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CREDIT OPINION
1 July 2016

Update

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RATINGS

Banco GNB Sudameris S.A.

Domicile	Colombia
Long Term Rating	Ba1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information.The ratings and outlook shown reflect information as of the publication date.

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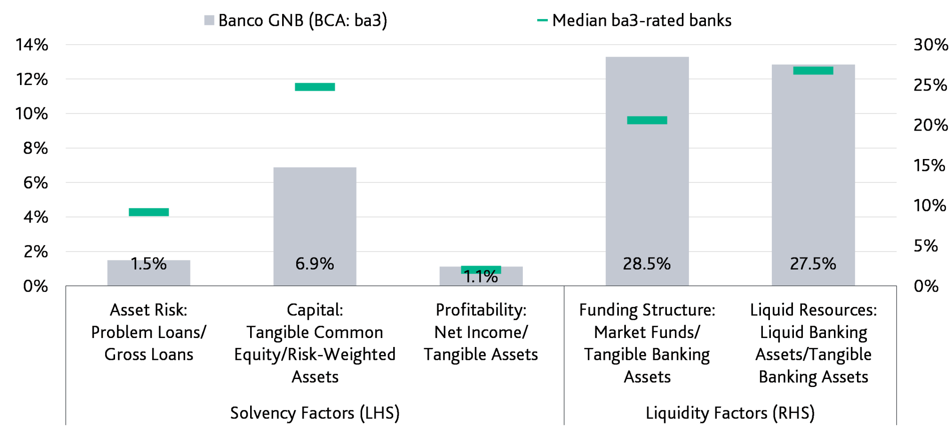
Banco GNB Sudameris S.A.

Good Asset Quality and Improving Profitability Support Ba1

Summary Rating Rationale

Moody's assigns a ba3 standalone baseline credit assessment (BCA) to Banco GNB Sudameris S.A. (GNB), which reflects the bank's historically good asset quality derived from its niche focus on payroll-linked loans and commercial lending, and its improving profitability and efficiency. The bank's ratings are constrained by its mostly wholesale funding franchise.

Exhibit 1
Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

We also assign long- and short-term global local and foreign currency deposit ratings of Ba1/ Not Prime, long-term foreign currency senior unsecured debt rating of Ba1, in line with our assessment of high government support in a situation of stress, reflecting GNB's participation in the system's total deposits and significant participation in payroll-linked loans. GNB's deposit and senior debt ratings derive from its standalone BCA of ba3 and incorporates Moody's assessment of high government support. GNB held a market share of 1.8% of gross loans in Colombia and 3.3% in deposits, with a substantially higher 7.9% niche share of payroll linked loans, as of March 2016.

Moody's also assign a long-term foreign currency subordinated debt rating of B1, one notch below GNB's ba3 BCA, in line with Moody's notching practices for these types of debt instruments , as well as long- and short-term Counterparty Risk (CR) Assessments of Ba1(cr)/ Not Prime(cr).

Credit Strengths

» Traditionally good asset quality following expansion

» Improving profitability

» Moderate + macro profile

Credit Challenges

» Low capitalization when compared to regional peers.

» Wholesale funded franchise poses risks partially mitigated by holdings of government securities

Rating Outlook

The outlook is stable on all of GNB's ratings.

Factors that Could Lead to an Upgrade

An improvement in capitalization would lead to upward pressure on its ba3 standalone BCA. However, upward pressure on GNB's deposit ratings is limited because the bank's global local and foreign currency deposit ratings of Ba1 already benefit from two notches of uplift from Moody's assessment of high government support.

Factors that Could Lead to a Downgrade

The bank's standalone BCA could be revised downwards if the bank engages in further large scale acquisitions. This would also lead Moody's to reevaluate its forward looking view of the bank's asset risk and corporate behavior. Further deterioration of the bank's capitalization levels could also bring negative pressure to the bank's ratings.

Key Indicators

Exhibit 2

Banco GNB Sudameris S.A. (Consolidated Financials) [1]

