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CREDIT OPINION

16 March 2016

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RATINGS

BANCO DE BOGOTA S.A.

Domicile	Bogota, Distrito Capital, Colombia
Long Term Rating	Baa2 , Possible Downgrade
Type	LT Bank Deposits - Fgn Curr
Date	09 Mar 2016
Outlook	Rating(s) Under Review
Date	09 Mar 2016

Please see the ratings section at the end of this report for more information.

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Banco de Bogota S.A.

Capital Pressure Mounts Following The Sharp Depreciation Of The Colombian Peso

Recent Events

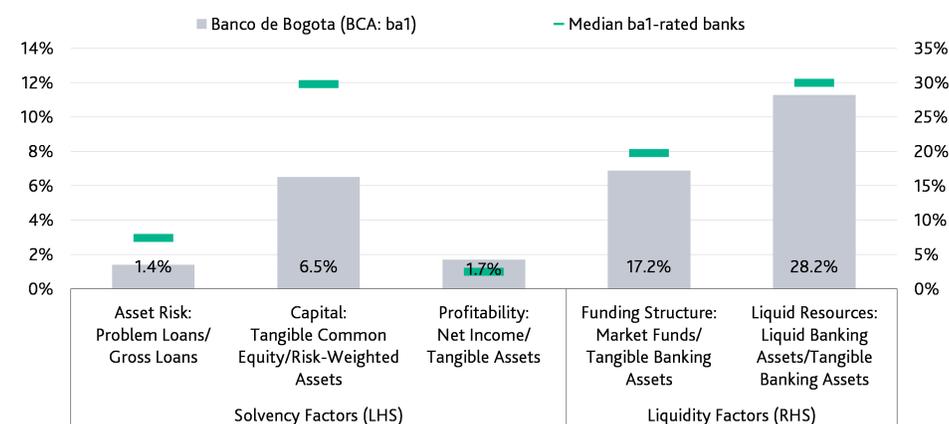
On 9 March 2016, Moody's lowered Banco de Bogota, S.A.'s standalone baseline credit assessment by one notch to ba1, and placed it on review for further downgrade. The bank's subordinated debt rating was downgraded to Ba2 from Ba1, and placed on review for downgrade. The bank's Baa2 deposit and senior unsecured debt ratings were placed on review for downgrade.

Summary Rating Rationale

At ba1, the BCA reflects an important drop in the bank's already low adjusted capital ratio driven by a 52% depreciation of the Colombian peso during 2015. Given the bank's significant dollar-denominated investments in Central America, the depreciation contributed to a 20% and 30% increase in the peso value of Banco de Bogota's risk weighted assets (RWA) and goodwill, respectively, revealing in turn the susceptibility of the bank's capital position to currency swings.

Exhibit 1

Rating Scorecard - Key Financial Ratios



Note: Data for Banco de Bogotá as of December 2014
Source: Moody's Financial Metrics

According to our estimates, Banco de Bogota's tangible common equity (TCE) to RWA ratio declined to around 5.4%, from 6.5% as of December 2014. Based on Moody's calculation

of capital adequacy, at current levels, the bank's core capital adequacy provides limited capacity to continue to support its historically robust loan growth or absorb losses in the event of stress, making the bank more vulnerable to any deterioration in asset risk or earnings performance. In addition, the bank's sizable single borrower and sector concentrations relative to capital as per Moody's preferred concentration metrics – where the 20 largest exposures represent 2x TCE and loans to the oil sector equal 52% of TCE – and its significant presence in Central America (41% of assets), which we regard as higher risk than Colombia, expose the balance sheet to potential volatility in terms of asset quality, particularly under current uncertain market conditions.

That said, Banco de Bogota's strong and consistent earnings have allowed it to operate with comparatively low core capital levels for years. Moreover, the bank's conservative management and credit policies have resulted in healthy asset quality metrics, as reflected by a non-performing loan ratio around 1.3% in 2015, and the portfolio benefits from a relatively high degree of geographical diversification. The BCA is also underpinned by the bank's ample financial margins and an efficient cost structure, as well as a stable funding base of core deposits.

