FitchRatings

Banks
Bank Holding Companies
Colombia

Grupo Aval Acciones y Valores S.A.

Ratings

Foreign Currency

Long-Term IDR	BBB–
Short-Term IDR	F3

Local Currency

Long-Term IDR	BBB–
Short-Term IDR	F3
Support Rating	5
Support Rating Floor	NF

Sovereign Risk

Long-Term Foreign-Currency IDR	BBB–
Long-Term Local-Currency IDR	BBB
Country Ceiling	

Outlooks

Long-Term Foreign-Currency IDR	Negative
Long-Term Local-Currency IDR	Negative
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Fitch Ratings 2021 Outlook: Latin American Banks (December 2020)

Analysts

Theresa Paiz-Fredel
+1 212 908-0534
theresa.paiz-fredel@fitchratings.com

Andres Marquez
+57 1 484-6771
andres.marquez@fitchratings.com

Key Rating Drivers

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). Low double leverage, good cash flow metrics and a sound competitive position in multiple markets also support Grupo Aval's ratings.

Long-Term Consistent Strategy: Grupo Aval has a consistent, multibrand strategy. Each of its four banks in Colombia, and their subsidiaries in Colombia and Central America including the recently acquired MFG, caters to specific segments and carries out its own commercial strategy that involves, at times, competing with sibling banks. Some synergies exist and are exploited whenever possible, such as the direction of the bank’s digital transformation and IT investments, but the challenges of operating four largely independent banks are, according to management, offset by the group’s ability to capture business that would otherwise be left to competitors.

Sustained Asset Quality: On a consolidated basis, asset quality remains stable despite the impact from the coronavirus, reflecting diversification. In September 2020, 15.5% of the consolidated gross loans remain under relief program. During 2020, and due to the relief programs after the coronavirus outbreak, the 90-days consolidated NPL ratio slightly deteriorated to 3.2% as of September 2020. Fitch Ratings expects that this ratio could change in the next few quarters as the remaining loans under relief program mature.

Profitability Impacted by Coronavirus Crisis: The holding company's operating profit to estimated risk weighted assets ratio declined to 2.34% in September 2020. Fitch expects a weakening of dividend flows due to the effects of the coronavirus. At the consolidated level, loan impairment charges due to the coronavirus crisis resulted in loans and securities impairment charges to pre-impairment operating profit ratio in a high 48.2% at 3Q20 (2016–2019 average: 36.6%) due to the relief programs, especially in retail sectors. In the short term, this ratio is expected to continue around 40%, due to the longer relief period in Central America and Panama especially.

Low Double Leverage: On an unconsolidated basis, Grupo Aval's double leverage is moderate (1.11x at September 2020 or 1.17x when including the AT1 bonds acquired after MFG's acquisition). This ratio is expected to remain stable in 2021.

Debt Ratings: 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

Rating Sensitivities

Sustained Performance: 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 (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.

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

Issuer Ratings (Including Main Issuing Entities)

Rating Level	Rating
Long-Term Foreign-Currency IDR	BBB–
Short-Term Foreign-Currency IDR	F3
Long-Term Local-Currency IDR	BBB–
Short-Term Local-Currency IDR	F3
Support Rating	5
Support Rating Floor	NF
Outlook	Negative

Source: Fitch Ratings.

Debt Rating Classes

Rating Level	Rating
Senior Unsecured Guaranteed Debt Issued by Grupo Aval Limited	BBB–

Source: Fitch Ratings.

Brief Company Summary

Franchise

Colombia and Central America's Largest Banking Conglomerate

Grupo Aval is Colombia's largest bank holding company (25.5% consolidated market share by loans at 3Q20), and it is also the largest conglomerate by deposits (26.8% market share) and net income (54.3% market share for the four banks). It is also a top contender in Central America (11.2% of market share by assets in the region through BAC and the recently acquired Multi Financial Group [MFG], 15.1% by net income, and being number 1 in loans, deposits and pretax profit).

