FitchRatings

Banks
Bank Holding Companies
Colombia

Grupo Aval Acciones y Valores S.A.

Key Rating Drivers

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

Sustained Asset Quality and Profitability: On a consolidated basis, asset quality has improved; however, 9.8% of gross loans remained under relief programs as of September 2021. The holding company's operating profit-to-estimated risk-weighted assets (RWA) ratio has returned to pre-coronavirus pandemic levels (3.67% as of September 2021), the result of lower estimated RWA density due to the Basel III implementation.

Low Double Leverage: On an unconsolidated basis, Grupo Aval's double leverage is moderate, at 1.09x as of September 2021, or 1.18x when including AT1 bonds acquired following the acquisition of Multibank Financial Group (MFG) in 2020. This ratio is expected to remain stable in the short term but could be pressured after the planned spinoff of BAC International Bank (BAC) is complete. Fitch Ratings expects this ratio to remain below 1.20x shortly after the transaction is finalized.

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.

Government Support Rating: Fitch is withdrawing Grupo Aval's Support Rating and Support Rating Floor, as they are no longer relevant to the agency's coverage following the publication of Fitch's updated Bank Rating Criteria on Nov. 12, 2021. In line with the updated criteria, Fitch has assigned Aval a new Government Support Rating (GSR) of 'ns'. As the focus of regulators is on protecting banks' depositors, rather than their shareholders, it is unlikely that they would support a bank holding company. Therefore, Grupo Aval's GSR was assigned at 'ns' (no support).

Rating Sensitivities

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

- Grupo Aval's Issuer Default Ratings (IDRs) would remain at the same level as Bogotá's and would move in tandem with any rating actions on its main operating subsidiary. However, the relativity between these two entities' ratings could be affected in the event of a material and sustained increase in Grupo Aval's double leverage metrics (above 1.2x) while also considering the holding company's liquidity position and management. Additionally, a change in 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.
- Grupo Aval's GSR would be affected if Fitch changes its assessment of the government's ability and/or willingness to support either the bank or the holding company.

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

- Grupo Aval's IDRs would remain at the same level as Bogotá'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.

Ratings

Foreign Currency	
Long-Term Issuer Default Rating	BB+
Short-Term Issuer Default Rating	B
Local Currency	
Long-Term Issuer Default Rating	BB+
Short-Term Issuer Default Rating	B
Government Support Rating	ns
Sovereign Risk	
Long-Term Foreign Currency Issuer Default Rating	BB+
Long-Term Local Currency Issuer Default Rating	BB+
Country Ceiling	BBB−

Rating Outlooks

Long-Term Foreign Currency Issuer Default Rating	Stable
Long-Term Local Currency Issuer Default Rating	Stable
Sovereign Long-Term Foreign Currency Issuer Default Rating	Stable
Sovereign Long-Term Local Currency Issuer Default Rating	Stable

Applicable Criteria

Bank Rating Criteria (November 2021)

Related Research

Fitch Ratings 2022 Outlook: Latin American Banks (December 2021)

Financial Data

Grupo Aval Acciones y Valores S.A.

	Sept. 30, 2021	Dec. 31, 2020
Total Assets (USDm)	91,717.0	93,731.6
Total Assets (COPb)	351,705.2	322,895.9
Total Equity (COPb)	38,400.8	35,439.6

COP – Colombian Peso.
Source: Fitch Ratings, Fitch Solutions, Grupo Aval.

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- Grupo Aval's GSR would be affected if Fitch changes its assessment of the government's ability and/or willingness to support either the bank or the holding company.

Issuer Ratings (Including Main Issuing Entities)

Rating Type	Rating
Long-Term Foreign Currency IDR	BB+
Short-Term Foreign Currency IDR	B
Long-Term Local Currency IDR	BB+
Short-Term Local Currency IDR	B
Government Support Rating	ns
Rating Outlook	Stable

Source: Fitch Ratings.

Debt Rating Classes

Rating Type	Rating
Senior Unsecured Guaranteed Debt Issued by Grupo Aval Limited	BB+

Source: Fitch Ratings.

Significant Changes

The operating environment's influence on Aval banks in Colombia has been revised to moderate, as Fitch does not anticipate a material impact on the banks' financial profiles from any remaining operating environment pressures, such as upcoming elections or higher than expected deceleration in economic growth.

