

CREDIT OPINION

10 August 2021

Update

✓ Rate this Research

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	Stable

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 changed to stable from negative

Summary

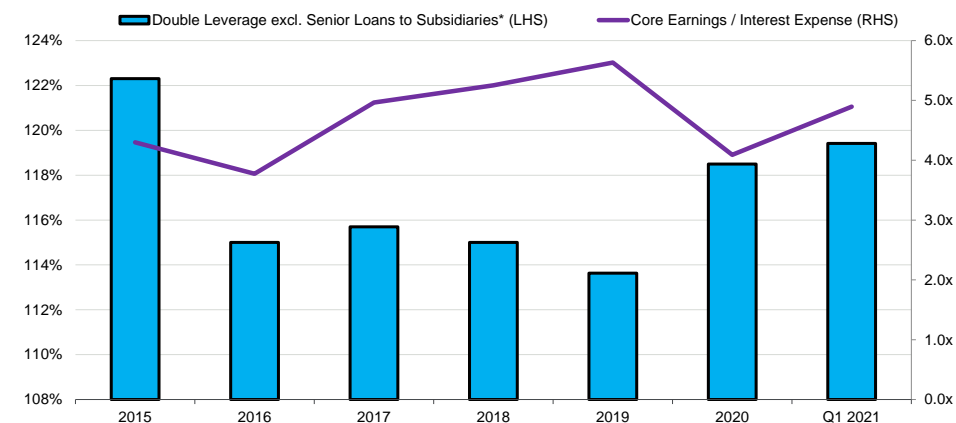
[Grupo Aval Acciones y Valores S.A.'s](#) (Grupo Aval) Ba2 issuer rating reflects the structural subordination of the holding company's liabilities to the liabilities of [Banco de Bogotá S.A.'s](#) (Banco de Bogotá, Baa2 negative, ba1)¹ and its other subsidiaries, and are notched off Banco de Bogotá's ba1 BCA, considering the importance of the latter as Grupo Aval's main subsidiary holding close to 68% of the gross loans of the consolidated group as of March 2021. Grupo Aval's Ba2 ratings also acknowledge the group's contained double leverage ratio -despite recent increases- and its high interest coverage underpinned by a strong dividend income from its subsidiaries. The company also holds adequate liquidity buffers that support the coverage of its upcoming debt obligations, limiting its reliance on dividend inflows.

We also assign a Ba2 rating to Grupo Aval's foreign-currency senior debt notes issued through [Grupo Aval Limited](#), its subsidiary in the Cayman Islands. The senior debt ratings are based on Grupo Aval's irrevocable and unconditional guarantee of Grupo Aval Limited's liabilities under the indentures.

Exhibit 1

Debt service and leverage ratios

Leverage remains stable, while debt servicing remains adequate



*Investments in subsidiaries, goodwill and subordinated loans to subsidiaries as a percentage of shareholders' equity, excluding asset revaluations.

Source: Moody's Investors Service

Credit strengths

- » Ample and sound volume of dividend inflow from subsidiaries
- » Diversified source of earnings through multiple financial subsidiaries, including banks in Colombia, a merchant bank, a pension and severance fund manager, and a Central American banking group
- » Sufficient liquidity holdings and interest income in dollars, limiting the entity's reliance on dividend inflows to meet upcoming debt obligations

Credit challenges

- » The more volatile and weaker operating environment in Central America
- » The structural subordination of the bank holding company's liabilities to those of its highly regulated operating entities

Outlook

The outlook on Grupo Aval and Grupo Aval Limited is stable and captures Moody's view of Banco de Bogotá's strong financial fundamentals that will likely remain consistent with its ba1 BCA, with manageable potential asset risk and capital pressures.

Factors that could lead to an upgrade

Upward 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.

Factors that could lead to a downgrade

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.

Profile

Grupo Aval Acciones y Valores S.A. (Grupo Aval) is the largest financial conglomerate in Colombia, with \$94.3 billion in total assets as of March 2021. The group owns the third-largest bank, Banco de Bogotá S.A. (12.6%); the fifth-largest bank, Banco de Occidente S.A. (6.2%); the seventh-largest bank, Banco Popular S.A. (4.3%); and the 10th-largest bank, Banco Comercial AV Villas S.A. (2.3%) in the country in terms of loans. Grupo Aval also has geographic and industry diversification through Banco de Bogotá's BAC International Bank, Inc., a universal bank present throughout Central America; 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). In addition, during 2020 Banco de Bogotá, acquired Multi Financial Group (MFG), the parent company of the Panama-based Multibank, expanding the operations of Grupo Aval on Central America.