Bogota is Grupo Aval's principal investment. Grupo Aval acquired Banco de Occidente (BO), a medium-sized bank focused in public sector entities, in 1971. Shortly after that, Mr. Sarmiento incorporated a savings and loans company (AV Villas [AV]) that would benefit from the synergies with his construction business. In 1981, the group acquired what is now its main operating company, Banco de Bogota. Finally, in 1997, the group acquired Banco Popular (BP), a consumer bank strong in payroll lending and Corporacion Financiera Colombiana (Corficolombiana), which is an investment bank with investments in energy, infrastructure, hospitality and agribusiness. Finally, the group has a strong position in pension funds through Porvenir, the largest pension and severance fund manager in Colombia.

Grupo Aval ratings are driven by the business and financial profile of its main operating subsidiary, Banco de Bogota. 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. Grupo Aval's IDRs would remain at the same level as Banco de 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.

Business Model

Grupo Aval has a diverse and stable universal banking business model based on intermediation and complementary financial services (trust, brokerage, pension fund management, merchant and investment banking and advisory, among others) through seven main subsidiaries. Grupo Aval's business model is founded on a multibrand strategy, supported by the individual strengths, licenses and market niches of each subsidiary.

Grupo Aval exploits specific areas of expertise and market positioning in its products, geographic locations and customer profiles, capitalizing on opportunities for synergy and transferring best practices among its business units.

Grupo Aval is organized into five core areas: finance and strategy, risk, IT (shared services) and, most recently, digital development. These areas are complemented by internal control and investor relations functions. The core areas consolidate reporting from each operating subsidiary, ensure compliance with local and foreign regulations and create guidelines and core policies that govern all businesses in a consistent manner. In addition, the board of directors actively participates in major decisions (e.g. credit and IT) when a coordinated effort is required.

Organizational Structure

Grupo Aval's organizational structure is simple. Control remains adequate and relies on a mix of centralized strategic supervision and operating autonomy. Grupo Aval defines guiding principles and strategies for its subsidiaries and shareholders through multibrand management, capital adequacy analysis, M&A execution, budget and control, risk management, shared services and compliance.

Management and Strategy

Management Quality

The holding company has a very streamlined organization. Key executives have ample expertise in the banking and financial services industries. Grupo Aval is tightly controlled by its main shareholder, but each of its operating companies enjoys autonomy and has experienced and deep managerial teams.

Managers share in the overarching corporate culture and contribute their own experience. The same approach is applied to each new subsidiary. Local expertise is identified, retained and empowered. It is held accountable for each subsidiary's performance. Changes in key management positions don't cause disruption since all of them come from within Grupo Aval's structure, and new generational turnover has been put in place.

Corporate Governance

Grupo Aval's board of directors is composed of seven principal members (two of which are independent directors) and seven alternate members (two of which are, as well, independent), each of whom serves a one-year term and may be re-elected indefinitely. Grupo Aval is listed on the NYSE and is subject to Sarbanes-Oxley regulation. There are three board committees: the compensation committee, the audit committee and the corporate affairs committee.

Strategic Objectives

Grupo Aval has a consistent, multibrand strategy. Each of its four banks in Colombia (and their subsidiaries in Colombia and Central America including the recently acquired MFG) caters to specific segments and carries out its own commercial strategy that involves, at times, competing with sibling banks. Some synergies exist and are exploited whenever possible, such as the direction of the bank's digital transformation and IT investments, but the challenges of operating four largely independent banks are, according to management, offset by the group's ability to capture business that would otherwise be left to competitors.

Grupo Aval closely monitors the performance of the banks in Colombia, Corficolombiana, Porvenir, BAC and MFG, participating in development of the entities' long-term strategies and strategic plans as well as the appointment of Grupo Aval's executive members on the boards of the banks and their top management teams. Grupo Aval's internal control department regularly performs audits of the seven entities as well as their operating subsidiaries.

Grupo Aval's main objectives include further penetrating the Colombian market, continuing to capitalize on synergies and improving efficiencies, expanding services and product offerings and diversifying sources of income, further penetrating the Central American market, as was done in 2020 after MFG's acquisition.

The digital strategy is Grupo Aval's newest, and one of its most important, strategies. It is aimed at capturing synergies among the subsidiaries. Aval Digital Lab (ADL) was consolidated as a strategic platform to lead Grupo Aval's digital transformation with main purposes, according to the management, include generate value-added offers, reach for new customers, create new products and markets and improve efficiency. The former digital strategy was deepened during 2020 after the coronavirus outbreak and, consequently, the group and the subsidiaries increased their digital sales and its digital transactions.

