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# Fitch Affirms Banco De Bogota and Grupo Aval; Outlook Stable

Fitch Ratings - Monterrey/Bogota - 29 Nov 2023: Fitch Ratings has affirmed the international ratings of Banco de Bogota S.A. (Bogota) and its holding company, Grupo Aval Acciones y Valores S.A. (Grupo Aval). Fitch has affirmed Bogota's Viability Rating (VR) and Long-Term (LT) Foreign and Local Currency Issuer Default Ratings (IDRs) at 'bb+' and 'BB+', respectively. The Rating Outlook for the LT IDRs is Stable as Fitch does not anticipate a further impact on the bank's financial profile after the challenging operating environment (OE) from 2023, as healthier loan growth coupled to improving economic activity are expected for 2024. A complete list of rating actions follows at the end of this release.

Fitch has affirmed and subsequently withdrawn Grupo Aval's Government Support Rating (GSR) as it is no longer considered to be relevant for the analysis.

## Key Rating Drivers

**Viability Rating Drives Rating:** Bogota's VR is influenced by its business profile, which is underpinned by its leading franchise. The bank's ratings also consider its consistent financial performance, reasonable credit and risk policies, and ample and diversified funding base. Capitalization remains the bank's main credit weakness relative to international peers.

**Challenging Operating Environment:** Fitch expects the OE for Colombian banks to remain stable during 2024 due to higher GDP growth, inflation declining but still above the central bank's 3+/-1% target, slow decrease in funding cost and gradual improvement on asset quality after a peak reached during 2H23. Furthermore, exposure to global markets and political uncertainty will likely continue to pose challenges and headwinds to economic growth. Fitch believes sustained capitalization, resilient profitability and adequate reserves provide sufficient resilience to face stress for the banks.

**Leading Franchise:** Bogota is Colombia's third-largest bank by assets and by deposits, with 12% market share at June 30, 2023. It's the second largest bank by net income; and third-largest by loans (17.4% and 11.9% respectively). Given its size, the bank is a systemically important financial institution in Colombia. Bogota also consolidates Multibank, a Panamanian subsidiary which was acquired in 2020 with a market share by assets, loans and deposits of 4.0%, 4.5% and 3.5% respectively, at June 2023.

As of 3Q23, corporate lending reached 64.6% of gross loans, similar to the ratio as of YE 2022, with a slight increase in consumer loans from payrolls. 83% of the consolidated loans are booked in Colombia while the remainder is mainly booked through Multibank.

**OE Weighs on Asset Quality:** Bogota's loan portfolio quality deteriorated during 2023 due to the

challenging OE and mainly focused on unsecured retail loans. Nevertheless, the deterioration is below that of the peers. The 90-day non-performing loans (NPLs), reached 4.0% at September 2023 with a consolidated loan loss reserve coverage ratio of 1.4x, similar to the pre-pandemic levels. Deterioration should have reached its maximum level at 3Q23 end, and asset quality ratios are expected to improve during 2024 thanks to better macroeconomic conditions and OE, and lower interest rates.

**Profitability Impacted by Cost of Risk:** Bogota's performance in 2023 was affected by higher cost of risk due to the deterioration in retail loans and lower equity method income from Corficolombiana. The bank's operating profit/risk weighted average (RWA) of 1.9% at 2Q23 is mainly explained by sustained NIM and higher impairment charges. Fitch expects this ratio to stabilize at levels close to the 2.0%-2.5% range in the short to medium term amid a stable OE, increasing loan growth, stable margins and lower loan impairment charges.

**Stable Capital Ratios:** Bogota's capital has been maintained through sustained profitability and moderate dividend policies, coupled with moderate growth. Common equity Tier 1 (CET1) was 10.0% at 3Q23, stable to that from September 2022. Capital ratios for Bogota are likely to improve during the short to mid-term as profitability is expected to improve and due to the current effect the available-for-sale portfolio has on the capital from ORI amid higher RWA from loans, in addition, diversification, and improving income from the equity method coming from Corficolombiana and Porvenir should sustain the bank's profitability and, consequently, its capitalization during 2024.

The recent announcement of a shareholder's agreement to change Corficolombiana's controlling company to Banco Popular from Grupo Aval is expected to result in improving capitalization ratios for Banco de Bogota. Initial calculations result in 200 pb-250 pb improvement in Bogota's CET1. Fitch will follow this process to better assess its final impact.

**Wide, Stable Funding:** Bogota boasts an ample, well-diversified and low-cost depositor base that funds all its lending activities. Its loan to customer deposits ratio compares favorably with local peers' even after the spin-off from 2022, which resulted in a ratio closer to that of its Colombian operations. In Fitch's opinion, Bogota's liquidity and liquidity management are appropriate for the risks the bank faces. As of 3Q23, deposits grew 3.65% YTD, supported especially by time deposits. This is explained in part by the new NSFR regulation in Colombia, although the impact on Banco de Bogota has been lower compared to other local peers.

## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Bogota's VRs and IDRs are sensitive to a material deterioration in the local OE or a negative sovereign rating action;

--The ratings could be downgraded from an extended deterioration of the OE that leads to a significant deterioration of asset quality and/or profitability (operating profit to RWA consistently below 1.5%), resulting in an erosion of capital cushions if the CET1 ratio falls consistently below 10%.

## **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--Given the limitations of the OE, a ratings upgrade is unlikely in the medium term;

--Over the longer term, an improvement in the OE, along with improvement of capital metrics and profitability, could be positive for creditworthiness.

