exposure to currency volatility. In its calculation of capital ratios, Moody's also deducts goodwill from TCE metrics. Banco de Bogotá's goodwill represented a hefty 40% of TCE as of March 2016 as a result of the depreciation of the Colombian peso. Goodwill will continue to weigh on Banco de Bogotá's TCE, but the effect of currency swings will be lower following the regulatory approval for the merger.

LOW CORE CAPITALIZATION

If completed as planned, the bank's corporate restructuring is set to improve capitalization ratios. Banco de Bogotá's unaudited estimates point to higher capitalization ratios nearing 8.25% after the potential increase in equity from the bank's consolidated book value derived from carrying Corficolombiana at fair value derived from potential increases in equity resulting from the deconsolidation of Corficolombiana. Before the effect of carrying Corficolombiana at fair market value, Banco de Bogotá's capitalziation is still low.

According to Moody's estimates based on Banco de Bogotá's preliminary unaudited figures as of March 2016, the capitalization initiatives will increase the bank's TCE/RWA ratio to nearly 6.2% from 4.7% taking solely into account the proposed operation of Corficolombiana before the potential increase in the bank's consolidated book value derived from carrying Corficolombiana at fair value. The improvement is significant. Moody's final calculation of the bank's TCE/RWA ratio is subject to the publication of financial statements and crystallization of changes in capitalization levels, and thus are subject to change.

LARGE CREDIT CONCENTRATIONS

The bank continues to exhibit large single borrower and sector concentrations according to Moody's preferred ratios which take into account loan exposures relative to TCE. The largest exposures, however, include high quality creditors and the exposure to the oil sector is mostly comprised by Ecopetrol (Baa3 negative), Colombia's national oil company, which tends to redece credit risks. As the bank considers its participation in the financing of infrastructure projects sponsored by the Colombian government, we anticipate its loan concentration could increase further.

The bank's significant presence in Central America (43% of loans), expose the balance sheet to potential volatility in terms of asset quality, particularly under current uncertain market conditions. However, these operations have proven highly profitable and provide ample geographic diversification.

STRONG GENERATION OF EARNINGS LARGELY SUPPORTED ON CENTRAL AMERICAN OPERATIONS; FUNDAMENTAL FOR FUTURE RATINGS STABILITY

Banco de Bogotá's exhibits strong generation of core earnings which results from an ample net interest margin (4.2% as of March 2016) as well as BAC's strong performance. Banco de Bogotá's profitability is also underpinned by its low cost funding base and a growing and diversified loan portfolio, both closely referenced to the benchmark interest rate and the 90-day CD rate (DTF). The bank's TCE ratio is would nevertheless be sensitive to sub-par earnings performance leading to low return on assets ratios.

GOOD ASSET QUALITY METRICS; FUNDAMENTAL FOR FUTURE RATINGS STABILITY

Banco de Bogotá's conservative management and credit policies have resulted in healthy asset quality indicators and delinquency ratios that have traditionally been among the region's lowest. As of March 2016, the bank's PDLs as percentage of gross loans of 1.6% are in line with the bank's average of 1.5% during the previous three years. We, however, expect some deterioration going forward because the Colombian economy will expand at a slower pace than expected.

Banco de Bogotá has a diversified loan book with 62% of its loans directed to corporate loans and leases, followed by consumer loans with 26% and residential mortgages with 11%, as of March 2016 (excludes loans to employees). Deviations from strong performance of asset quality metrics could nevertheless lead to pressure on the BCA.

BANCO DE BOGOTÁ'S RATING REFLECTS A WEIGHTED MACRO PROFILE OF MODERATE

Banco de Bogotá's Macro Profile is Moderate, weighted by the group's loan exposures to Colombia and Central America.

Colombia's Macro Profile is Moderate+ and represents 57% of the bank's loan book, while its remaining operations are focused in Central America. Central American exposures include Costa Rica (Macro Profile of Moderate-), Panama (Moderate), Guatemala (Weak) and El Salvador (Weak), as well as Honduras and Nicaragua.

