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CREDIT OPINION
13 July 2017

Update

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RATINGS

Banco de Bogota S.A.

Domicile	Bogota, Distrito Capital, Colombia
Long Term Debt	Withdrawn
Type	Senior Unsecured - Fgn Curr
Outlook	Rating(s) WithDrawn
Long Term Deposit	Baa2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

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 Bogota S.A.

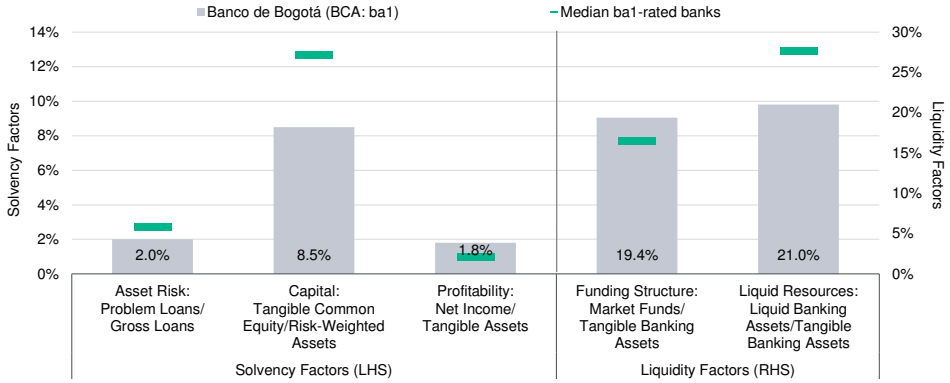
Update Following the Recent Affirmation at Baa2 Stable

Summary Rating Rationale

On 7 July 2017, Moody's affirmed Banco de Bogotá S.A.'s ratings and changed the outlook to stable, from negative, which acknowledged that the negative pressures in its financial profile have stabilized, particularly the capitalization. In the last year, the bank demonstrated capacity to keep the tangible common equity to risk weighted assets around the 8.5% ratio reported in March 2017, sustained by sound internal earnings generation and lower capital consumption as the pace of asset growth accommodated at lower levels than previous years. It also incorporated the still attractive profitability levels, despite the potential negative pressure coming from high credit costs. At the same time, it considered that high single borrower concentration could add volatility to asset risk.

Banco de Bogota's Baa2 deposit ratings incorporates our continued assessment of very high likelihood of government support, if needed, resulting in a two-notch uplift from its ba1 BCA.

Exhibit 1
Rating Scorecard - Key Financial Ratios
Data for Banco de Bogotá as of March 2017



Source: Moody's Financial Metrics

Credit Challenges

» Asset risk pressures arising from single borrower concentration

» Potential volatility from exposures to Central America

» Though capitalization has increased substantially following a corporate restructuring, it remains low by regional and global standards

Credit Strengths

» Strong generation of earnings supported by wide margins and efficiency

» Good asset quality metrics despite recent pressures

Rating Outlook

The stable outlook of Banco de Bogota's ratings takes into consideration that its current financial profile is resilient to the potential negative pressures arising from asset risk and profitability. Also, it incorporates our expectation that capitalization will sustain around current levels.

Factors that Could Lead to an Upgrade

Banco de Bogota's ratings could be upgraded if it posts further improvement in its capital position coupled with its ability to preserve asset risk and profitability.

Factors that Could Lead to a Downgrade

The bank's ratings could be downgraded if its capital ratio weakens, or if the bank posts higher-than-expected deterioration in asset risk and fails to sustain profitability at sound levels.

Also, the downgrade of Colombia's sovereign bond of Baa2 would lead to a downgrade of Banco de Bogota's deposit and senior debt ratings.

Key Indicators

Exhibit 2
Banco de Bogota S.A. (Consolidated Financials) [1]