The ratings are on review for downgrade during which Moody's will assess near-term prospects for the bank's core capitalization. Moody's could lower further the standalone BCA if management does not demonstrate a credible plan to improve the bank's capital ratios within the next three months. In light of the bank's thinner capital position, the review will also consider any plans for the management of large loan exposures.

We assign a Baa2 global local currency rating to the bank's deposits and senior obligations, these ratings are on review for possible downgrade. Despite the downgrade of the BCA, the bank's deposit and senior debt ratings have not been downgraded at this time because of increased uplift stemming from Moody's continued assessment that there is a high probability that Banco de Bogota will benefit from government support in the event of financial stress. However, the senior ratings were placed on review for downgrade because a further downgrade of the BCA would likely lead to a downgrade of the senior ratings, notwithstanding government support. A lower BCA would also lead to a lower rating for subordinated debt instruments.

Moody's also assigns long- and short-term Counterparty Risk (CR) Assessments of Baa1(cr)/Prime-2(cr), on review for downgrade, to Banco de Bogota.

Credit Challenges

- » Low core capital and uncertain capitalization prospects
- » Large credit concentrations and exposure to riskier countries in Central America

Credit Strengths

- » Strong earnings generation
- » Proactive and institutionalized risk management
- » Moderate Macro Profile

Rating Outlook

Banco de Bogota's ratings are on review for downgrade.

Factors that Could Lead to an Upgrade

The ratings are under review for downgrade therefore upward rating pressure is unlikely at this juncture.

Factors that Could Lead to a Downgrade

The ratings are on review for downgrade. During the review will assess near-term prospects for the bank's core capitalization. We could lower further the standalone BCA if management does not demonstrate a credible plan to improve the bank's capital ratios within the

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next three months. In light of the bank's thinner capital position, the review will also consider any plans for the management of large loan exposures.

A downgrade of the BCA would also lead to a downgrade of the deposit ratings and a further downgrade of the subordinated debt ratings.

Key Indicators

Exhibit 2

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

	12-14 ²	12-13 ²	12-12 ²	12-11 ²	12-10 ²	Avg.
Total Assets (COP billion)	118,107.3	100,402	80,506.4	68,809.6	59,346.6	18.8 ³
Total Assets (USD million)	49,698.4	51,968.1	45,561	35,496.1	30,909.5	12.6 ³
Tangible Common Equity (COP billion)	6,748.1	5,342.2	4,573.5	3,539.4	761.2	72.6 ³
Tangible Common Equity (USD million)	2,839.6	2,765.1	2,588.3	1,825.8	396.5	63.6 ³
Problem Loans / Gross Loans (%)	1.4	1.3	1.2	1.3	1.6	1.4 ⁴
Tangible Common Equity / Risk Weighted Assets (%)	6.5	6	6.3	5.6	1.4	5.2 ⁵
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	11.2	11	9.6	11.6	30.2	14.7 ⁴
Net Interest Margin (%)	4.6	5.1	5.3	4	3.2	4.4 ⁴
PPI / Average RWA (%)	3.9	4.5	4.2	5.1	6.5	4.8 ⁵
Net Income / Tangible Assets (%)	1.7	1.4	1.7	1.7	1.6	1.6 ⁴
Cost / Income Ratio (%)	60.6	58.6	60.2	55.9	43.4	55.7 ⁴
Market Funds / Tangible Banking Assets (%)	17.2	17.1	17.8	16.9	17.1	17.2 ⁴
Liquid Banking Assets / Tangible Banking Assets (%)	28.2	31.6	33.5	30.7	31.7	31.1 ⁴
Gross loans / Due to customers (%)	95.9	90.7	89	92.2	88.2	91.2 ⁴

