

Rating Action: Moody's affirms Grupo Aval, Banco de Bogotá and BAC International Bank's ratings; Grupo Aval's outlook changed to negative

23 Sep 2021

New York, September 23, 2021 -- Moody's Investors Service ("Moody's") has today affirmed all ratings and assessments assigned to Banco de Bogotá S.A. (Banco de Bogota), including its ba1 baseline credit assessment (BCA) and Baa2 long-term global deposit and senior unsecured debt ratings; ratings and assessments assigned to BAC International Bank, Inc (BAC), including its ba1 BCA and Ba1 deposit ratings, as well as ratings assigned to Grupo Aval Acciones y Valores S.A. (Grupo Aval) and Grupo Aval Limited. The ratings outlook for Banco de Bogotá remains negative and BAC's remains stable, while the outlook on Grupo Aval's ratings was changed to negative, from stable.

The rating actions follow the announcement by Banco de Bogota and Grupo Aval on 15 September 2021, that they intend to spin-off 75% of Leasing Bogotá S.A. Panamá (LBP), BAC's parent, which would result in Banco de Bogotá and Grupo Aval to cease to control and consolidate of LBP. The transaction is subject to regulatory approvals in Colombia, Panama and in the United States, jurisdictions where the group operates, and also pending approvals by certain creditors and shareholders.

RATINGS RATIONALE

BANCO DE BOGOTÁ

The affirmation of Banco de Bogotá's BCA reflects Moody's view that if the announced transaction materializes, the Colombian bank's BCA and all of its ratings would still remain appropriately positioned at their current levels. The transaction will reduce Banco de Bogota's exposure to riskier operating environments in Central America, which could lead to an improvement of Moody's assessment of the bank's operating environment, with Colombia becoming the bank's predominant market in terms of capital allocation and profitability drivers. While this could have a credit positive implication on the bank's BCA, Banco de Bogotá's ratings, which already benefit from two notches of government support, would remain unchanged. In June 2021, BAC represented roughly 45% of Banco de Bogota's consolidated assets, loans and earnings. Under the announced terms, its Panamanian subsidiary Multibank will remain 100% owned by Banco de Bogota, accounting for 8% of the bank's consolidated loans, while the Colombian operations will account for roughly 77% after the transition, from current 44%.

In terms of capitalization, which has been one of the bank's weakest BCA drivers, the transaction would also have positive implications for Banco de Bogota. As of June 2021, Moody's capital measure, tangible common equity to adjusted risk-weighted assets ratio, stood below peers at 8.7%. With the corporate spin-off and deconsolidation of LBP, Banco de Bogota would cease to account for LBP's sizable goodwill, which would lead to an improvement of its capital position. The bank and Grupo Aval also announced that they expect to receive a capital injection following the conclusion of the transaction, which could further strengthen the bank's capitalization. We expect that the new corporate structure will provide the bank with a greater ability to manage its growth opportunities in its core Colombian market.

Conversely, while de-risking from weaker operating environments in Central Bank, Banco de Bogota's consolidated problem loan metrics would increase when excluding BAC -with stage 3 loans representing around 8% of gross loans from 6% based on June 2021 financials- as a result of currently higher problem loan metrics in the Colombian market. In turn, by eliminating BAC's sizeable deposit base and liquidity buffers, Banco de Bogota's consolidated market funding ratio will likely increase, with liquidity metrics lowering from current levels. However, Moody's expects that these metrics will remain adequate and consistent with the bank's ba1 BCA.

Banco de Bogotá's Baa2 deposit and senior unsecured debt ratings continue to incorporate the assessment of a very high likelihood of government support, given its systemic importance in Colombia, which results in a two-notch uplift from its ba1 BCA. Therefore, the bank's ratings outlook continues to be negative, in line with the outlook of the Government of Colombia (Baa2 negative).

BAC INTERNATIONAL BANK, INC

By affirming BAC's BCA at ba1, Moody's acknowledges the bank's consistent financial fundamentals, as reflected by its geographical and business diversification, continued strong earnings generation even at times of stress, steady access to core deposits, as well as adequate liquidity management, factors that help to compensate the relatively weak operating conditions in the countries where it operates. The affirmation also captures Moody's expectation that the planned spin-off would not lead to material changes on the bank's financial and business fundamentals. The bank has a well-established franchise as the largest bank in Central America, which we expect to continue to provide it with business opportunities and access to funding despite no longer being controlled by Banco de Bogota.

In addition, despite our assessment prior to the announcement of the spin-off of a very high probability of affiliate support to BAC from Banco de Bogotá, this assumption has no effect on BAC's ratings because Banco de Bogotá's ba1 BCA is at the same level of BAC's BCA. Therefore, the expected change of BAC's affiliation to Banco de Bogotá is not expected to lead to a change of the bank's ratings.

However, given the change in management oversight implied by the corporate reorganization, any deterioration in the bank's corporate governance and risk management, would have credit negative implications on the bank's ba1 BCA.

