

CREDIT OPINION

10 July 2023

Update



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RATINGS

Grupo Aval Acciones y Valores S.A.

Domicile	Bogota, Distrito Capital, Colombia
Long Term CRR	Not Assigned
Long Term Issuer Rating	Not Available
Type	Not Available
Outlook	Negative

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.

Contacts

Marcelo De Gruttola +54.11.5129.2624
 VP-Senior Analyst
 marcelo.degruttola@moodys.com

Luis Fernando Baza +52.55.1253.5735
 Associate Analyst
 luis.baza@moodys.com

Alexandre Albuquerque +55.11.3043.7356
 VP-Senior Analyst
 alexandre.albuquerque@moodys.com

» Contacts continued on last page

CLIENT SERVICES

Americas 1-212-553-1653

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Grupo Aval Acciones y Valores S.A.

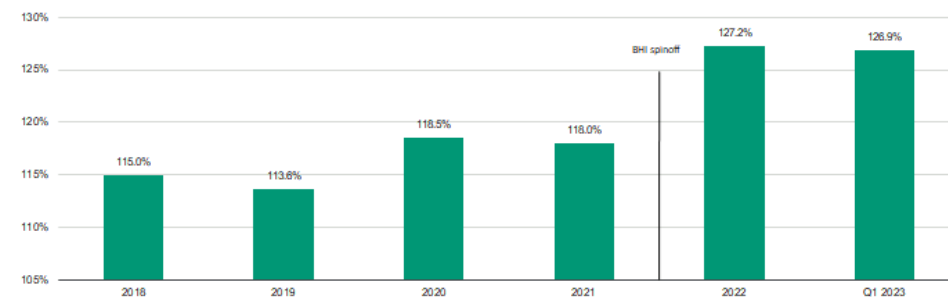
Update following ratings affirmation, outlook remains negative

Summary

[Grupo Aval Acciones y Valores S.A.'s](#) (Grupo Aval) Ba2 issuer rating reflects the structural subordination of the holding company's liabilities to the liabilities of [Banco de Bogotá S.A.'s](#) (Banco de Bogota, Baa2 stable, ba1)¹ and its other subsidiaries, and are notched off Banco de Bogotá's ba1 BCA, considering the importance of the latter as Grupo Aval's main subsidiary. We also assign a Ba2 rating to Grupo Aval's foreign-currency senior debt notes issued by the group's subsidiary [Grupo Aval Limited](#).

Grupo Aval's rating also reflects its relatively low near-term refinancing risks, historically adequate holdings of liquid assets and good coverage of interest with dividends and interest income. Its ratings are however pressured by recent increases in its double leverage, which if sustained over time could lead to an increase in the notching gap between Grupo Aval's rating and Banco de Bogotá's ba1 BCA.

Exhibit 1
 Double leverage metric



Source: Moody's Investors Service

Credit strengths

- » Ample dividend inflow from subsidiaries
- » Diversified source of earnings through multiple financial subsidiaries, including banks in Colombia and Panama, a merchant bank and a pension and severance fund manager
- » Limited short-term refinancing risks

Credit challenges

- » The structural subordination of the bank holding company's liabilities to those of its operating entities
- » Relatively high double leverage, pressured by the recent spinoff
- » Exposure to regulatory change due the nature of its operating subsidiaries, especially in the pension segment, with a reform currently being discussed in Colombia

Outlook

Grupo Aval's negative outlook incorporates the company's high double leverage ratio, which if persistent over time, could lead to an increase in the notching gap between Grupo Aval's rating and Banco de Bogotá's ba1 BCA.

Factors that could lead to an upgrade

Upward pressures on Grupo Aval and Grupo Aval Limited's ratings would be associated with upward pressures on Banco de Bogotá's BCA, as the group's Ba2 issuer rating is anchored to the bank's BCA.

Factors that could lead to a downgrade

In turn, downward pressures on Grupo Aval and Grupo Aval Limited's ratings would be associated with a downgrade of Banco de Bogotá's BCA. In addition, Grupo Aval's ratings could also face downward pressures from an additional increase on the holding company's double leverage ratio, or if a gradual reduction in the metric does not materialize, or a significant deterioration in its interest coverage ratio and liquidity buffers.

Profile

Grupo Aval Acciones y Valores S.A. (Grupo Aval) is the largest financial conglomerate in Colombia, with close to \$60 billion in total assets as of December 2022. The group owns the third-largest bank in Colombia in terms of loans, Banco de Bogotá S.A. (12%); the fifth-largest bank, Banco de Occidente S.A. (6%); the ninth-largest bank, Banco Popular S.A. (4%); and the eleventh-largest bank, Banco Comercial AV Villas S.A. (2%). Grupo Aval is also diversified in terms of industry through Corporación Financiera Colombiana S.A., Colombia's largest merchant bank; and the ownership of the country's largest private pension fund manager, AFP Porvenir S.A. (Porvenir). Together, Grupo Aval's banks constitute the second-largest franchise in Colombia, with a historic combined market share of about 25% of the financial system's loans.