Together, Grupo Aval's banks constitute the second-largest franchise in Colombia, with a combined market share of about 25.4% of the financial system's loans as of March 2021. The group has around 17 million banking clients in Colombia and Central America, with a network of 1,589 branch offices and 5,562 ATMs.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Exhibit 2

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

	Q1 2021	2020	2019	2018	2017 [5]	2016 [5]	Average
Total Assets (COP Billion)	31,206	30,194	25,796	23,566	21,949	20,884	25,599
Investments in Subsidiaries (COP Billion)	24,147	24,287	21,776	19,580	18,197	17,108	20,849
Loans to Subsidiaries (COP Billion)	2,628	2,188	1,959	1,886	2,064	2,184	2,152
Total Debt (COP Billion)	9,011	8,597	4,980	4,924	4,657	4,467	6,106
Shareholders' Equity (COP Billion)	20,841	21,121	20,335	18,222	16,838	15,985	18,890
Core Earnings (COP Billion) [2]	505	1,770	1,557	1,360	1,355	1,351	1,316
Interest Expense (COP Billion)	103	433	276	259	273	358	284
Double Leverage excl. Senior Loans to Subs [3]	119.4%	118.5%	113.6%	115.0%	115.7%	115.0%	116.2%
Debt / Core Earnings [4]	4.5x	4.9x	3.2x	3.6x	3.4x	3.3x	3.8x
Core Earnings / Interest Expense	4.9x	4.1x	5.6x	5.3x	5.0x	3.8x	4.8x

[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 issuer rating reflects the structural subordination of the entity's liabilities to the liabilities of its highly regulated operating entities, particularly Banco de Bogotá. The differential 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 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 has granted to its operating entities and the fees that it charges to their banks for the services it provides to them.

Grupo Aval Limited's debt issuances due in 2022 and 2030, both by \$1 billion, are currently rated Ba1 with stable outlook. These ratings are based on Grupo Aval's irrevocable and unconditional guarantee of Grupo Aval Limited's liabilities under the indentures.

Financial strength depends on Grupo Aval's 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 Central America. The main source of dividend has been its flagship bank, Banco de Bogotá. In 2020, Banco de Bogotá was responsible for providing 66% of the total dividends declared to Grupo Aval. The second-most important provider of dividends to Grupo Aval was Banco de Occidente (15%), followed by Banco Popular (10%).

The acquisitions made over time by Grupo Aval have strengthened the franchise of its existing operating entities and have resulted in an increase in goodwill. Banco de Bogotá's acquisition of Guatemala's Grupo Financiero Reformador and Banco BAC de Panamá (both completed in December 2013) strengthened BAC's market presence in two key growth markets in the region. 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 is broadly stable, with ample interest coverage

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 to subsidiaries and goodwill as a percentage of shareholders' equity (excluding asset revaluations). Grupo Aval's double leverage was 119% as of March 2021, above previous years but in line with the historical average of the group, as the metric has ranged between 109% and 122% within the last decade. During 2020 the double leverage of Grupo Aval increased to 119% from 114%

in December 2019 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.

We consider double leverage high when it remains above the 115% threshold by a significant amount on a sustained basis. We expect that Grupo Aval's double leverage will remain stable or even gradually decrease over the coming years, supporting a stable assessment of structural subordination. In addition, 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.

Strong governance reduces the risks arising from family ownership

We acknowledge the depth, strength and track record of Grupo Aval's 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.

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

We rate Grupo Aval's 10-year foreign-currency senior unsecured notes of \$1 billion (coupon of 4.75%) — issued through Grupo Aval Limited — Ba2². The Ba2 long-term foreign-currency debt rating is based on Grupo Aval's irrevocable and unconditional guarantee of Grupo Aval Limited's liabilities under the indentures.

In January 2020, we assigned³ a Ba2 foreign-currency-backed debt rating to the proposed US dollar-denominated senior unsecured notes to be issued by Grupo Aval Limited, with maturities of up to 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	Stable
Issuer Rating	Ba2
ST Issuer Rating	NP
BAC INTERNATIONAL BANK, 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)
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	Stable
Bkd Senior Unsecured	Ba2

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 Moody's Press Release [Moody's assigns issuer and debt ratings to Grupo Aval](#), published on 17 January 2012.
- ³ 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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