

**Rating Action: Moody's affirms Banco de Bogotá's and Grupo Aval's ratings;  
Grupo Aval's outlook changed to stable from negative**

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05 Aug 2021

New York, August 05, 2021 -- Moody's Investors Service ("Moody's") has today affirmed all ratings and assessments assigned to Banco de Bogotá S.A. (Banco de Bogotá), including its ba1 baseline credit assessment (BCA), Baa2 long-term local and foreign currency deposit ratings, Baa2 long-term foreign currency senior unsecured debt rating as well as the Ba2 long-term foreign currency subordinated debt rating. The outlook on Banco de Bogotá's ratings remains negative.

In the same action, Moody's affirmed the ratings assigned to Grupo Aval Acciones y Valores S.A. (Grupo Aval) and Grupo Aval Limited, including its Ba2 long-term ratings. The outlook on Grupo Aval's ratings was changed to stable, from negative.

**RATINGS RATIONALE**

**BANCO DE BOGOTÁ**

The affirmation of Banco de Bogotá's BCA acknowledges the bank's strong and resilient earnings generation, which was sustained during 2020, and its steady access to low-cost retail deposits that benefits liquidity and margins. These strengths are counterbalanced by the bank's relatively low capital buffers, with a tangible common equity (TCE)/risk-weighted assets (RWA) ratio of 8.4% as of March 2021, and its exposures to riskier operating environments in Central America.

Banco de Bogotá's asset quality metrics remain relatively contained since 2020 with Stage 3 loans accounting for 5.9% of gross loans in March 2021, 70 basis points above the level at the end of 2019. Loans that still benefit from relief measures accounted for almost 15% of total loans in March 2021 -a portfolio that could continue to strain asset risks in the second half of 2021- although half of those loans already include an active payment schedule and are subject to debtor classification. Loan loss reserves stood at 5.2% of gross loans as of March 2021, which will help mitigate the impact of future impairments that could arise from its operations in Central American countries that have weaker operating environments. The affirmation captures Moody's view that, even if further pressure on the bank's asset quality materializes in the following quarters, its fundamentals will likely remain consistent with a ba1 BCA.

The bank's profitability is a strong key driver and remained higher than peers in 2020 and Q1 2021, despite still below pre-pandemic levels. In 2020 full-year and March 2021, Banco de Bogotá's annualized net income to tangible assets was 1.2% and 1.5%, respectively, while the average for the rated peers in Colombia stood at 0.4% and 0.7% in the same periods. Similarly to peers, the bank's bottom line was hit in 2020 due to higher credit costs and margin compression, although from previously strong levels and partially compensated by contained expenses growth, with operating expenses falling to 3.3% of total assets as of March 2021 annualized and 3.6% in 2020, from 4.1% in 2019.

Banco de Bogotá's Baa2 deposit and senior unsecured debt ratings continue to incorporate the assessment of a very high likelihood of government support, if needed, resulting in a two-notch uplift from its ba1 BCA. Therefore, the bank's ratings outlook continues to be negative, in line with the outlook of the Government of Colombia (Baa2 negative).

**GRUPO AVAL ACCIONES Y VALORES S.A. AND GRUPO AVAL LIMITED**

Grupo Aval's ratings incorporate the structural subordination of the holding company's liabilities to the liabilities of Banco de Bogotá and its other subsidiaries, and are notched off Banco de Bogotá's BCA, considering the importance of the latter as Grupo Aval's main subsidiary holding close to 68% of the gross loans of the consolidated group as of March 2021. Grupo Aval Limited's debt ratings are in turn based on Grupo Aval's irrevocable and unconditional guarantee of Grupo Aval Limited's liabilities under the indentures.

Therefore, the affirmation of Grupo Aval and Grupo Aval Limited's ratings follows the affirmation of Banco de Bogotá's BCA. In turn, the change of the ratings outlook on Grupo Aval and Grupo Aval Limited to stable from

negative captures Moody's view of Banco de Bogotá's strong financial fundamentals that remain consistent with a ba1 BCA, with manageable potential asset risk and capital pressures. Moody's does not incorporate governmental support in the holding company's ratings.

Grupo Aval's Ba2 ratings also acknowledge the group's stable double leverage ratio (119% in March 2021), which is measured by investments in subsidiaries divided by shareholders' equity and reflects the extent to which the holding company relies upon debt to finance its investments in subsidiaries. The metric increased since 2020 due to the issuance of a \$520 million additional tier 1 instrument at its Panamanian subsidiary BAC International Bank, Inc (Ba1 stable, ba1), which was fully subscribed by Grupo Aval Limited. However, Grupo Aval has maintained stable and high interest coverage underpinned by a strong dividend income from its banking subsidiaries in Colombia, with core earnings amounting to 4.9 times interest expenses in 2020. In addition, Grupo Aval's adequate liquidity buffers also support the coverage of its upcoming debt obligations, limiting its reliance on dividend inflows.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

### BANCO DE BOGOTÁ

Banco de Bogotá's deposit and senior debt ratings have negative outlooks and are positioned at the same level of Colombia's sovereign bond rating. Therefore, the downgrade of the sovereign rating would also have a direct impact on the bank's supported ratings.

Intrinsic downward pressure to the bank's BCA could arise from a deterioration in the operating environment of Colombia and Central America, that could increase delinquencies and credit costs and ultimately hit the bank's capital buffers.

Banco de Bogotá's ratings are unlikely to face upward pressures at this juncture, due to the negative outlook. However, the outlook could be stabilized provided that the Colombian sovereign rating outlook were stabilized, coupled with stable operating conditions in Colombia and Central America and the resilient credit fundamentals of the bank.

### GRUPO AVAL

Upward/downward pressures on Grupo Aval and Grupo Aval Limited's ratings would be associated with upward/downward pressures on Banco de Bogotá's BCA, because the group's Ba2 issuer rating is anchored to the bank's BCA. In addition, the ratings could also face downward pressures if the group's double leverage exceeded 115% by a meaningful amount on a sustained basis and/or the interest coverage ratio and the group's liquidity buffers decreased significantly.

## ISSUERS AND RATINGS AFFECTED

The following Banco de Bogotá 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 debt 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 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

- 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

The following Grupo Aval Acciones y Valores S.A.'s ratings were affirmed:

- Long term local currency issuer rating of Ba2, outlook changed to Stable from Negative
- Long term foreign currency issuer rating of Ba2, outlook changed to Stable from Negative
- Short term local currency issuer rating of Not Prime
- Short term foreign currency issuer rating of Not Prime
- Outlook, Changed to Stable from Negative

The following Grupo Aval Limited's rating was affirmed:

- Long term foreign currency backed senior unsecured debt rating of Ba2, outlook changed to Stable from Negative
- Outlook, Changed to Stable from Negative

#### RATING METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1269625](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625). Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

#### REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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Marcelo De Gruttola  
Vice President - Senior Analyst  
Financial Institutions Group  
JOURNALISTS: 1 800 666 3506  
Client Service: 1 212 553 1653

Ceres Lisboa  
Associate Managing Director  
Financial Institutions Group  
JOURNALISTS: 0 800 891 2518  
Client Service: 1 212 553 1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

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