New York, May 28, 2019 -- Moody's Investors Service, ("Moody's") has today changed to stable, from negative, the outlook on Bancolombia S.A. (Bancolombia)'s ratings. At the same time, Moody's affirmed Bancolombia, Banco de Bogotá S.A. (Banco de Bogota) and Banco Davivienda S.A.'s (Davivienda) long-term global local- and foreign currency deposit ratings as well as the long-term foreign currency senior unsecured debt ratings, following the affirmation of their respective baseline credit assessments (BCAs) The outlook on Banco de Bogota and Davivienda's ratings remains negative. These actions follow the change in outlook to stable, from negative, on Government of Colombia's Baa2 government bond rating, on 23 May 2019. For additional information, please refer to the related rating action: " Moody's changes Colombia's outlook to stable from negative, affirms Baa2 ratings".

In addition, Moody's affirmed the ratings assigned to Grupo Aval Acciones y Valores S.A. and Grupo Aval Limited. The outlook remains negative.

RATING RATIONALE

The rating actions were prompted by the change in outlook to stable, from negative, on Colombia's Baa2 sovereign bond rating, reflecting that improving economic conditions and continuation of the fiscal consolidation process will support the stabilization of the government's debt metrics and that risks stemming from the external accounts, given the widening of the current account deficit, remain contained.

BANCOLOMBIA

Moody's affirmation of Bancolombia's ratings reflects the bank's good earnings generation capacity, its improving consumer asset quality, despite still high corporate loan delinquencies, and Bancolombia's broad and stable core funding access, which partially offsets the bank's moderate reliance on market funding. Bancolombia's profitability has benefited from lower credit costs and a shift in loan portfolio mix towards consumer lending, as the Colombian economy recovers. Bancolombia's long-term deposit and senior unsecured debt ratings of Baa2 are positioned at the same level of Colombia's sovereign bond rating and incorporates two notches of uplift from the bank's ba1 baseline credit assessment (BCA) to reflect Bancolombia's systemic importance. This assessment considers Bancolombia's leading deposit franchise in Colombia, with market share of 22.7% as of March 2019; the Colombian authorities' track record of providing support to systemically important financial institutions in the past; and the material systemic consequences of an unsupported failure of any of them. As the bank's ratings currently benefit from two notches of uplift from its ba1 baseline credit assessments (BCA), Bancolombia's ratings carry the same outlook as the sovereign ratings, which have been changed to stable, from negative.

BANCO DE BOGOTA

Moody's affirmed Banco de Bogota's ratings to reflect strong earnings amid a period of moderate loan growth in Colombia and its stronger but still moderate core capitalization levels. Banco de Bogota's high single borrower concentrations and exposures to troubled corporate loans continue to expose its asset quality and earnings to volatility.

Moody's negative outlook on Banco de Bogota's ratings, despite the outlook change to stable from negative on Colombia's sovereign ratings, incorporates the deteriorating operating conditions in both Costa Rica and Nicaragua, which account for combined 16% of Banco de Bogota's loans. Moody's has commented that the bank's large presence in potentially more volatile Central American markets could expose Banco de Bogota's assets and earnings to increased risks that could lead to downward pressures on its baseline credit assessment (BCA). The bank reported strong earnings in 2018, with net income equal to 2.5% of tangible assets, up from 1.5% in 2017. However, Moody's noted that the bank's bottom-line earnings have benefited from its equity investment in Corporación Financiera Colombiana S.A. (Corficolombiana, unrated) and from changes in accounting rules that allowed the recognition of a project's results in its construction phase rather than in the last operating years of the concession. Returns also benefited from a controlled efficiency and high
margins. That said, the bank’s profitability faces the risk of higher credit costs stemming from its exposures to large troubled corporates and one infrastructure project in Colombia.

GRUPO AVAL ACCIONES Y VALORES S.A and GRUPO AVAL LIMITED

The affirmation of Grupo Aval and Grupo Aval Limited's ratings with negative outlook incorporates the downward pressure on Banco de Bogota's baseline credit assessment. Banco de Bogota is the group's chief operating entity, in which 64% of gross loans of the consolidated group are booked as of March 2019. Grupo Aval's ratings incorporate the structural subordination of the bank holding company's liabilities versus the liabilities of the bank and its other subsidiaries and are notched off Banco de Bogota's BCA. Moody's does not incorporate governmental support in the holding company's ratings.

The affirmation of Grupo Aval’s ratings follows the affirmation of Banco de Bogota’s BCA and also incorporates the company’s very stable though somewhat high double leverage ratio, which is measured by investments in subsidiaries divided by shareholders' equity, at 115% and reflects the extent to which a holding company relies upon debt to finance its investments in subsidiaries. Moody's considers double leverage in excess of 115% to be high. The company has also shown a very stable and high interest coverage underpinned by a strong dividend income from its subsidiaries, with core earnings (dividends paid by its subsidiaries) amounting to 5.4 times interest expenses in March 2019.

Grupo Aval Limited's debt ratings are based on Grupo Aval's irrevocable and unconditional guarantee of Grupo Aval Limited's liabilities under the indentures. The negative outlook on Grupo Aval Limited's rating is in line with the negative outlook on Grupo Aval.