Operating Environment

Following Colombia's sovereign rating downgrade to 'BB+' from 'BBB–' on July 1, 2021, Fitch adjusted its operating environment assessment to 'bb'/stable, indicating that the agency expects any additional pandemic-related fallout to be manageable for Colombian banks at their current ratings. Fitch expects gradual improvement in asset quality metrics once loans with relief measures finalize, as well as increasing profitability driven by improving margins, lower impairment charges and higher fee income. Nevertheless, tighter fiscal and monetary policies and domestic political uncertainty ahead of the 2022 general election pose downside risks to the sector's performance next year. In addition, Fitch expects sound economic growth of 9.4% in 2021 and 3.9% in 2022, which is still ahead of Colombia's 3.3% growth potential.

Brief Company Summary

Franchise

Colombia and Central America's Largest Banking Conglomerate

Grupo Aval is Colombia's largest bank holding company (24.8% consolidated market share by loans as of 3Q21) and the largest conglomerate by deposits (26.0% market share) and net income (46.9% market share, not including Corficolombiana). It is also a top contender in Central America, with an 11.5% market share by assets in the region through BAC and MFG as of 1Q21, as well as the top ranking entity in loans, deposits and pretax profit.

Grupo Aval acquired Banco de Occidente (BO), a medium-sized bank oriented to the public sector, in 1971. Shortly thereafter, Aval's main shareholder incorporated AV Villas (AV), a savings and loans company that would benefit from synergies with the shareholder's construction business. In 1981, the group acquired what is now its main operating company, Banco de Bogotá. Finally, in 1997, the group acquired Banco Popular (BP), a consumer bank with strength in payroll lending, as well as Corficolombiana, an investment bank with energy, infrastructure, hospitality and agribusiness investments. Finally, the group has a strong position in pension funds through Porvenir, the largest pension and severance fund manager in Colombia.

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 multi-brand strategy supported by the individual strengths, licenses and market niches of each subsidiary.

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, risk, corporate marketing, IT and legal. 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 upon a mix of centralized strategic supervision and operating autonomy. It defines guiding principles and strategies for its subsidiaries and shareholders through multi-brand management, capital adequacy analysis, M&A execution, budget and control, risk management, shared services and compliance.

Aval made two main decisions in 2021, intended to improve the bank's and the group's focus and efficiency. The first decision involves Porvenir, the pension fund of Grupo Aval. On July 28, 2021, a shareholders' agreement was subscribed whereby Grupo Aval, the ultimate parent of Porvenir, became its direct controlling entity. As a result, Banco de Bogotá no longer consolidates Porvenir and began to account it as an equity investment. This agreement is expected to allow Banco de Bogotá to increase focus on its core banking operation, with no changes in Porvenir's shareholder structure.

The second decision occurred on Sept. 15, 2021, when Grupo Aval announced plans to spin off Leasing Bogotá S.A. Panama (LBP), the full owner of BAC, from Banco de Bogotá. According to Grupo Aval's statement, the transaction's main objectives are to simplify Banco de Bogotá's and Grupo Aval's corporate structure.

Fitch expects Bogotá's and in turn Grupo Aval's financial ratios to remain commensurate with its current rating, even when factoring potential changes, especially within the bank's capitalization levels after the BAC spinoff. Potential financial ratio variations will be monitored by Fitch and could take several months to become clear. However, should there eventually be a material change in Fitch's assessment of the capital adequacy and/or double leverage of Bogotá or Aval during or after completion of the corporate reorganization, it could potentially trigger a negative rating action, although this is not currently the baseline scenario.

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. Although Grupo Aval is tightly controlled by its main shareholder, 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, and it is held accountable for each subsidiary's performance. Changes in key management positions do not cause disruption, since all of them originate from within Grupo Aval's structure, while new generational turnover has been put in place.

Corporate Governance

Grupo Aval's board of directors comprises seven principal members (two of which are independent directors) and seven alternate members (two of which are likewise independent), with each serving a one-year term but eligible to be re-elected indefinitely. Grupo Aval is listed on the New York Stock Exchange and is subject to Sarbanes-Oxley regulations. There are three board committees: the compensation committee, the audit committee and the corporate affairs committee.

Strategic Objectives

Grupo Aval has a consistent, multi-brand strategy. Each of its four banks in Colombia (along with their subsidiaries in Colombia and Central America) 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 direction of the bank's digital transformation and IT investments; however, 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's main objectives are based on profitable, controlled growth through five main pillars: corporate risk control and management; innovation and technology; efficiency and economies of scale; human health risk resources (HHRR); and sustainability.