### **OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS**

#### SENIOR AND SUBORDINATED DEBT

##### BOGOTA

Bogota's senior unsecured obligations are rated at the same level as the bank's IDR. Its subordinated debt is rated two notches below the bank's VR.

#### GOVERNMENT SUPPORT RATING

##### BOGOTA

Bogota's GSR of 'bb', reflects the agency's estimation of a moderate probability of sovereign support, if required, given the bank's systemic importance. The ability of the sovereign to provide support is based on its 'BB+' /Stable rating.

### **OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES**

#### SENIOR AND SUBORDINATED DEBT

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--The ratings of Bogota's debt would move in line with the bank's IDRs and VR.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--The ratings of Bogota's debt would move in line with the bank's IDRs and VR.

#### GOVERNMENT SUPPORT RATING

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Bogota's GSRs would be affected if Fitch changes its assessment of the government's ability and/or willingness to support the bank.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Bogota's GSRs would be affected if Fitch changes its assessment of the government's ability and/or willingness to support the bank.

### **SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS**

## GRUPO AVAL ACCIONES Y VALORES S.A. (GRUPO AVAL)

**Strong, Competitive Position:** Grupo Aval Acciones y Valores S.A.'s (Grupo Aval) ratings are driven by the business and financial profile of its main operating subsidiary, Banco de Bogota (Bogota). Moderate double leverage, good cash flow metrics and a sound competitive position in multiple markets also support Grupo Aval's ratings.

**Challenging Consolidated Performance:** On a consolidated basis, Grupo Aval's financial profile has deteriorated during 2023 but it has remained aligned to Fitch's expectations amid a more challenging OE. Asset quality slightly deteriorated, with a consolidated 90-days NPL of 3.8% at September 2023. On the other hand, the holding company's operating profit to estimated RWA ratio deteriorated to 2.65% at June 2023 due to increasing loan impairment charges and higher cost of funds, which affected Aval's subsidiaries. Fitch expects the consolidated profitability ratio to return to levels close to those from the pre-pandemic years in the mid-term, in the 3.0%-3.5% range, due to higher loan growth in 2024 and lower expectations on cost of risk. Also, lower impacts from NSFR and funding cost is expected during 2024.

**Evolving Double Leverage:** On an unconsolidated basis, Grupo Aval's double leverage is moderate (1.08x at September, 2023 or 1.24x when including subordinated loans to subsidiaries and the AT1 investment from BAC). This ratio has remained stable during 2023 and is expected to return to levels below 1.20x in the short term as profitability improves.

## SENIOR AND SUBORDINATED DEBT

### GRUPO AVAL LIMITED

The ratings for Grupo Aval Limited's senior unsecured debt are aligned with those of Grupo Aval, as this entity guarantees the senior bonds issued by the former.

## SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

### GRUPO AVAL and GRUPO AVAL LIMITED

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Grupo Aval's IDR would remain at the same level as Bogota's and would move in tandem with any rating actions on its main operating subsidiary. However, the relativity between these two entities' ratings could also be affected in the event of a material and sustained increase in Grupo Aval's double-leverage metrics (consistently above 1.2x), but also considering the holding company's liquidity position and its management. Additionally, a change in the dividend flows from the operating companies or debt levels at the holding company that affects its debt coverage ratios could also be detrimental to its ratings.

--The ratings for Grupo Aval Limited's senior unsecured debt would move in line with Grupo Aval's IDRs.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Grupo Aval's IDR would remain at the same level as Bogota's and would move in tandem with any rating actions on its main operating subsidiary.

--The ratings for Grupo Aval Limited's senior unsecured debt would move in line with Grupo Aval's IDRs.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

### **Public Ratings with Credit Linkage to other ratings**

The ratings of Grupo Aval Acciones y Valores are support-driven from its main subsidiary Banco de Bogota S.A.; The rating of Grupo Aval Limited issuance is linked to the rating of Grupo Aval Acciones y Valores S.A.

### **ESG Considerations**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/topics/esg/products#esg-relevance-scores](http://www.fitchratings.com/topics/esg/products#esg-relevance-scores).

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**Rating Actions**

<b>ENTITY/DEBT</b>	<b>RATING</b>		<b>RECOVERY</b>	<b>PRIOR</b>
Banco de Bogota, S.A.	LT IDR	BB+ 	Affirmed	BB+ 
	ST IDR	B	Affirmed	B
	LC LT IDR	BB+ 	Affirmed	BB+ 
	LC ST IDR	B	Affirmed	B
	Viability	bb+	Affirmed	bb+
	Government Support	bb	Affirmed	bb
• senior unsecured	LT	BB+	Affirmed	BB+
• subordinated	LT	BB-	Affirmed	BB-
Grupo Aval Acciones y Valores S.A.	LT IDR	BB+ 	Affirmed	BB+ 
	ST IDR	B	Affirmed	B
	LC LT IDR	BB+ 	Affirmed	BB+ 
	LC ST IDR	B	Affirmed	B

ENTITY/DEBT	RATING		RECOVERY	PRIOR
	Government Support	ns	Affirmed	ns
	Government Support	WD	Withdrawn	ns
Grupo Aval Limited				
	• senior unsecured <sup>LT</sup>	BB+	Affirmed	BB+

#### RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	○	

#### Applicable Criteria

[Bank Rating Criteria \(pub.01 Sep 2023\) \(including rating assumption sensitivity\)](#)

#### Additional Disclosures

[Solicitation Status](#)

#### Endorsement Status

Banco de Bogota, S.A.	EU Endorsed, UK Endorsed
Grupo Aval Acciones y Valores S.A.	EU Endorsed, UK Endorsed
Grupo Aval Limited	EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

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