	3-17[2]	12-16[2]	12-15[2]	12-14[2]	12-13[3]	CAGR/Avg.[4]
Total Assets (COP billion)	143,696	141,245	136,663	118,803	100,402	8.8[5]
Total Assets (USD million)	49,656	47,050	43,050	49,991	51,968	-0.3[5]
Tangible Common Equity (COP billion)	10,134	10,545	9,744	4,881	5,342	38.4[5]
Tangible Common Equity (USD million)	3,502	3,513	3,070	2,054	2,765	26.8[5]
Problem Loans / Gross Loans (%)	2.0	1.7	1.5	1.5	1.3	1.7[6]
Tangible Common Equity / Risk Weighted Assets (%)	8.5	8.7	7.8	4.6	6.0	7.4[7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	15.8	13.1	12.0	16.6	11.0	14.4[6]
Net Interest Margin (%)	5.0	4.8	4.5	3.8	5.1	4.5[6]
PPI / Average RWA (%)	4.3	6.1	3.5	4.1	4.5	4.5[7]
Net Income / Tangible Assets (%)	1.8	3.3	1.6	2.0	1.4	2.2[6]
Cost / Income Ratio (%)	53.4	44.9	55.4	47.6	58.6	50.3[6]
Market Funds / Tangible Banking Assets (%)	19.2	19.4	21.4	22.7	17.1	20.6[6]
Liquid Banking Assets / Tangible Banking Assets (%)	22.6	21.0	21.6	26.1	31.6	22.8[6]
Gross Loans / Due to Customers (%)	104.0	106.3	106.6	100.7	90.7	104.4[6]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Basel I; LOCAL GAAP [4] May include rounding differences due to scale of reported amounts [5] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [6] Simple average of periods presented for the latest accounting regime. [7] Simple average of Basel II periods presented
Source: Moody's Financial Metrics

Detailed Rating Considerations

LARGE PROBLEMATIC EXPOSURES LEAD TO ASSET RISK VOLATILITY

Although B.Bogota holds the second largest branch network in Colombia, commercial lending represents the largest portion of total loans (61%), followed by consumer (27%) and mortgage (12%). In terms of geographic distribution, about 56% of the bank's total assets and loans are allocated in Colombia , given its significant presence in Central America, which exposes the balance sheet to potential volatility in terms of asset quality. Although Central America is experiencing a certain degree of volatility, a meaningful deterioration in the asset risk is not expected for the next 12-18 months, while these operations remain profitable and provide geographic diversification.

Nevertheless, Moody's downward adjustment (-2) to asset risk score reflects the exposure of the bank in much weaker operating environments along with the bank's single name concentrations in large economic groups that could amplify potential deterioration.

The 90-day past due loans increased slightly in 2016 compared to previous year, and picked up more substantially in the 1Q17 mainly because Electricaribe became past due. The bank's large single borrower concentration will keep representing volatility risks to asset quality. The exposure to Electricaribe amounts to COP 364 bln (0.4% of total loans), and is just 12.8% covered by provisions, which is expected to increase to 55% in the next few quarters. In case of Concesionaria Ruta del Sol (CRDS, unrated), the bank has a COP 696 bln loan exposure (0.7% of total portfolio), with a small portion covered by reserves as the bank expects a full recovery in the liquidation process. The bank also holds a indirect exposure through Corficolombiana, its 38.3% owned affiliate, which in turn holds 33% of CRDS through its subsidiary Episol. The investment of Episol in CRDS is COP 350 billion (approx. USD 117 million) and the CRDS's net income for 2016 was COP 95 bln (approx. USD 29 million). At year ended 2016, Episol and Corficolombiana charged its results with COP 102 billion (approx. USD 33 million) of impairments, which impacted Banco de Bogotá's result in COP 39 billion (approx. USD 10 million).

Loan growth has diminished significantly compared to last years, given the bank's more conservative standards as well as lower credit demand. For 2017, Banco de Bogota expects to achieve a loan growth rate of about 8%, with the consumer and mortgage segments remaining as the fastest growing. Commercial loans will remain slow, and could accelerate in the next quarters if the economy becomes more dynamic.

The bank's loan loss reserves to 90-day past due loans was equivalent to 125% in March 2017, which although adequate, will likely have to increase as it builds a higher coverage against the problematic large exposures.

STABLE CAPITALIZATION UNDER LOWER GROWTH ENVIRONMENT

In the last year the bank sustained the tangible common equity to risk weighted assets (TCE / RWA) at around 8.7%, supported by the meaningful slowdown in RWA growth and the maintenance of good earnings generation. Nevertheless, relative to regional and global peers, the capitalization ratio of Banco de Bogotá is still low.

To the extent that Banco de Bogota's growth pace remains at lower levels than last years, and dividend payout policy does not materially change for a long time, the bank is expected to maintain stable capital ratios.