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 management, that include generating value-added offers, reaching new customers, creating new products and markets and improving efficiency.

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.

Risk Appetite

Underwriting Standards

Broad risk management guidelines are set forth by the holding company; however, each bank has autonomy to set its own risk policies. Fitch views these risk policies as conservative given the use of 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 are largely harmonized. Credit decisions are made at the bank level, following each institution's internal policies that include, among others, 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. Risk controls are deemed adequate, as each bank uses effective tools and has successfully maintained robust asset quality. The group's investment policy is likewise conservative, focusing on underlying credit quality, limited market risk/volatility and diversification.

Risk Controls

Each banking subsidiary is responsible for its respective credit decisions and risk management. However, there is oversight at the Grupo Aval level for implementing 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 credit risk concentration at an individual, economic group, country or economic sector level, each Grupo Aval bank maintains updated indices to limit concentration. The exposure limit for a banking subsidiary to an individual client (or economic group) depends upon the risk profile of the client (or economic group), the nature of the risk of the debtor and each banking subsidiary's experience within a specific market or sector. Additionally, Grupo Aval closely follows recently issued regulations for financial conglomerates in Colombia, and the holding company is now being supervised by the Superintendence of Finance.

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

Growth

Grupo Aval's strategy centers on profitable growth, and it avoids engaging in fierce competition, especially within riskier segments. In Fitch's opinion, stable growth has supported capitalization at the consolidated level and for each bank in recent years. Loss in market share is compensated by the increase in profitability, resulting in a satisfactory strategy.

Growth in 2020 was positively impacted by peso depreciation and MFG's acquisition, and this growth remains healthy for 2021. As of September 2021, asset growth was 8.92%, above that of 2017–2020 (excluding foreign exchange and the MFG acquisition). For loans, growth as of September 2021 was 8.6%, mainly supported by payroll and mortgage loans. Fitch expects asset growth of around 8%–10% for 2022, mainly rooted in consumer and corporate sector growth. Additionally, Fitch believes the BAC spinoff should result in Banco de Bogotá (and Grupo Aval at the consolidated level) enhancing focus on gaining market share in Colombia.

Market Risk

Grupo Aval monitors and oversees market risk at a consolidated level via reports from subsidiaries, which are in charge of managing their respective market risk. Grupo Aval on an unconsolidated basis does not have material market risk; however, the individual banks have substantial market risk, primarily resulting from their lending, trading and investment businesses. Primary market risk exposures for Grupo Aval include interest rate, foreign exchange rate, stock price variation and investment fund risks.