Execution

Grupo Aval has a sound and credible track record of adequate long-term planning and good execution. Budgets and short-term plans are largely achieved and, whenever changes occur, they are usually due to adjustments in light of events and/or changing circumstances.

As a consequence of the coronavirus crisis, Grupo Aval and its subsidiaries have prepared themselves in order to focus on employees, customers and community and took some actions in order to support some of their customers that might facing more difficulties. The quarantines and relief programs for debtors, both in Colombia and Central America, impacted the usual execution of Grupo Aval in terms of growth, cost of risk and fee income, among others.

Risk Appetite

Underwriting Standards

Broad risk management guidelines are set forth by the holding company, but each bank has autonomy to set its own risk policies. Fitch views these risk policies as conservative given detailed underwriting processes, sophisticated scoring models, conservative collateral requirements, well-defined credit approval limits and ongoing monitoring processes at each bank. Best practices are shared, and market and operational risk policies have been largely harmonized. Credit decisions are made at the bank level, following each institution's internal policies that include, among other factors, formal credit committees for corporate/middle-market lending and automated, scoring/credit factory processes for retail.

Grupo Aval's risk policies at the bank level tend to be quite conservative, with relatively low loan to value ratios, direct payroll deduction structures and low risk/volatility investments. To prevent undesired risk taking, credit officers in middle-market and small- and medium-sized enterprise (SME) segments may have full credit cycle responsibilities (lending and collection); traders' compensation is structured so as to encourage balanced risk taking. Risk controls are deemed adequate, as each bank uses effective tools and has successfully maintained robust asset quality. The group's investment policy is also conservative, focusing on the underlying credit quality, limited market risk/volatility and diversification

Risk Controls

Each banking subsidiary is responsible for its credit decisions and risk management, but at the Grupo Aval level, there is oversight of the implementation of appropriate risk management controls, and the group has established upward loan reporting processes. The holding company's risk management staff meets on a weekly basis to discuss the subsidiaries' loan portfolios, developments in the industry, risks and opportunities.

To prevent excessive concentrations of credit risk at an individual, economic group, country or economic sector level, each of Grupo Aval's banks maintains updated indices to limit concentration. The exposure limit by a banking subsidiary to an individual client or economic group depends on the risk profile of the client (or economic group), the nature of the risk of the debtor and the experience of each banking subsidiary in a specific market or sector. Also, Grupo Aval fully follows the recently issued regulation for financial conglomerates in Colombia, and the holding company is now being supervised by the Financial Superintendence.

Operational risk policies of Grupo Aval and its subsidiary banks are aligned and comply with the guidelines established by the Superintendence of Finance and the U.S. Sarbanes-Oxley Act of 2002.

In order to support its clients and based on the government's guidance, Grupo Aval's banks implemented different types of deferrals, both in Colombia and Central America, for around COP73.5tn. As of September 2020, the total relief program has evolved from a total 27.7% and 47.3% of gross loans granted in Colombia and Central America, respectively, to a share of gross loans of 11.4% in Colombia and 22.6% in Central America, or 15.5% of the total Grupo Aval consolidated loans. In Fitch's opinion, the relief program evolution is according to the expectations and no further problems are expected. The agency expects the data from 4Q20 and 1Q21 to include a clearer representation of the loans with some kind of delays in Colombia, while in Central America this will be seen after 2Q21 due to longer relief programs in Panama.

Growth

Expansion has moderated since 2015. A low point in the economic cycle and the resulting increased risk led to decelerating growth in both assets and loans at all four banks in Colombia. Grupo Aval's strategy centers on profitable growth and is not interested in engaging in the fierce competition it perceived from the other largest banks in Colombia. In Fitch's opinion, low growth has supported capitalization at the consolidated level and for each bank up to 2020. The loss in market share is compensated by the increase in profitability, resulting in a rather satisfactory strategy.

During 2020, growth was positively impacted by peso depreciation and MFG's acquisition. As of September 2020, 12-month asset growth was 21.9%; when excluding MFG and FX impact, asset growth would have been 11%, and included important liquidity growth. Regarding loans, 12-month growth as of September 2020 was 17.2% and, excluding FX impact and MFG, it would have been 6%, mainly supported in a healthy 1Q20. Fitch expects asset growth in 2021 to be around 8%–10%, mainly based in consumer and corporate sectors growth.