ATTRACTIVE EARNINGS GENERATION DESPITE CREDIT COST PRESSURES

Banco de Bogota is sustaining profitability at high levels despite the increasing credit cost pressures throughout 2016 and the first quarter of 2017. The bank's performance was supported by high net interest margins and the maintenance of cost to income, at around 53%. The ongoing negative pressures are expected to represent just a slight weight on Banco de Bogata's profitability. Net interest margin is likely to slightly compress in line with the declining policy rates, and credit cost should sustain at high levels in 2017. If the economy gradually recovers in 2018, expenses with provisions for loan losses could ease, while Banco de Bogota will also benefit from the lowering tax rates implemented in the recent fiscal reform, which will decline from 40% currently, to 37% in 2018 and 33% from 2019 onwards.

We highlight that Banco de Bogota's reported net income in 2016 was positively impacted by a one-off gain arising from the change in the accounting treatment of the bank's 38.3% ownership in Corficolombiana to an equity participation. As a result, the bank realized a COP2.2 trillion gain related to the difference between the book value and the market valuation of the investment. Excluding this extraordinary gain, Banco de Bogotá's net income to tangible assets would be 1.6%, versus a reported 3.3% in fiscal year ended in December 2016. We also note that 2016 results were negatively impacted by the impairment that its affiliate Corficolombiana carried out on its investment in CRDS, resulting in an after-tax loss of COP 39 bln (about 1% of net income).

STRONG ACCESS TO CORE FUNDING

Because of its strong core deposit base in all the markets in which it operates, Banco de Bogota's reliance on market funds is relatively reduced. The need to raise market funds will remain reduced while its operations grow at a lower pace than in the previous years.

Following the slowdown in the loan growth, Banco de Bogota was able to slightly improve its liquidity, which is positioned at moderate levels. Also, we note that the exposure to sovereign bonds in Central America represents only 7.6% of total liquid assets.

BANCO DE BOGOTÁ'S WEIGHTED MACRO PROFILE OF "MODERATE" REFLECTING ITS EXPOSURE TO CENTRAL AMERICA

Colombia's Macro Profile is "Moderate+" and represents around 56% of the bank's loan book, while its remaining operations are focused in Central America, including Costa Rica (Macro Profile of "Moderate-"), Panama (Moderate), Guatemala (Weak) and El Salvador (Very Weak+), as well as Honduras and Nicaragua.

Despite the lower expectations of GDP growth, the economy will remain resilient, as it continues to adjust to lower oil prices, and benefits from its sound fiscal framework and adequate reserve buffers. Our evaluation of Colombia's macro profile is nevertheless tempered by the country's low GDP per capita and high inequality. Despite below average indicators for government effectiveness, the country benefits from a favorable investment climate and policy predictability. Colombia faces event risk related to its dependence on oil exports.

Notching Considerations

Government Support

Moody's assessment of a very high likelihood of government support for Banco de Bogotá's deposits and senior unsecured debt reflects its large market share of deposits in Colombia and hence the material systemic consequences that would result from an unsupported failure. Therefore, its Baa2 global long-term deposit rating benefits from a two-notch uplift from its ba1 BCA.

Foreign Currency Debt Rating

Moody's assigns a Ba2 long-term foreign currency subordinated debt rating to the bank's ten-year USD500 million subordinate debt issuance due 19 February 2023 and ten-year USD1.1 billion subordinated debt issuance due 12 May 2026[1]

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.

HISTORICAL RATIOS

For the *asset risk and profitability* ratios, we calculate the average of the three latest year-end numbers and the latest quarterly data if available, and the ratio used is the weaker of the average versus the latest period. For the *capital* ratio, we use the latest reported figure.For the *funding structure and liquid resources* ratios, we use the latest year-end figures.

Rating Methodology and Scorecard Factors

Exhibit 3

Banco de Bogota S.A.

Macro Factors		
Weighted Macro Profile	**Moderate**	**100%**

Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.0%	baa1	← →	baa3	Single name concentration	Expected trend
Capital						
TCE / RWA	8.5%	b1	← →	b1	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	1.8%	baa1	← →	baa2	Expected trend	
Combined Solvency Score		baa3		ba1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	19.4%	baa3	← →	baa3	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	21.0%	ba1	← →	ba1	Stock of liquid assets	
Combined Liquidity Score		baa3		baa3		
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
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	Stable
Bank Deposits	Baa2/P-2
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)
Subordinate	Ba2
PARENT: GRUPO AVAL ACCIONES Y VALORES S.A.	
Outlook	Stable
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

Endnotes

1 See Moody's Press Releases titled "Moody's assigns Ba2 to Banco de Bogota's proposed subordinated debt; rating on review for downgrade," 2 May 2016 and "Moody's continues to rate Banco de Bogotá's subordinated debt Ba2 following reopening," 1 November 2016.

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