Summary Financials and Key Ratios

	2021[a]		2020	2019	2018	2017
	USD Mil.	COP Bil.	COP Bil.	COP Bil.	COP Bil.	COP Bil.
(Years Ended Dec. 31)	Unaudited	Unaudited	Audited — Unqualified	Audited — Unqualified	Audited — Unqualified	Audited — Unqualified
Summary Income Statement						
Net Interest and Dividend Income	2,504	9,600.6	12,052.1	11,370.2	10,943.3	10,564.6
Net Fees and Commissions	1,062	4,071.4	5,093.4	5,455.3	4,839.6	4,579.0
Other Operating Income	2,419	9,274.3	12,295.0	4,529.2	4,699.6	2,629.6
Total Operating Income	**5,984**	**22,946.3**	**29,440.5**	**21,354.8**	**20,482.5**	**17,773.2**
Operating Costs	3,455	13,249.0	16,909.0	10,171.3	9,371.0	8,827.0
Pre-Impairment Operating Profit	2,529	9,697.3	12,531.5	11,183.5	11,111.4	8,946.2
Loan and Other Impairment Charges	801	3,072.2	6,060.0	3,755.1	3,797.3	4,023.9
Operating Profit	1,728	6,625.2	6,471.5	7,428.4	7,314.1	4,922.3
Other Non-Operating Items (Net)	5	18.5	3.7	23.4	20.1	(7.0)
Tax	591	2,266.8	1,843.7	2,086.3	2,149.6	1,752.8
Net Income	1,141	4,376.9	4,631.6	5,365.5	5,184.6	3,162.4
Other Comprehensive Income	159	610.1	(229.3)	701.7	(209.8)	75.4
Fitch Comprehensive Income	**1,300**	**4,986.9**	**4,402.3**	**6,067.2**	**4,974.8**	**3,237.8**
Summary Balance Sheet						
Assets						
Gross Loans	**57,112**	**219,005.8**	**201,753.4**	**179,409.2**	**169,246.6**	**159,093.7**
– of which Impaired	1,769	6,782.6	7,187.5	5,841.8	5,188.5	4,382.0
Loan Loss Allowances	2,908	11,152.5	10,905.2	8,185.8	8,196.2	5,618.5
Net Loans	**54,204**	**207,853.4**	**190,848.3**	**171,223.4**	**161,050.5**	**153,475.2**
Derivatives	192	737.7	1,290.1	1,084.0	798.8	383.7
Other Securities and Earning Assets	15,049	57,708.1	52,498.3	38,832.0	38,964.8	37,802.8
Total Earning Assets	69,445	266,299.2	244,636.7	211,139.4	200,814.1	191,661.6
Cash and Due From Banks	9,360	35,892.4	34,025.5	30,117.2	28,401.3	22,336.8
Other Assets	12,912	49,513.6	44,233.7	37,575.9	30,459.8	22,540.1
Total Assets	**91,717**	**351,705.2**	**322,895.9**	**278,832.6**	**259,675.2**	**236,538.5**
Liabilities						
Customer Deposits	58,717	225,160.9	211,841.6	175,491.4	164,359.5	154,885.2
Interbank and Other Short-Term Funding	3,903	14,965.7	7,179.6	9,240.5	6,814.0	4,970.4
Other Long-Term Funding	14,453	55,424.0	51,445.1	45,604.1	44,398.0	40,305.6
Trading Liabilities and Derivatives	212	812.2	1,509.2	1,056.7	1,006.8	312.1
Total Funding and Derivatives	77,285	296,362.9	271,975.6	231,392.7	216,578.3	200,473.4
Other Liabilities	4,418	16,941.4	15,480.7	14,091.6	13,542.5	10,193.9
Total Equity	10,014	38,400.8	35,439.6	33,348.3	29,554.3	25,871.2
Total Liabilities and Equity	**91,717**	**351,705.2**	**322,895.9**	**278,832.6**	**259,675.2**	**236,538.5**
Exchange Rate	—	USD1 = COP3834.68	USD1 = COP3444.90	USD1 = COP3294.05	USD1 = COP3275.01	USD1 = COP2971.63

[a]First nine months of 2021 only, ended Sept. 30.
COP – Colombian Peso.
Source: Fitch Ratings, Fitch Solutions, Grupo Aval.

Summary Financials and Key Ratios

(%, Years Ended Dec. 31)	2021[a]	2020	2019	2018	2017
Ratios (Annualized as Appropriate)					
Profitability					
Operating Profit/Risk-Weighted Assets	3.7	2.7	3.5	3.8	2.7
Net Interest Income/Average Earning Assets	5.0	5.1	5.6	5.7	5.7
Noninterest Expense/Gross Revenue	58.3	57.9	48.2	46.2	50.2
Net Income/Average Equity	16.0	13.5	17.3	19.5	12.7
Asset Quality					
Impaired Loans Ratio	3.1	3.6	3.3	3.1	2.8
Growth in Gross Loans	8.6	12.5	6.0	6.4	5.0
Loan Loss Allowances/Impaired Loans	164.4	151.7	140.1	158.0	128.2
Loan Impairment Charges/Average Gross Loans	1.9	3.0	2.4	2.5	2.5
Capitalization					
Fitch Core Capital Ratio (Estimated)	12.1	11.4	12.1	11.2	10.1
Tangible Common Equity/Tangible Assets	8.3	8.3	9.2	8.3	7.8
Net Impaired Loans/Fitch Core Capital	(15.4)	(14.3)	(9.5)	(14.4)	(7.0)
Funding and Liquidity					
Gross Loans/Customer Deposits	97.3	95.2	102.2	103.0	102.7
Customer Deposits/Total Non-Equity Funding	76.2	78.3	76.2	76.2	77.4

[a]First nine months of 2021 only, ended Sept. 30.
Source: Fitch Ratings, Fitch Solutions, Grupo Aval.

Key Financial Metrics — Latest Developments

Asset Quality

Each bank operates in a specific segment/business, which potentially leads to some asset/product concentration. However, in aggregate, the group has a well-diversified loan portfolio, with roughly 54% of loans granted to corporate customers and 46% to retail customers as of September 2021.