Market Risk

Grupo Aval monitors and oversees market risk at a consolidated level through reports received from its banking subsidiaries, which are in charge of managing their own market risk. Grupo Aval on an unconsolidated basis does not have material market risk; however, the banks have substantial market risk, primarily as a result of their lending, trading and investment businesses.

The primary market risks to which Grupo Aval is exposed are interest rate risk, foreign exchange rate risk, variations in stock price risk and investment fund risk.

Market risk is monitored by a specialized market risk management area. Comprehensive procedures are in place to ensure that trading, accounting, counterparty selection, trading limit adherence and trade documentation comply with internal policies and guidelines. The market risk unit reports daily trading positions and mark-to-market values for investments; in addition, it calculates a VaR and performs back-testing and sensitivity analysis.

Summary Financials and Key Ratios

(COP Bil., as of Dec. 31, Year End)	Sept. 30, 2020 Nine Months–Third Quarter USD Mil. Unaudited	Sept. 30, 2020 Nine Months–Third Quarter Unaudited	2019 Audited — Unqualified	2018 Audited — Unqualified	2017 Audited — Unqualified
Summary Income Statement					
Net Interest and Dividend Income	2,319	8,995.0	11,370.2	10,943.3	10,564.6
Net Fees and Commissions	956	3,707.6	5,455.3	4,839.6	4,579.0
Other Operating Income	993	3,850.5	4,529.2	4,699.6	2,629.6
Total Operating Income	4,267	16,553.2	21,354.8	20,482.5	17,773.2
Operating Costs	2,017	7,823.3	10,171.3	9,371.0	8,827.0
Pre-Impairment Operating Profit	2,251	8,729.9	11,183.5	11,111.4	8,946.2
Loan and Other Impairment Charges	1,084	4,204.8	3,755.1	3,797.3	4,023.9
Operating Profit	1,167	4,525.1	7,428.4	7,314.1	4,922.3
Other Non-Operating Items (Net)	0	0.0	23.4	20.1	(7.0)
Tax	334	1,296.6	2,086.3	2,149.6	1,752.8
Net Income	832	3,228.5	5,365.5	5,184.6	3,162.4
Other Comprehensive Income	244	947.2	701.7	(209.8)	75.4
Fitch Comprehensive Income	1,077	4,175.7	6,067.2	4,974.8	3,237.8
Summary Balance Sheet					
Assets					
Gross Loans	54,146	210,027.6	179,409.2	169,246.6	159,093.7
- of which impaired	1,737	6,737.4	5,841.8	5,188.5	4,382.0
Loan Loss Allowances	2,565	9,948.6	8,185.8	8,196.2	5,618.5
Net Loan	51,581	200,079.0	171,223.4	161,050.5	153,475.2
Interbank	N.A.	N.A.	N.A.	N.A.	N.A.
Derivatives	315	1,220.4	1,084.0	798.8	383.7
Other Securities and Earning Assets	12,772	49,543.1	38,832.0	38,964.8	37,802.8
Total Earning Assets	64,668	250,842.5	211,139.4	200,814.1	191,661.6
Cash and Due From Banks	10,057	39,012.4	30,117.2	28,401.3	22,336.8
Other Assets	11,346	44,010.2	37,575.9	30,459.8	22,540.1
Total Assets	86,071	333,865.1	278,832.6	259,675.2	236,538.5
Liabilities					
Customer Deposits	55,973	217,117.8	175,491.4	164,359.5	154,885.2
Interbank and Other Short-Term Funding	2,156	8,364.4	9,240.5	6,814.1	4,970.4
Other Long-Term Funding	14,707	57,047.4	45,604.1	44,397.9	40,305.6
Trading Liabilities and Derivatives	405	1,572.8	1,056.7	1,006.8	312.1
Total Funding	73,242	284,102.4	231,392.7	216,578.3	200,473.4
Other Liabilities	3,696	14,337.4	14,091.6	13,542.5	10,193.9
Preference Shares and Hybrid Capital	N.A.	N.A.	N.A.	N.A.	N.A.
Total Equity	9,133	35,425.3	33,348.3	29,554.3	25,871.2
Total Liabilities and Equity	86,071	333,865.1	278,832.6	259,675.2	236,538.5
Exchange Rate		USD1 = COP3878.94	USD1 = COP3294.05	USD1 = COP3275.01	USD1 = COP2971.63