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

Source: Moody's Financial Metrics

Detailed Rating Considerations

LOW CORE CAPITAL AND UNCERTAIN CAPITALIZATION PROSPECTS

From a regulatory perspective, the bank's reported regulatory capital ratio remains considerably higher than Moody's preferred measure of capitalization, TCE/RWA, and continues to exhibit an adequate if declining cushion relative to Colombia's regulatory minimum. However, the regulatory ratio includes Tier 2 capital and grandfathers goodwill accumulated before 2012 (currently a very high 63% of common equity), which means that, for regulators, goodwill from the bank's main acquisitions is not deducted from capital. In our view, however, neither Tier 2 capital nor goodwill or intangible assets provide meaningful loss absorption prior to the point of non-viability.

In this context, a key difference between our capital calculation and the solvency ratios reported by the bank according to local regulation is our integral deduction of goodwill and intangible assets. If goodwill and intangible assets were fully deducted from common equity based on consolidated preliminary figures as of December 2015, the bank's TCE/RWA ratio would be a low 3.8%. However, management claims that not all goodwill and intangibles are attributable to the bank and therefore should not be considered in the TCE/RWA calculations. If this approach is considered and only the goodwill and intangibles assets that according to the bank are attributable to Banco de Bogota, are deducted, the TCE/RWA would be 5.4%.

While the latter ratio is higher than our most conservative calculation, still at 5.4% Banco de Bogota's core capitalization is low and provides limited capacity to continue to support the bank's historically robust loan growth or absorb losses in the event of stress, making it more vulnerable to any deterioration in asset risk or earnings performance, in Moody's opinion. Moreover, at this level, the TCE/RWA ratio is 110 basis point lower than in December 2014, and low relative to global and regional peers. During the ratings review, we will also focus on the nature and accountability of the bank's intangible assets to more precisely assess the amount that could effectively be attributable to the bank and therefore eligible for deduction from common equity in our calculation. In any case,

after our assessment, we do not expect the resulting TCE/RWA ratio to be higher than the current estimate of 5.4% (all other things equal).

Moody's acknowledges that Banco de Bogota's shareholders have a good track record of providing fresh capital to the bank, however given the uncertainty of future capitalizations at this juncture, we cannot incorporate it into our calculations. In this light, given the bank's actual thinner capital position, the review will focus on the near-term prospects for the bank's core capitalization. In particular we will assess management's plans to improve the bank's capital ratios within the next three months as well as plans for the management of large loan exposures.

LARGE CREDIT CONCENTRATIONS AND EXPOSURE TO RISKIER COUNTRIES IN CENTRAL AMERICA

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. In these calculations, the 20 largest exposures represent 15% of total loans but 2x TCE, and loans to the oil sector equal 3.5% of loans but 52% of TCE. Although the largest exposures include high quality creditors and the exposure to the oil sector is mostly comprised by Ecopetrol (Baa3 on review for downgrade), Colombia's national oil company, these exposures are high relative to TCE. Further, 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 if large ticket loans are underwritten.

In turn, the bank's significant presence in Central America (41% of assets), expose the balance sheet to potential volatility in terms of asset quality, particularly under current uncertain market conditions. We view Banco de Bogota's retail exposure to Central America as riskier and potentially more volatile than the predominantly corporate operation in Colombia because Central America has higher poverty and inequality indicators, coupled with low and more volatile economic and institutional strength. That said, however, the bank's operations in Central America, namely BAC International Bank (BAC, rated baa3/Baa3 stable) has proven highly profitable and has provided Banco de Bogota with ample geographic diversification.

STRONG EARNINGS GENERATION HOLDS UP

Banco de Bogota's exhibits a stable generation of core earnings which results from an ample net interest margin (4.3% as of September 2015) as well as BAC's strong performance. Banco de Bogota'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).

With regards to BAC, Banco de Bogota has also successfully integrated its Central American operation, with further beneficial effects on core earnings and their predictability, based on the business diversification that BAC's retail business and uncorrelated operating environments bring to Banco de Bogota's portfolio. The bank's profitability is ample and largely in line with that reported prior to acquisitions with net income to tangible banking assets of 1.6%, as of September 2015, versus the average 1.6% of the previous three years.

