

CREDIT OPINION

5 July 2024

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.

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Grupo Aval Acciones y Valores S.A.

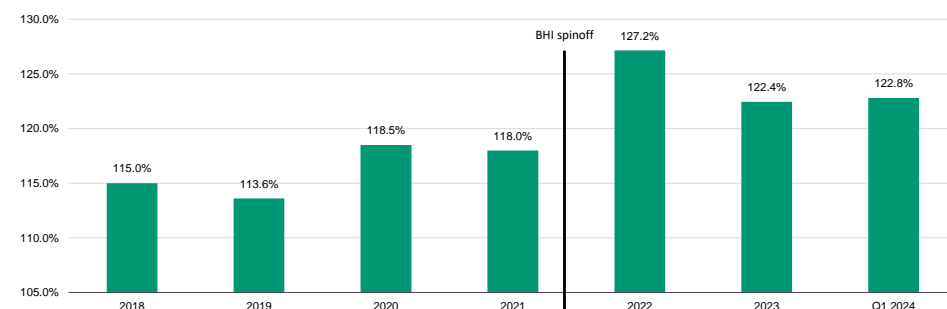
Update following ratings affirmation, outlook remains negative

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 Bogotá, Baa2 negative, 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](#).

As a holding company, Grupo Aval's rating is one notch below Banco de Bogotá's BCA due to structural subordination. 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, although the subsidiaries' earnings have recently been negatively pressured by a challenging operating environment in Colombia. Grupo Aval ratings are pressured by the company's relatively high double leverage ratio, at 123% in March 2024, 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. In turn, Grupo Aval Limited's Ba2 backed senior unsecured debt rating is based on Grupo Aval's irrevocable and unconditional guarantee of Grupo Aval Limited's liabilities.

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, which increased since 2022 due to BHI spin off
- » Exposure to regulatory changes due the nature of its operating subsidiaries, especially in the pension segment

Outlook

The negative outlook on Grupo Aval and Grupo Aval Limited's long term ratings continue to capture the company's relatively high double leverage ratio, despite recent reduction, calculated considering the combined value of the holding company's equity and hybrid equity investments divided by the holding company's own equity. If persistent over time, high double leverage 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 / downgrade

Either upward or downward pressures on Grupo Aval and Grupo Aval Limited's ratings would be associated with an upward or downward change of Banco de Bogotá's BCA, because the holding company's Ba2 issuer rating is anchored to the bank's BCA. However, 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 did not materialize, or a persistent 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 \$78 billion in total assets as of December 2023. The group owns the third-largest bank in Colombia in terms of loans, Banco de Bogotá S.A. (13%); the fifth-largest bank, Banco de Occidente S.A. (7%); the ninth-largest bank, Banco Popular S.A. (4%); and the twelfth-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 26% of the financial system's loans.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Exhibit 2

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

	Q1 2024	2023	2022	2021	2020	2019	2018
Total Assets (COP Billion)	23,104	23,136	23,596	33,642	30,194	25,796	23,566
Investments in Subsidiaries (COP Billion)	20,768	20,372	20,828	26,970	24,287	21,776	19,580
Loans to Subsidiaries (COP Billion)	1,237	1,232	1,506	3,249	2,188	1,959	1,886
Total Debt (COP Billion)	5,499	5,512	6,509	9,715	8,597	4,980	4,924
Shareholders' Equity (COP Billion)	16,912	17,242	16,962	23,475	21,121	20,335	18,222
Core Earnings (COP Billion) [2]	364	1,363	1,037	1,853	1,770	1,557	1,360
Interest Expense (COP Billion)	132	440	551	432	433	276	259
Double Leverage excl. Senior Loans to Subs [3]	122.8%	122.4%	127.2%	118.0%	118.5%	113.6%	115.0%
Debt / Core Earnings [4]	3.8x	4.0x	6.3x	5.2x	4.9x	3.2x	3.6x
Core Earnings / Interest Expense	2.7x	3.1x	1.9x	4.3x	4.1x	5.6x	5.3x

[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 Bogotá and its other subsidiaries and are notched off Banco de Bogotá S.A.'s ba1 BCA. The latter considers the importance of Banco de Bogotá as Grupo Aval's main subsidiary, comprising close to 63% of its dividend income in 2023 and 78% in 2022. 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, although with negative pressure since 2023 due to the subsidiaries' weaker bottom line results. 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 \$1 billion senior bond issued in 2020 and due in 2030 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 is supported by dividend and interest income from its operating entities

Grupo Aval has historically benefitted from strong dividend income from its subsidiaries. The group is a holding company controlling a diversified, multi-branded group of banks and financial institutions that target different retail and commercial segments in Colombia and Panama. The group's operating entities hold a leading market position in most of the markets where they operate. The main source of dividend of Grupo Aval has historically been its flagship bank, Banco de Bogotá. During 2023, Grupo Aval's consolidated earnings fell as most of the group's bank and non-bank subsidiaries reported weaker bottom line results. Earnings of most Colombian banks, including Grupo Aval's subsidiaries and especially the consumer-focused banks like Banco Popular and Banco AV Villas, have shrunk or even turned negative due to a steep increase in delinquencies within consumer loan books, and also due to a steep increase in funding costs that led to interest margin pressure. We expect Grupo Aval earnings to remain below trend through 2024 as banks still face high provisioning needs and business growth remain limited by Colombia's still weak economic growth. However, the subsidiaries' strong positioning on their respective markets will likely allow them to recover their performance as operating conditions normalize in Colombia towards 2025, including higher economic growth and falling inflation and interest rates.

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 after BHI spinoff but gradually recovered through 2023

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 123% as of March 2024.

Grupo Aval's double leverage increased from 114% as of 2019 year-end to a peak of 127% in year-end 2022. In 2020, an increase in the metric 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 resulted in an additional increase in double leverage. Since then and despite remaining relatively high, the group's double leverage has gradually come down, to 123% in March 2024, mainly driven by lower dividend payouts 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 payment of the group's \$1 billion debt maturity in September 2022 reduced its refinancing risks going forward, as the next significant debt maturity will be due in 2030.

Governance practices 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. The group and its subsidiaries maintain sound risk management policies, supported by experienced management teams at both the holding and operating entity levels. This mitigates risks arising from the company's concentrated ownership, which leads to key-man risk, 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 shareholders elect a majority of the directors and executive officers and define management policies, which have proved effective over time -reducing corporate governance risks- and have also proved to be willing supporters of the group in case of need.

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	Negative
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	ba2
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Senior Unsecured	Ba1

Source: Moody's Ratings

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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