Recent developments

On 29 March 2022, Banco de Bogotá and Grupo Aval completed the spinoff transaction of 75% of its subsidiary BAC Holding International Corp. ("BHI"), which is the parent of [BAC International Bank, Inc](#) (BAC, Ba1 stable), ceding control and majority stake of the entity to the group's ultimate shareholder. Banco de Bogotá subsequently sold its outstanding stake on BHI between December 2022 and March 2023. BAC is the largest bank in Central America, with main operations in Costa Rica, Panama, Guatemala, Honduras, El Salvador and Nicaragua, and used to represent close to 45% of Banco de Bogotá's consolidated assets. The transaction has therefore led to a reduction in the size of Banco de Bogotá's and Grupo Aval's consolidated operations and more limited business diversification, but it also led to positive credit implications for the bank due to the i) derisking from weaker operating environments in Central

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America; ii) reduction in foreign exchange volatility that has impacted its consolidated earnings in the past and iii) greater financial flexibility by easing capital allocation and allowing the group to redirect strategic focus to its core Colombian market.

Exhibit 2

Grupo Aval Acciones y Valores S.A. [1]

	Q1 2023	2022	2021	2020	2019	2018	Average
Total Assets (COP Billion)	24,150	23,596	33,642	30,194	25,796	23,566	26,824
Investments in Subsidiaries (COP Billion)	20,435	20,828	26,970	24,287	21,776	19,580	22,313
Loans to Subsidiaries (COP Billion)	1,462	1,506	3,249	2,188	1,959	1,886	2,042
Total Debt (COP Billion)	6,294	6,509	9,715	8,597	4,980	4,924	6,836
Shareholders' Equity (COP Billion)	16,693	16,962	23,475	21,121	20,335	18,222	19,468
Core Earnings (COP Billion) [2]	234	1,037	1,853	1,770	1,557	1,360	1,302
Interest Expense (COP Billion)	114	551	432	433	276	259	344
Double Leverage excl. Senior Loans to Subs [3]	126.9%	127.2%	118.0%	118.5%	113.6%	115.0%	119.9%
Debt / Core Earnings [4]	6.7x	6.3x	5.2x	4.9x	3.2x	3.6x	5.0x
Core Earnings / Interest Expense	2.1x	1.9x	4.3x	4.1x	5.6x	5.3x	3.9x

[1] Grupo Aval + Grupo Aval Limited unconsolidated data. [2] Includes cash flow from dividends, investments and net operating cash inflows; IFRS. [3] Investments in subsidiaries, goodwill and subordinated loans to subsidiaries as a percentage of shareholders' equity excluding asset revaluations- [4] Core earnings have been annualized for comparability. [5] Total Assets and Shareholders' equity exclude revaluations (IAS 27 rule (IFRS))

Source: Moody's Financial Metrics, Company Filings

Detailed credit considerations

Structural subordination

Grupo Aval's Ba2 senior unsecured debt ratings 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. Grupo Aval's Ba2 issuer rating considers the importance of Banco de Bogotá as the main subsidiary of the holding company. The differential between Grupo Aval's ratings and Banco de Bogotá's BCA takes into account the fact that not all resources flowing up from the operating entities to Grupo Aval may be available in an event of stress. However, the upstreaming of dividends has historically been consistent across all subsidiaries. Furthermore, Grupo Aval maintains a diversified banking operation and does not rely only on income from its equity method interest. The group also has other sources of income, such as proceeds from the loans that it usually grants to its operating entities and the fees that it charges for the services it provides to them.

Grupo Aval Limited's bond issued in 2020 and due in 2030, by \$1 billion, is currently rated Ba2 with negative outlook. These ratings are based on Grupo Aval's irrevocable and unconditional guarantee of Grupo Aval Limited's liabilities under the indentures.

Grupo Aval's financial strength depends on sound dividend income and stable interest income from loans granted to its operating entities

Grupo Aval has historically benefitted from strong dividend income from its subsidiaries. The group is a bank holding company controlling a diversified, multi-branded group of banks that target different segments of the financial market in Colombia and Panama. The main source of dividend has historically been its flagship bank, Banco de Bogotá.

Banco de Bogota decided to significantly reduce its dividends on 2021's results to strengthen its capital base after the spinoff, which in turn led to lower core earnings for Grupo Aval. Nevertheless, we expect Banco de Bogota resumed dividend payments on its 2022 earnings and we expect will continue to generate sound earnings and dividends upstream for the group.

The acquisitions made over time by Grupo Aval have strengthened the franchise of its existing operating entities, although they have resulted in an increase in goodwill. The acquisition of BBVA Horizonte AFP S.A. in Colombia added a significant market share to Porvenir and assured its dominance in the administration of the mandatory pension funds and severance funds in Colombia, and strengthened its position as the third-largest provider of voluntary pensions. In 2020, Banco de Bogotá's acquisition of Multi Financial Group further extended the group's footprint in the region.