N. A. – Not applicable.
Source: Fitch Ratings.

Summary Financials and Key Ratios

(COP Bil., as of Dec. 31)	Sept. 30, 2020	2019	2018	2017
Ratios (Annualized as Appropriate)				
Profitability				
Operating Profit/Risk-Weighted Assets	2.3	3.5	3.8	2.7
Net Interest Income/Average Earning Assets	5.1	5.6	5.7	5.7
Non-Interest Expense/Gross Revenue	47.7	48.2	46.2	50.2
Net Income/Average Equity	12.7	17.3	19.5	12.7
Asset Quality				
Impaired Loans Ratio	3.2	3.3	3.1	2.8
Growth in Gross Loans	17.1	6.0	6.4	5.0
Loan Loss Allowances/Impaired Loans	147.7	140.1	158.0	128.2
Loan Impairment Charges/Average Gross Loans	2.9	2.4	2.5	2.5
Capitalization				
Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.
Fully Loaded Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital Ratio	10.2	12.1	11.2	10.1
Tangible Common Equity/Tangible Assets	7.9	9.2	8.3	7.8
Basel Leverage Ratio	N.A.	N.A.	N.A.	N.A.
Net Impaired Loans/Common Equity Tier 1	N.A.	N.A.	N.A.	N.A.
Net Impaired Loans/Fitch Core Capital	(12.6)	(9.5)	(14.4)	(7.0)
Funding and Liquidity				
Loans/Customer Deposits	96.7	102.2	103.0	102.7
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Funding	76.9	76.2	76.2	77.4
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.

N. A. – Not applicable.
Source: Fitch Ratings.

Key Financial Metrics — Latest Developments

Asset Quality

Each bank operates in a particular segment/business, potentially presenting some asset/product concentration. However, on aggregate, the group has a very well-diversified loan portfolio, with roughly 56% of the loans granted to corporate customers and 44% to retail customers as of September 2020.

Grupo Aval's consolidated main exposures, excluding those to consumer and retail, were to commercial services, construction, food, transportation and communications and public services. Concentration by obligor is also moderate. Given its target market and portfolio mix, Banco de Bogota's asset quality is among the strongest within Grupo Aval and its domestic peers, while Banco Popular benefits from its payroll lending structure.

During 2020, and due to the relief programs after the coronavirus outbreak, the 90-day consolidated NPL ratio slightly increased to 3.2% as of September 2020. That said, Fitch expects that this ratio could change in the next few quarters as the remaining loans under relief program mature. Loan loss reserves are adequate at 1.5x 90-day PDLs, although they include a higher cost of risk due to deterioration in consumer loans and in general to cover the estimated loan loss after the coronavirus crisis.

Earnings and Profitability

Aval's 2020 performance was affected by higher loan impairment charges due to the coronavirus crisis after the relief programs, as well as lower NIM (5.08% at 3Q20, down from 5.63% at YE19). Its operating profit to estimated risk weighted assets ratio decreased to 2.34% at 3Q20, below YE19 (3.59%) and the average for the 2016–2018 period (3.16%). The ratio was also impacted by higher RWA due to peso depreciation and to the effect of the drop in market rates, as well as the consolidation of MFG after June 2020. Fitch expects this level to be similar for 2021 as loans continue maturing with the potential need for additional loan impairment charges. Nevertheless, efficiency has remained stable thanks to Grupo Aval's and its subsidiaries cost control strategy.

At the consolidated level, this resulted in loans and securities impairment charges to pre-impairment operating profit ratio in a high 48.2% at 3Q20 (2016–2019 average: 36.6%). In the short term, this ratio is expected to continue around 40%, especially due to the longer relief period in Central America and Panama, especially.

Development in allegations as a consequence of Odebrecht problems in Colombia continue for Episol, Corficolombiana and Grupo Aval in various instances. In December 2020, the Industry and Commerce Superintendence (SIC) issued a resolution initially fining Corficolombiana and its subsidiary Episol, dismissing Grupo Aval of charges. Fitch will follow-up on any future developments and successive processes.