Grupo Aval's consolidated main exposures, excluding those involving 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 Bogotá's asset quality is among the strongest within Grupo Aval and among its domestic peers, while BP benefits from its payroll lending structure.

On a consolidated basis, 9.8% of gross loans remained under relief programs (including the four consolidated banks) as of September 2021. The ratio of nonperforming loans (NPL) improved to 3.1% as of September 2021; Fitch expects the NPL ratio to either remain stable or improve slightly in 2022 as the remaining loans under relief programs mature. Loan loss reserves are adequate at 1.64x 90-day past due loans, which is above the pre-pandemic metric.

Earnings and Profitability

Aval's performance improved in 2021 due to loan impairment charges returning to their historical levels and stable margins. Aval's performance was also influenced by the introduction of Basel III requirements in Colombia in 2021, which resulted in decreasing RWA. Conversely, due to a tax increase within recently approved tax reform legislation, Grupo Aval's consolidated deferred tax liability increased by approximately COP485 billion, resulting in a one-time COP200 billion tax expense adjustment in the company's 3Q21 attributable net income.

Aval's consolidated operating profit-to-estimated RWA ratio improved to 3.7% as of 3Q21, up from 2.7% as of YE20 and a 3.3% average for 2017-2019. Fitch expects this ratio to remain stable in 2022, attributable to a stable operating environment, higher loan growth and margins and lower loan impairment charges and notwithstanding the BAC spinoff.

Developments involving allegations stemming from the Odebrecht scandal in Colombia continue for Episol, Corficolombiana and Grupo Aval in various instances. Fitch will follow up on these developments and the remainder of the process.

Capitalization and Leverage

Grupo Aval's consolidated ratio of tangible common equity to tangible assets remained stable in 2021, following the impact of the MFG consolidation in 2020. As of September 2021, this ratio was 8.3%, in line with an 8.4% average for 2017–2020. In Fitch's view, consolidated capitalization has been positively impacted following the issuance of AT1 (additional tier 1 capital) instruments after the MFG acquisition. Fitch expects improvement in capitalization to continue due to slower overall organic growth, stable-to-increasing profitability and the BAC spinoff, which is expected to finalize by 1Q22.

Funding and Liquidity

Deposits fund about two thirds of the consolidated balance sheet and mostly comprise term deposits and savings. Other funding sources include interbank funding and long-term bonds (around 9% 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 Bogotá.

Total funding includes, in addition to customer deposits, interbank borrowing and overnight funds, borrowings from banks and others, bonds issued and borrowings from development entities.

Debt at Grupo Aval Limited is serviced with interest income on loans to subsidiaries and cash and cash equivalents. To date, Grupo Aval Limited has not required cash from Grupo Aval Acciones y Valores S.A. to fulfill its obligations. The main sources of cash to pay debt and debt service at Grupo Aval have been dividend income from its subsidiaries and returns on its cash and cash equivalents.

Unconsolidated Leverage, Debt Service and Double Leverage

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

Combined, Grupo Aval Acciones y Valores S.A. and Grupo Aval Limited had COP3.2 trillion of total liquid assets and total gross indebtedness of COP9.3 trillion as of 3Q21. Furthermore, Grupo Aval Limited has COP2 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 2021, at 109.7%, including subordinated loans to subsidiaries. When including the AT1 bonds acquired after the MFG acquisition, double leverage improves to 118.4%. Solid internal capital generation should underpin Grupo Aval's double leverage and debt coverage ratios. However, these metrics could be negatively impacted if the banks grow too quickly or the entity engages in a new merger or acquisition without a corresponding increase in capital, although Fitch does not expect the latter scenario to occur in the short term.

Grupo Aval maintains liquidity levels and relies upon interest income, both in USD, allowing the entity to fulfil its debt service commitments and diminishing the need for income via dividends to repay its obligations. Fitch views Grupo Aval's conservative liquidity management as a positive factor when analyzing its standalone unconsolidated leverage and profile.

After initial calculations, it is expected that double leverage could increase to over 120% in the short term after the BAC spinoff; however, the main shareholder's publicly announced plans include capitalization at the holding company level and even down to Bogotá, if needed. The initial double leverage calculation includes the AT1 instruments that will be transferred to the new holding company. Aval's and its shareholder's plans include maintaining controlled double leverage, below the 120% threshold.

ESG 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	Business Profile (incl. Management & governance); Risk Profile; 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	Business Profile (incl. Management & governance); Risk Profile	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; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	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.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, due to either their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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.

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