	3-16[2]	12-15[2]	12-14[2]	12-13[3]	12-12[3]	Avg.
Total Assets (COP billion)	26567.7	26177.4	22365.8	17456.5	11640.4	9.0[4]
Total Assets (USD million)	8846.3	8246.2	9411.3	9035.5	6587.7	-3.0[4]
Tangible Common Equity (COP billion)	1129.9	1138.7	929.1	918.9	824.7	10.3[4]
Tangible Common Equity (USD million)	376.2	358.7	391.0	475.6	466.7	-1.9[4]
Problem Loans / Gross Loans (%)	1.5	1.4	1.3	0.8	1.2	1.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	6.9	7.0	6.8	7.8	11.2	6.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	13.9	13.2	12.4	5.7	6.3	13.2[5]
Net Interest Margin (%)	3.9	3.8	3.2	2.4	1.0	3.6[5]
PPI / Average RWA (%)	4.3	3.3	2.5	2.6	2.1	3.4[6]
Net Income / Tangible Assets (%)	1.1	0.8	0.7	0.6	0.8	0.9[5]
Cost / Income Ratio (%)	45.7	53.5	59.1	65.5	58.8	52.8[5]
Market Funds / Tangible Banking Assets (%)	28.5	25.4	20.3	16.1	22.5	24.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	27.5	33.7	34.0	46.9	51.0	31.7[5]
Gross loans / Due to customers (%)	74.9	77.6	70.9	66.6	69.3	74.5[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Basel I; LOCAL GAAP [4] Compound Annual Growth Rate based on IFRS reporting periods [5] IFRS reporting periods have been used for average calculation [6] Basel II & IFRS reporting periods have been used for average calculation

Source: Moody's Financial Metrics

Detailed Rating Considerations

TRADITIONALLY GOOD ASSET QUALITY FOLLOWING EXPANSION

GNB has traditionally reported good asset quality levels in line with a niche focus on payroll-linked loans and commercial lending. The bank's problem loan ratios are the lowest amongst all Colombian banks, wherein the 90+ day past due loan ratio was 1.5%, as of March 2016, and at the same time maintains ample cushion against potential pitfalls with loan loss reserves at 125.7% of past due loans, as of March 2016.

The bank's loan portfolio continues to be evenly divided between retail loans, including payroll-linked loans, which have inherently low past due loans given that loans are repaid automatically from salaries, limiting discretionary defaults, and commercial loans which are also of good quality, based on the bank's focus on the cash flow strength of the companies it lends to, rather than on guarantees, close knowledge of clients and close relations which include funding reciprocity and complementary services (i.e., payments to suppliers, tax payments, sales receipts, payroll and e-banking services).

The commercial portfolio itself is composed of mainly of midsized corporations and small enterprises. The bank maintains a portfolio of on-lending to departmental-level government entities originated from Colombian development bank funding in the form of medium to long term infrastructure projects.

The bank's overall top 20 exposures compare well to those of local and regional peers versus tangible common equity (TCE) and pre-provision, pretax income (core earnings). The bank's top 20 loan exposures represent 121.8% of TCE and 193.7% out of core earnings as of March 2016.

GNB's expansion following its acquisitions of HSBC subsidiaries in Colombia, Peru and Paraguay has proven successful integration, despite the fact that the bank has nearly doubled in size since. GNB's total recent acquisitions nevertheless, represent almost half of the bank's loans and expose GNB to greater credit and market risks and fierce competition from much larger, entrenched banks:

1. In its core market, Colombia, GNB ranks as the twelfth bank in terms of loans. Acquisitions added much-needed volume without a major change in asset composition. The bank now operates in high-income areas of northern Bogotá which it acquired from HSBC, where GNB lacked a strong presence. In Colombia, GNB has continued to focus on small business lending and payroll-linked loans, in addition to its ownership of the country's third largest ATM network.
2. In Peru and Paraguay, GNB is the eighth largest bank and the first Colombian bank to enter these countries with a full banking license. In Peru, GNB will serve the large number of Colombian companies doing business in the country. In these two markets, the bank is still challenged to replicate its strategic focus because of strong competition from much larger and more entrenched local players. However, the potential synergies from the Paraguayan acquisition, however, are less evident.

LOW CAPITALIZATION WHEN COMPARED TO REGIONAL PEERS

GNB's adjusted tangible common equity to risk weighted assets of 6.9% as of March 2016, is low by regional standards, but is expected to remain stable, supported by organic growth.

GNB is majority owned by a family, which could expose the bank to potentially difficult situations for the board or management to handle. Related party loans, however, represent a low 8.6% of tangible common equity as of March 2016 and the bank is managed professionally with most of present management in the bank since the 2003 acquisition.

IMPROVING PROFITABILITY

GNB's profitability is modest in light of its primarily wholesale funding base and lending book, within both of which the bank offers relatively the most competitive rates in the market. The bank's net interest margin of 3.9% leads to an improving net income as a percentage of tangible assets of 1.1%, in line with that of its larger peers in Colombia, as of March 2016. Going forward GNB's profitability will continue to retain a certain level of volatility stemming from its market making activities for Colombian government debt, in line with valuation fluctuations.

Moody's still expects the bank's profitability to benefit from the opportunities for cost and business synergies the merger has created, as GNB proceeds with the integration of the former HSBC subsidiaries through 2016.

