Rating Action: Moody's changes outlook to negative on Colombian banks; affirms ratings

New York, February 23, 2018 -- Moody's Investors Service, ("Moody's") today changed the outlooks to negative, from stable, of Bancolombia S.A. (Bancolombia) and Banco de Bogotá S.A. (Banco de Bogota). In addition, Moody's affirmed the banks' long-term global local- and foreign currency deposit ratings as well as the long-term foreign currency senior unsecured debt ratings. These actions follow the change in outlook to negative, from stable, on Colombia's Baa2 government bond rating, on 22 February 2018. For additional information, please refer to the related announcement: "Moody's changes Colombia's rating outlook to negative; Baa2 ratings affirmed".

RATINGS RATIONALE

The rating actions were prompted by the change in outlook to negative, from stable, on Colombia's Baa2 sovereign bond rating, reflecting its increasing fiscal challenges.

The affected banks' long-term deposit and senior unsecured debt ratings of Baa2 are positioned at the same level of sovereign bond rating as Moody's assesses a very high probability that the government will support them if needed. This assessment considers the very large deposit franchises of the affected banks, which are the two largest in Colombia, with deposit market shares ranging of 12.9% (Banco de Bogota) and 23.2% (Bancolombia) as of September 2017; the Colombian authorities' track record of providing support to systemically important distressed financial institutions in the past; and the material systemic consequences of an unsupported failure of any of them.

While the government's willingness to support the banks if necessary remains very high, its capacity to provide support is reflected by its rating. As both banks' ratings currently benefit from two notches of uplift from their ba1 baseline credit assessments (BCA), the banks' ratings will be downgraded if the government's rating is downgraded. Hence, the banks' ratings carry the same outlook as the sovereign.

The ratings of Grupo Aval Acciones y Valores S.A. and Grupo Aval Limited are unaffected as they are notched off Banco de Bogota S.A.'s standalone ba1 baseline credit assessments, which do not incorporate any uplift from government support and consequently were not impacted by this rating action.

WHAT COULD CHANGE THE RATING -- DOWN/UP

The affected ratings will face downward pressure if Colombia's government bond rating is downgraded. While there is no upward ratings pressure at the present time given the negative outlook, the outlooks could be stabilized if and when Colombia's sovereign outlook stabilizes.

ISSUERS AND RATINGS AFFECTED

Affirmations:

..Issuer: Banco de Bogota S.A.

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2, outlook changed to negative from stable

....Deposit Rating, Affirmed Baa2, outlook changed to negative from stable

..Issuer: Bancolombia S.A.

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2, outlook changed to negative from stable

....Deposit Rating, Affirmed Baa2, outlook changed to negative from stable

Outlook Actions:
Issuer: Banco de Bogota S.A.
Outlook, Changed To Negative From Stable

Issuer: Bancolombia S.A.
Outlook, Changed To Negative From Stable

METHODOLOGY

The principal methodology used in these ratings was Banks published in September 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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