GRUPO AVAL

Grupo Aval's ratings currently incorporate the structural subordination of the holding company's liabilities to the liabilities of Banco de Bogota and its other subsidiaries and are notched off Banco de Bogotá S.A.'s ba1 BCA. Its Ba2 issuer rating considers the importance of Banco de Bogota as the main subsidiary of the holding company. Grupo Aval Limited's debt ratings are in turn based on Grupo Aval's irrevocable and unconditional guarantee of Grupo Aval Limited's liabilities under the indentures.

Despite Moody's expectation that Banco de Bogota's BCA will remain adequately positioned at ba1, the negative outlook on Grupo Aval reflects the possibility that the corporate reorganization would lead to an increase in the holding company's double leverage ratio, which stood at 119% in June 2021. A significant increase in the metric above 120%, and the expectation that it would be sustained over time, would be negative for Grupo Aval's ratings. However, the potential capital injection by the shareholder to Grupo Aval would help reduce the pressure on its future double leverage indicator.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Banco de Bogotá's deposit and senior debt ratings have negative outlooks and are positioned at the same level of Colombia's sovereign bond rating. Therefore, a downgrade of the sovereign rating would have a direct negative impact on the bank's supported ratings. Intrinsic downward pressure to the bank's BCA could arise from a deterioration in the operating environment in Colombia or in Central America, that could lead to deterioration to asset risks and higher credit costs, ultimately affecting the bank's capitalization.

Banco de Bogotá's ratings are unlikely to face upward pressures at this juncture, due to the negative outlook. However, the outlook could be stabilized provided that the Colombian sovereign rating outlook were stabilized. In addition, positive pressure on the bank's BCA could come from sustained improvement in the bank's capital metrics, coupled with a recovery of its asset quality metrics to pre-pandemic levels and continued strong revenues.

BAC's BCA and ratings could be upgraded if there were material and sustained improvement in the operating conditions of BAC's main countries of operation, provided that the bank sustains its solid financial performance. In turn, downgrade pressure would arise from larger than expected asset quality deterioration, that could lead to significant decline of the bank's profitability and capitalization.

Either upward or downward pressures on Grupo Aval and Grupo Aval Limited's ratings would be associated with upward or downward change of Banco de Bogota's BCA, because the holding company's Ba2 issuer rating is anchored to the bank's BCA. However, Grupo Aval's ratings could also face downward pressures from a sustained increase on the holding company's double leverage ratio or a significant deterioration in its interest coverage ratio and liquidity buffers.

As the spin-off transaction is subject to pending approvals from regulators, certain creditors and shareholders, any material change in the conditions may lead Moody's to reassess the ratings of all the entities involved.

ISSUERS AND RATINGS AFFECTED

..Issuer: Banco de Bogota S.A.

Affirmations:

- .Long term local currency deposit rating of Baa2, with Negative Outlook
- .Long term foreign currency deposit rating of Baa2, with Negative Outlook
- .Long term foreign currency senior unsecured rating of Baa2, with Negative Outlook
- .Short term local currency deposit rating of Prime-2
- .Short term foreign currency deposit rating of Prime-2
- .Long-term foreign currency global subordinated debt rating of Ba2
- .Long term local currency counterparty risk rating of Baa2
- .Long term foreign currency counterparty risk rating of Baa2
- .Short term local currency counterparty risk rating of Prime-2
- .Short term foreign currency counterparty risk rating of Prime-2
- .Adjusted Baseline Credit Assessment of ba1
- .Baseline Credit Assessment of ba1
- .Long-term counterparty risk assessment of Baa2(cr)
- .Short-term counterparty risk assessment of Prime-2(cr)

Outlook action:

.Outlook, Remains Negative

..Issuer: BAC International Bank, Inc.

Affirmations:

- .Adjusted baseline credit assessment, at ba1
- .Baseline credit assessment, at ba1
- .Long term local currency deposit ratings, at Ba1, with Stable Outlook
- .Long term foreign currency deposit ratings, at Ba1, with Stable Outlook
- .Short term local currency deposit ratings, at Not Prime
- .Short term foreign currency deposit ratings, at Not Prime
- .Long-term foreign currency counterparty risk rating, at Baa3
- .Short-term foreign currency counterparty risk rating, at Prime-3
- .Long-term counterparty risk assessment, at Baa3(cr)
- .Short-term counterparty risk assessment, at Prime-3(cr)

Outlook action:

.Outlook, remains Stable

..Issuer: Grupo Aval Acciones y Valores S.A.

Affirmations:

- .Long term local currency issuer rating, at Ba2, Outlook Changed To Negative From Stable
- .Long term foreign currency issuer rating, at Ba2, Outlook Changed To Negative From Stable
- .Short term local currency issuer rating of Not Prime
- .Short term foreign currency issuer rating of Not Prime

Outlook action:

- .Outlook Changed to Negative From Stable
- ..Issuer: Grupo Aval Limited

Affirmations:

- .Backed senior unsecured debt rating, at Ba2, Outlook Changed To Negative From Stable

Outlook action:

- . Outlook Changed to Negative From Stable

RATING METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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