The bank has seen a significantly improving cost to income ratio of 45.7% as of March 2016, from 53.6% as of year-end 2015. The bank's efficiency ratio is returning to levels seen prior to the acquisitions, which took longer than expected to be completed.

Ownership of the third largest ATM network (Servibanca) complements the bank's earnings.

WHOLESALE FUNDED FRANCHISE THAT POSES RISKS PARTIALLY MITIGATED BY HOLDINGS OF GOVERNMENT SECURITIES

While market funds are limited, at 28.5% of tangible assets as of March 2016, a very low 11% of GNB's deposit funding is sourced from individuals, as of March 2016, leading to high depositor concentrations.

GNB nevertheless maintains a good proportion of its assets in the form of liquid assets, representing 27.5% as of March 2016, mainly in the form of highly liquid Colombian government securities, which are rated Baa2.

GNB'S RATING IS SUPPORTED BY A WEIGHTED MACRO PROFILE OF MODERATE +

GNB's Macro Profile is Moderate +, weighted by the bank's loan exposures. Colombia, which represents the bulk of GNB's loan book (58%), has a Moderate+ Macro Profile, followed by Peru also with a Moderate+ Macro Profile and Paraguay with a Weak+ Macro Profile.

Colombia's economy has remained resilient in the midst of adjusting to a large terms of trade shock from the drop in oil prices. Growth will moderate in 2016 and inflationary pressures will begin to subside later in the year. The authorities are implementing the necessary adjustment and reforms to withstand the external shock. Peace negotiations are progressing, albeit slowly. Improved security and a decline in domestic political risk as the peace process comes to fruition could boost business confidence and support economic growth.

While GNB's Peruvian exposure provides the bank with access to an environment of strong economic growth and solid institutions and the Paraguayan operation exposes the bank to a country with vulnerability to climate-related shocks, we do not yet incorporate the benefits from the bank's foreign exposures given the limited track record of the bank as a functioning multi-jurisdictional entity.

Notching Considerations

Government Support

We believe there is a high likelihood of government support for GNB's rated wholesale deposits and senior unsecured debt. This reflects GNB's significant market share of deposits and payroll linked loans and hence the systemic consequences that would result from an unsupported failure.

Foreign Currency Debt Rating

Moody's assigns a B1 subordinated debt rating to GNB's USD250 million ten-year Tier 2 capital-eligible subordinated notes due 30 July 2022 (coupon of 7.5%).

Moody's also assigns a Ba1 senior debt rating to GNB's USD300 million five- year senior unsecured notes due 2 May 2018 (coupon of 3.875%).

Counterparty Risk Assessments

GNB's long- and short-term CR Assessments are positioned at Ba1(cr)/Not Prime(cr).

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 also benefits from two notches 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.

ABOUT MOODY'S BANK SCORECARD

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Historical Ratios

For the *problem loan* ratio and *profitability* ratio, we review the latest three year-end ratios as well as the most recent intra-year ratio where applicable, and base our starting point ratio on the weaker of the average of this period and the latest reported figure.

For the *capital* ratio, we use the latest reported figure.

For the *funding structure* and *liquid asset* ratios, we use the latest year-end figures as we believe them to be the most representative and reliable.

Rating Methodology and Scorecard Factors

Exhibit 3

Banco GNB Sudameris 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	1.3%	a3	←→	baa3	Unseasoned risk	Sector concentration
Capital						
TCE / RWA	6.9%	b2	←→	b2	Access to capital	
Profitability						
Net Income / Tangible Assets	0.5%	ba3	←→	b1	Earnings quality	
Combined Solvency Score		ba1		ba3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	20.2%	baa3	←→	ba1	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	47.4%	a3	←→	a3	Quality of liquid assets	
Combined Liquidity Score		baa2		baa2		
Financial Profile				ba2		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				-1		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint:				Baa2		
Scorecard Calculated BCA range				ba2-b1		
Assigned BCA				ba3		
Affiliate Support notching				0		
Adjusted BCA				ba3		

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency rating**	**Foreign Currency rating**
Counterparty Risk Assessment	1	0	ba2 (cr)	1	Ba1 (cr)	--
Deposits	0	0	ba3	2	Ba1	Ba1
Senior unsecured bank debt	0	0	ba3	2	--	Ba1
Dated subordinated bank debt	-1	0	b1	0	--	B1

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
BANCO GNB SUDAMERIS S.A.	
Outlook	Stable
Bank Deposits	Ba1/NP
Baseline Credit Assessment	ba3
Adjusted Baseline Credit Assessment	ba3
Counterparty Risk Assessment	Ba1(cr)/NP(cr)
Senior Unsecured	Ba1
Subordinate	B1

Source: Moody's Investors Service

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