Colombia's economy has remained resilient in the midst of adjusting to a large terms of trade shock from the drop in oil prices. Growth will moderate in 2016 and inflationary pressures will begin to subside later in the year. The authorities are implementing the necessary adjustment and reforms to withstand the external shock. Peace negotiations are progressing, albeit slowly. Improved security and a decline in domestic political risk as the peace process comes to fruition could boost business confidence and support economic growth.

Notching Considerations

Government Support

We believe there is a very high likelihood of government support for Banco de Bogotá's rated wholesale deposits and senior unsecured debt. The deposit ratings reflect Banco de Bogotá's large market share of deposits in Colombia and hence the material systemic consequences that would result from an unsupported failure.

We assign a Baa2 global local currency rating to the bank's deposits and senior obligations. These ratings carry a negative outlook to reflecting negative pressure on the bank's BCA. A downgrade of the BCA would likely lead to a downgrade of the senior ratings, notwithstanding government support.

Foreign Currency Debt Rating

Moody's assigns a Baa2 long-term foreign currency debt rating, with negative outlook, to Banco de Bogotá's five-year USD600 million senior unsecured notes due January 2017. The assigned rating is based on the bank's local currency deposit rating of Baa2, also with negative outlook.

Moody's assigns a Ba2 long-term foreign currency subordinated debt rating to the bank's ten-year USD500 million subordinate debt issuance due February 2023 and ten-year USD600 million subordinated debt issuance due May 2026.

Counterparty Risk Assessments

Banco de Bogotá's long- and short-term CR Assessments are positioned at Baa1(cr)/Prime-2(cr).

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

The CR Assessment, prior to government support, is positioned one notch above the Adjusted BCA of ba1 and therefore above senior unsecured and deposit ratings, reflecting our view that its probability of default is lower than that of senior unsecured debt and deposits. We believe senior obligations represented by the CR Assessment will be more likely preserved in order to limit contagion, minimize losses and avoid disruption of critical functions.

The CR Assessment also benefits from one notch of systemic support, in line with our support assumptions on deposits and senior unsecured debt. This reflects our view that any support provided by governmental authorities to a bank which benefits senior unsecured debt or deposits is very likely to benefit operating activities and obligations reflected by the CR Assessment as well, consistent with our belief that governments are likely to maintain such operations as a going-concern in order to reduce contagion and preserve a bank's critical functions.

ABOUT MOODY'S BANK SCORECARD

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Methodology and Scorecard Factors

Exhibit 3

Banco de Bogota S.A.

Macro Factors						
Weighted Macro Profile	**Moderate**	**100%**				
Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.6%	baa1	← →	baa1	Loan growth	Single name concentration
Capital						
TCE / RWA	3.9%	caa3	↑↑	caa1	Risk-weighted capitalisation	Capital retention
Profitability						
Net Income / Tangible Assets	1.2%	baa3	← →	baa1	Earnings quality	Expected trend
Combined Solvency Score		ba3		ba1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	23.6%	ba1	← →	ba1	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	12.2%	ba3	← →	ba3	Quality of liquid assets	
Combined Liquidity Score		ba2		ba2		
Financial Profile				ba1		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		

Sovereign or Affiliate constraint:	Baa2
Scorecard Calculated BCA range	baa3-ba2
Assigned BCA	ba1
Affiliate Support notching	0
Adjusted BCA	ba1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency rating	Foreign Currency rating
Counterparty Risk Assessment	1	0	baa3 (cr)	2	Baa1 (cr)	--
Deposits	0	0	ba1	2	Baa2	Baa2
Senior unsecured bank debt	0	0	ba1	2	--	Baa2
Dated subordinated bank debt	-1	0	ba2	0	--	Ba2

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
BANCO DE BOGOTA S.A.	
Outlook	Negative
Bank Deposits	Baa2/P-2
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)
Senior Unsecured	Baa2
Subordinate	Ba2
PARENT: GRUPO AVAL ACCIONES Y VALORES S.A.	
Outlook	Negative
Issuer Rating	Ba2
ST Issuer Rating	NP
BAC INTERNATIONAL BANK, INC	
Outlook	Stable
Bank Deposits	Baa3/P-3
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)

Source: Moody's Investors Service

REPORT NUMBER 1033276

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