Double leverage ratio increased since BHI spinoff

The more a bank holding company relies on debt to fund the equity in its subsidiaries, the greater is the structural subordination imposed on holding company creditors. Our calculation of double leverage includes investments in subsidiaries at book value, subordinated loans and goodwill as a percentage of shareholders' equity (excluding asset revaluations). Grupo Aval's double leverage was 127% as of March 2023.

Grupo Aval's rating considers Moody's expectation that Banco de Bogota's BCA remains adequately positioned at ba1. In addition, despite the holding company's relatively high double leverage ratio, which was affected by BHI's spinoff in 2022, the ratings are supported by the company's relatively low near-term refinancing risks, historically adequate holdings of liquid assets and good coverage of interest with dividends and interest income. However, if the company's double leverage remained high over time, it could lead to an increase in the notching gap between Grupo Aval's rating and Banco de Bogotá's BCA.

Grupo Aval's double leverage has increased in the last three years, from 114% as of 2019 year-end. In 2020, the increase was caused by the acquisition of Panama-based Multi Financial Group and the issuance of a \$520 million additional tier 1 instrument by BAC International Bank, Inc (Ba1 stable, ba1), which was fully subscribed by Grupo Aval Limited. In 2022, the spinoff of BAC from Banco de Bogotá and Grupo Aval has resulted in an additional increase in double leverage which was partially offset by the group's lower dividend payments through the year. Grupo Aval's current double leverage is relatively high and exert pressure on its ratings, albeit the group's credit profile continues to be supported by an adequate interest coverage underpinned by a strong dividend income from its banking subsidiaries in Colombia, despite the reductions in 2022.

Grupo Aval's has generally maintained adequate liquidity buffers supporting the coverage of its debt obligations, limiting its reliance on dividend inflows. The recent payment of the group's \$1 billion debt maturity reduced its refinancing risks going forward, as the next significant debt maturity will be due in 2030.

Strong governance reduces the risks arising from concentrated ownership

Grupo Aval's ratings also considers an assessment of the depth, strength, and track record of its professional management at all levels. The group and its subsidiaries maintain sound risk management policies and best practices, supported by experienced management teams at both the holding and operating entity levels. This mitigates risks arising from the company's concentrated ownership structure, which leads to key-man risk, its limited board independence -albeit in compliance with both Colombian and SEC regulations- and a rather complex group structure. The group has historically been active in acquisitions, which points to a more aggressive financial strategy, although it has succeeded in absorbing new operations without straining its financial fundamentals.

The controlling family has the right to elect a majority of the directors and executive officers, and set management policies, which have proved effective over time, reducing the risks arising from potential corporate governance risks. The controlling shareholders have also proved to be willing supporters of the group in the event of stress.

Under the Colombian Financial Conglomerates Law, which came into force in February 2019, Grupo Aval came under the supervision of the Colombian banking regulator. In addition, Grupo Aval is registered and regulated under Colombia's National Registry of Shares and Issuers, and the US Securities and Exchange Commission, and is required to comply with corporate governance and periodic reporting requirements. Grupo Aval is traded on the NYSE under the ticker AVAL.

Support and structural considerations

Foreign-currency debt rating

In January 2020, we assigned² a Ba2 foreign-currency-backed debt rating to the US dollar-denominated senior unsecured notes issued by Grupo Aval Limited, with maturities of 10 years. The backed debt is irrevocably and unconditionally guaranteed by Grupo Aval.

Ratings

Exhibit 3

Category	Moody's Rating
GRUPO AVAL ACCIONES Y VALORES S.A.	
Outlook	Negative
Issuer Rating	Ba2
ST Issuer Rating	NP
BANCO DE BOGOTA S.A.	
Outlook	Stable
Counterparty Risk Rating	Baa2/P-2
Bank Deposits	Baa2/P-2
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
Senior Unsecured	Baa2
Subordinate	Ba2
GRUPO AVAL LIMITED	
Outlook	Negative
Bkd Senior Unsecured	Ba2
MULTIBANK, INC.	
Outlook	Stable
Counterparty Risk Rating	Baa3/P-3
Bank Deposits	Ba1/NP
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Senior Unsecured	Ba1

Source: Moody's Investors Service

Endnotes

- 1 The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating (where available) and Baseline Credit Assessment.
- 2 See our Press Release [Moody's rates Ba2 Grupo Aval's proposed senior unsecured notes; affirms ratings, outlook negative](#), published on 17 January 2020.

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Contacts

Marcelo De Gruttola +54.11.5129.2624
VP-Senior Analyst
marcelo.degruttola@moodys.com

Alexandre Albuquerque +55.11.3043.7356
VP-Senior Analyst
alexandre.albuquerque@moodys.com

Luis Fernando Baza +52.55.1253.5735
Associate Analyst
luis.baza@moodys.com

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