

June 17, 2019








Mr. Carlos Andres Echeverri
General Manager
Banco de Occidente (Panama), S. A.
Calle 50 y Aquilino de la Guardia Planta Baja Esquina
Panama,
Panama

Dear Mr. Echeverri:

Re: Fitch rating assignment regarding Banco de Occidente (Panama), S. A.

Fitch (see definition below) assigns the following ratings.

Banco de Occidente (Panama), S. A.	LT IDR	BBB	New Rating
	ST IDR	F3	New Rating
	Support	2	New Rating

RATINGS KEY	OUTLOOK	WATCH
Positive		
Negative		
Evolving		
Stable		

Applicable Criteria: Bank Rating Criteria, Metodología Global de Calificación de Instituciones Financieras no Bancarias, Metodología de Calificaciones en Escala Nacional, Metodología de Calificación Global de Bancos, Non-Bank Financial Institutions Rating Criteria, Short-Term Ratings Criteria

Fitch assigns the following international and point in time ratings:

- Long Term IDR 'BBB'

- Short Term IDR at 'F3'

Key Rating Drivers

Support Rating: Banco de Occidente's (Panama) S.A. ratings (or BOP), reflect the parent's (Banco de Occidente "Occidente") capacity and ability of supporting its Panamanian subsidiary should it be required. The parent's support of its Panamanian subsidiary is primarily based on the parent's international scale rating of BBB with a Negative Outlook assigned by Fitch Ratings.

The propensity of support is based on the operation in Panama is strategically important for Occidente within its strategy of deepening the products and services offered to its corporate and private banks customers through its local and international subsidiaries. Furthermore, the parent's propensity to support its Panamanian subsidiary is reflected in the reputational risk associated with a default at the subsidiary level. Furthermore, the parent's support of its subsidiary is bolstered by the operational synergies, risk controls as well as business practices with BOP Panama.

Strategic alignment with HQ: BOP's strategic objectives are aligned with its parent company so as to maximize its reach within the Colombian market as well as international markets while integrating its processes with its parent company Banco de Occidente and its ultimate parent Grupo Aval.

Good Liquidity Management: BOP's liquidity structure is primarily deposits based extracted from the Colombian market. Despite BOP's high deposit concentration, mostly corporate, make up 75% of total (FY2018), Fitch deems such as stable as no significant reductions are expected in the medium term given the depositors profile primarily being related parties. Nevertheless, Fitch views such concentration mitigated by BOP's liquid investments which cover 90% of deposits in addition to the observed stability of such deposits.

Improved Profitability: BOP's profitability is low compared to its business model which is operationally supported by the parent company. Historically, the majority of the bank's revenues were derived from investments which allowed the bank to strategically offset losses due to intermediation efforts. Although investments continue being a primary source of revenue, Since 2015, BOP intermediation efforts continue being its primary revenue source; however since 2015 the bank has promoted more intermediation revenue growth.

Good Capitalization Supported by its Parent: BOP's capitalization levels are low and are limited due to compressed internal capital generation, and also by the bank's decision to transfer such gains to its parent bank in Colombia. Nevertheless, in light of local Panamanian regulation, BOP is allowed to report its parents' regulatory capital (12.57% FY18), which is superior to local Colombian banks and consistent with sustainable capital generation and moderate dividend distribution payments to Grupo Aval.

RATING SENSITIVITIES (Applicable should the issuer decide to convert its ratings to monitored)

BOP's IDRs would change if Fitch's assessment of its parent's ability and/or willingness to support the bank changes. In general, the IDRs would move in line with those of the parent.

In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction.

The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors.

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Sincerely,

Fitch Ratings, Inc.

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