DAVIVIENDA

The affirmation of Davivienda's ratings incorporates an improvement in the bank's capitalization in 2018 due to the slowdown in loan growth. Despite a 18 basis point increase, however, tangible common equity remained a relatively low 8.5% of risk-weighted assets. Slow loan growth has also reduced pressures on the bank's liquidity and on its need to raise market funds.

Davivienda's deposit and senior unsecured debt ratings also incorporate Moody's assessment of a high probability that Davivienda would benefit from government support in an event of financial stress given its meaningful market share of local deposits. This results in one notch of ratings uplift from the bank's BCA of ba1.

The negative outlook on Davivienda's ratings reflects the deterioration in its asset risk and profitability metrics in recent years. Problem loans rose to 3.9% of gross loans as of December 2018, from 2.8% a year earlier. This deterioration was driven by the mortgage and commercial segments, which represent 24% and 50% of total loans, respectively.

Davivienda is more exposed than its peers to mortgages to low income households and hence are more sensitive to economic downturns. The deterioration in commercial loans was mainly caused by a relatively small number of large corporate exposures. Although strong, Davivienda’s reserve coverage may reduce further if additional provisions are required.

WHAT COULD CHANGE THE RATING -- DOWN/UP

BANCOLOMBIA

Bancolombia's supported ratings are positioned at the same level of sovereign bond rating and could face upward pressure if Colombia’s government bond rating is upgraded in conjunction with continued improvement in the issuers’ credit fundamentals and/or Colombia's macroeconomic environment. However, if Colombia's government bond rating again faces downward pressures, the affected ratings would be negatively pressured as well. The ratings would also face downward pressure if the issuers’ intrinsic credit fundamentals deteriorate unexpectedly.

BANCO DE BOGOTA

Banco de Bogotá's supported ratings are positioned at the same level of sovereign bond rating and will likely be downgraded if Colombia’s sovereign rating is lowered. Banco de Bogotá's ratings could also be downgraded if the operating environment in Central America, specifically Costa Rica and/or Nicaragua, deteriorates further, leading to increased delinquencies and credit costs, or if the bank’s exposures to those
countries increase, contrary to current expectations and trends in Nicaragua. The ratings could also face downward pressure if the bank’s capital ratio weakens, or if the bank experiences higher-than-expected delinquencies and credit costs stemming from its exposures to large troubled Colombian corporates.

Banco de Bogotá’s ratings are unlikely to face upward pressures because they have a negative outlook. However, the outlook could be stabilized provided the operating environment in Costa Rica and Nicaragua and asset quality in those counties stabilize as well, and the bank’s exposures to those countries decline in line with current expectations.

**GRUPO AVAL**

Upward/downward pressures on Grupo Aval and Grupo Aval Limited’s ratings would be associated with similar pressures on Banco do Bogota’s BCA. The ratings could also face downward pressures if the group’s double leverage appear likely to exceed 115% by a meaningful amount on a sustained basis and/or the interest coverage ratio decrease significantly.

**DAVIVIENDA**

Davivienda’s ratings could be downgraded if asset risk and profitability continue to deteriorate and/or the bank is unable to sustain capitalization at current levels. However, the ratings would not be affected by a downgrade of Colombia’s sovereign bond rating of Baa2.

While an upgrade of Davivienda’s ratings is unlikely given the bank’s negative outlook, the outlook could be stabilized if the bank manages to halt the deterioration of its asset quality and earnings and preserve its current capitalization levels even as loan growth begins to accelerate.

**ISSUERS AND RATINGS AFFECTED**

The following Bancolombia S.A.’s ratings and assessments were affirmed:

- Long term local currency deposit rating of Baa2, Stable from Negative
- Long term foreign currency deposit rating of Baa2, Stable from Negative
- Long term foreign currency senior unsecured rating of Baa2, Stable from Negative
- 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/Ba3 (hyb)
- 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, changed to Stable from Negative

The following Banco de Bogota S.A.’s ratings and assessments were affirmed:

- Long term local currency deposit rating of Baa2, Negative
- Long term foreign currency deposit rating of Baa2, Negative
- Long term foreign currency senior unsecured rating of Baa2, Negative
- 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

The following Grupo Aval Acciones y Valores S.A.’s ratings were affirmed:
- Long term local currency issuer rating of Ba2, Negative
- Long term foreign currency issuer rating of Ba2, Negative
- Short term local currency issuer rating of Not Prime
- Short term foreign currency issuer rating of Not Prime
- Outlook, Remains Negative

The following Grupo Aval Limited’s rating was affirmed:
- Backed senior unsecured debt rating of Ba2, Negative
- Outlook, Remains Negative

The following Banco Davivienda S.A.’s ratings were affirmed:
- Long-term local currency deposit rating of Baa3, Negative
- Long-term foreign currency deposit rating of Baa3, Negative
- Short-term local currency deposit rating of P-3
- Short-term foreign currency deposit rating of P-3
- Long-term foreign currency senior unsecured debt of Baa3, Negative
- Long-term foreign currency global subordinated debt 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, Remains Negative

METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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