PROACTIVE AND INSTITUTIONALIZED RISK MANAGEMENT

Banco de Bogota'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 September 2015, the bank's PDLs as percentage of gross loans of 1.3% are in line with the bank's average of 1.3% during the previous three years. We, however, expect some deterioration going forward, not only because the Colombian economy will expand at a slower pace than expected but also because the bank's Central American exposure expose the balance sheet to greater volatility in terms of asset quality, particularly under current uncertain market conditions.

Banco de Bogota has a diversified loan book with 63% of its loans directed to corporate loans and leases, followed by consumer loans with 25% and residential mortgages with 11%, as of September 2015 (excludes loans to employees).

Lastly, despite the fact that Banco de Bogota is ultimately family-owned – a factor that could be a source of concerns related to governance risks –, no major issues in terms of corporate governance have been observed in the bank, which reflects the bank's strong governance bodies.

BANCO DE BOGOTÁ'S RATING IS CONSTRAINED BY A WEIGHTED MACRO PROFILE OF MODERATE

Banco de Bogota'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 about 60% 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 has a robust growth outlook, supported by strong domestic demand, though tempered by the country's low GDP per capita and high inequality. Despite 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 as well as ongoing problems with armed insurgencies, which have mounted an increasing number of attacks on its oil pipelines in recent years. Peace negotiations are progressing, albeit slowly.

Notching Considerations

In the absence of a bail-in resolution regime framework in Colombia, as per the "Global Banks" Methodology, under "Guidelines for Rating Junior Bank Obligations", updated in July 2014, we take into account the key features of the bank's outstanding notes. As 'plain vanilla' subordinated debts with no skip mechanisms, these instruments commonly absorb losses only in a liquidation scenario. In those cases, the notching approach for 'plain vanilla' subordinated debt is one notch of subordination risk off the bank's adjusted BCA.

Therefore, we currently rate the bank's foreign currency subordinated debt at Ba2 which is one notch below the ba1 BCA. The subordinated debt rating is also on review for downgrade.

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 on review for downgrade to the bank's deposits and senior obligations. These ratings are on review for downgrade because a further downgrade of the BCA would likely lead to a downgrade of the senior ratings, notwithstanding government support.

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	1.4%	baa1	← →	baa1	Loan growth	Single name concentration
Capital						
TCE / RWA	6.5%	caa1	↓↓	caa3	Risk-weighted capitalisation	Expected trend
Profitability						
Net Income / Tangible Assets	1.6%	baa1	← →	baa1	Earnings quality	Expected trend
Combined Solvency Score		ba1		ba2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	17.2%	baa3	← →	baa3	Deposit quality	

Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	28.2%	baa3	← →	baa3	Quality 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	--	--	--	--	Baa1(cr) RUR Possible Downgrade	--
Deposits	--	--	--	--	Baa2 RUR Possible Downgrade	Baa2 RUR Possible Downgrade
Senior unsecured bank debt	--	--	--	--	Baa2 RUR Possible Downgrade	Baa2 RUR Possible Downgrade
Dated subordinated bank debt	--	--	--	--	Ba2 RUR Possible Downgrade	Ba2 RUR Possible Downgrade

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
BANCO DE BOGOTA S.A.	
Outlook	Rating(s) Under Review
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	Rating(s) Under Review
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

Foreign Currency Debt Rating

Moody's assigns a Baa2 long-term foreign currency debt rating, on review for downgrade, to Banco de Bogotá's five-year USD600 million senior unsecured notes due 15 January 2017 (coupon of 5%). The assigned rating is based on the bank's local currency deposit rating of Baa2, also on review for downgrade.

Moody's assigns a Ba2 long-term foreign currency subordinate debt rating (on review for downgrade) to the bank's ten-year USD500 million subordinate debt issuance due 19 February 2023 (coupon of 5.375%).

Counterparty Risk Assessments

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

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.

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