Capitalization and Leverage

Grupo Aval's consolidated ratio of tangible common equity to tangible assets was impacted by lower net income as well as the MFG consolidation in June 2020. As of September 2020, this ratio was 7.9%, below the 9.3% average for 2016–2019 and the fact that in 2019 it was closer to its historical average of roughly 9.0% from before 2015. Fitch expects the improving trend in the capitalization ratio to continue due to slower overall organic growth and stable-to-increasing profitability compared to 2020. In the agency's opinion, consolidated capitalization is positively affected after the issuance of AT1 instrument after MFG acquisition.

The implementation of the new Basel III guidelines regulatory framework will start in Colombia during 2021. In Fitch's opinion, this change would improve the FCC ratio for most banks, including those of Grupo Aval. Fitch will closely monitor the final rules from the Superintendence and the next steps to be taken by the bank in order to achieve the new capital requirements that could improve by 150 bps. Additional regulation related to conglomerates and liquidity (NSFR) are on track as well.

Funding and Liquidity

Deposits fund about two-thirds of the consolidated balance sheet and are mostly term deposits (40.6% of deposits at September 2020) and savings (35% of deposits), while the rest is demand

(24.2%) and others (0.2%). Other sources of funding include interbank funding (2.5%) and long-term bonds (8.8% of assets). Given ample access to capital markets in Colombia and abroad, and the need to better match assets and liabilities, Grupo Aval's banks are increasingly tapping capital markets, especially through Banco de Bogota. Also, during 2020, the largest banks in Colombia benefited from being perceived as stronger compared to other entities in Colombia, which resulted in improving liquidity.

Total funding includes customer deposits, interbank borrowings and overnight funds, borrowings from banks and others, bonds issued and borrowing from development entities. Total funding increased 24.2% as of September 2020 compared to September 2019 (around 13% when excluded MFG).

The debt at Grupo Aval Limited is serviced with interest income on loans to subsidiaries and cash. Grupo Aval Limited has to this date not required cash from Grupo Aval to fulfil its obligations, which Fitch believes results in conservative liquidity management.

Unconsolidated Leverage, Debt Service and Double Leverage

Grupo Aval's unconsolidated has a very simple balance sheet, as it basically has cash and investments on one side and loans (unsecured debt) and capital on the other. Revenues are almost exclusively dividends and income by participation method, with a small contribution from the yield of cash investments and other fees and commissions billed to the operating companies for the coordination and planning services provided by the holding company. Aval maintains enough cash on hand to cover its outstanding debt, minimizing the risk of declining dividend inflows.

When combined, Grupo Aval Acciones y Valores S.A. and Grupo Aval Ltd. had COP3.8 trillion of total liquid assets and total gross indebtedness of COP9.4 trillion at 3Q20. Furthermore, Grupo Aval Ltd. has COP1.4 trillion in other loans to subsidiaries and investments in AT1 instruments of COP2 trillion.

Grupo Aval's double leverage remained below the 120% threshold. As of September 2020, Aval's double leverage, which included subordinated loans to subsidiaries, was 111.0%. When including the AT1 bonds acquired after MFG's acquisition, the double leverage would result in 117%. Solid internal capital generation should underpin Grupo Aval's double leverage and debt coverage ratios. Nevertheless, these metrics could be negatively affected if the banks grow too fast or the entity engages in a new merger or acquisition without a corresponding increase in capital, which Fitch does not expect in the short term.

Grupo Aval has liquidity levels and counts on important interest income, both in USD, making the entity able to fulfil its debt service and lowering the need of income from dividends to repay its obligations. In Fitch's opinion, Grupo Aval's conservative liquidity management is seen as a positive factor when analysing its stand-alone unconsolidated leverage and profile.

Environmental, Social and Governance Considerations

FitchRatings **Grupo Aval Acciones y Valores S.A.** Banks Ratings Navigator

Credit-Relevant ESG Derivation

Grupo Aval Acciones y Valores S.A. has 5 ESG potential rating drivers

- Grupo Aval Acciones y Valores S.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

FitchRatings Banks Ratings Navigator

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.