

Grupo Aval Acciones y Valores S.A.

Update

Key Rating Drivers

Strong Competitive Position: Grupo Aval Acciones y Valores S.A.'s (Grupo Aval) downgrade mirrors that of its main subsidiary, Banco de Bogota (Bogota), and these entities' ratings remain equalized. Grupo Aval's ratings are driven by the business and financial profile of its main operating subsidiary. 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, as well as their subsidiaries in Colombia and Central America, including the recently acquired MFG, cater to specific segments and carry out their own respective commercial strategies that at times involve 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. However, the challenges of operating four largely independent banks are offset by the group's ability to capture business that would otherwise be left to competitors, according to management.

Sustained Asset Quality: On a consolidated basis, asset quality remains stable despite the impacts of the coronavirus pandemic, reflecting diversification. After the proliferation of relief programs in the wake of the onset of the pandemic, the bank's 90-days consolidated nonperforming loans (NPL) ratio improved slightly to 3.4% as of March 2021 compared to that as of YE20. Fitch Ratings expects that this ratio could change within the next few quarters as the remaining loans under relief programs mature.

Profitability Impacted by Coronavirus Crisis: The holding company's operating profit-to-estimated risk-weighted assets (RWA) ratio improved to 3.8% in March 2021, attributable to better bottom line results and lower RWA density after the Basel III implementation in Colombia. At the consolidated level, pandemic-influenced loan impairment charges resulted in the bank's loans and securities impairment charges-to-pre-impairment operating profit ratio improving to 36.5% as of March 2021, close to pre-pandemic ratios. In the short term, this ratio is expected to remain at or near its current levels, due to the longer relief period in Central America and especially in Panama.

Low Double Leverage: On an unconsolidated basis, Grupo Aval's double leverage is moderate (1.15x as of March 2021 when including AT1 bonds acquired after the MFG acquisition). This ratio is expected to be stable for the remainder of 2021.

Debt Ratings: Grupo Aval Limited's senior unsecured debt ratings 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 Issuer Default Ratings (IDRs) would remain at the same level as Bogota's and 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), as well as when considering the holding company's liquidity position and management. Additionally, changes in the dividend flows from the operating companies or debt levels at the holding company level that affect its debt coverage ratios could also be detrimental to the bank's ratings.

Debt Ratings: 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

Support Rating	5
Support Rating Floor	NF

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 ^a	Stable
Long-Term Local Currency Issuer Default Rating ^a	Stable
Sovereign Long-Term Foreign Currency Issuer Default Rating ^b	Stable
Sovereign Long-Term Local Currency Issuer Default Rating ^b	Stable

^aRating Outlook revised to Stable from Negative on July 9, 2021.

^bSovereign Rating downgraded and Rating Outlook revised to Stable from Negative on July 1, 2021.

Applicable Criteria

[Bank Rating Criteria \(February 2020\)](#)

Related Research

[Fitch Takes Actions on Colombian and Central American FIs Following Colombia's Sovereign Downgrade \(July 2021\)](#)

[Fitch Downgrades Colombia's Ratings to 'BB+' from 'BBB-'; Outlook Revised to Stable \(July 2021\)](#)

Financial Data

Grupo Aval Acciones y Valores S.A.

(COP Bil.)	3/31/21	12/31/20
Total Assets (USDm)	90,157.8	93,731.6
Total Assets	336,911.6	322,895.9
Total Equity	35,195.0	35,439.6

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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
Support Rating	5
Support Rating Floor	NF
Rating Outlook/Watch	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 downgrade reflects the recent downgrade of Colombia's ratings, as Grupo Aval's ratings are linked to those of Banco de Bogota, which in turn are constrained by the sovereign's ratings based on its current intrinsic credit profile. The ratings are highly influenced by the operating environment (OE) and robust company profile due to its large franchise and diversified business model.

Fitch has adjusted its OE assessment for Colombian financial institutions (FIs) to 'bb'/stable from 'bb+ '/negative. The stabilization of the OE trend indicates that Fitch expects any additional fallout from the pandemic to be manageable for Colombian FIs at their current rating levels.

Fitch downgraded Colombia's sovereign rating to 'BB+' with a Stable Rating Outlook from 'BBB-' with a Negative Rating Outlook on July 1, 2021.

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 as of Dec. 31)	Unaudited	Unaudited	Audited – Unqualified	Audited – Unqualified	Audited – Unqualified	Audited – Unqualified
Summary Income Statement						
Net Interest and Dividend Income	843.0	3,148.9	12,052.1	11,370.2	10,943.3	10,564.6
Net Fees and Commissions	360.0	1,346.8	5,093.4	5,455.3	4,839.6	4,579.0
Other Operating Income	769.0	2,872.9	12,295.0	4,529.2	4,699.6	2,629.6
Total Operating Income	1,972.0	7,368.5	29,440.5	21,354.8	20,482.5	17,773.2
Operating Costs	1,117.0	4,174.8	16,909.0	10,171.3	9,371.0	8,827.0
Pre-Impairment Operating Profit	855.0	3,193.7	12,531.5	11,183.5	11,111.4	8,946.2
Loan and Other Impairment Charges	312.0	1,166.3	6,060.0	3,755.1	3,797.3	4,023.9
Operating Profit	543.0	2,027.5	6,471.5	7,428.4	7,314.1	4,922.3
Other Non-Operating Items (Net)	1.0	4.3	3.7	23.4	20.1	(7.0)
Tax	155.0	580.1	1,843.7	2,086.3	2,149.6	1,752.8
Net Income	388.0	1,451.6	4,631.6	5,365.5	5,184.6	3,162.4
Other Comprehensive Income	61.0	229.3	(229.3)	701.7	(209.8)	75.4
Fitch Comprehensive Income	450.0	1,680.9	4,402.3	6,067.2	4,974.8	3,237.8
Summary Balance Sheet						
Assets						
Gross Loans	56,066.0	209,514.1	201,753.4	179,409.2	169,246.6	159,093.7
- of which Impaired	1,910.0	7,139.2	7,187.5	5,841.8	5,188.5	4,382.0
Loan Loss Allowances	2,959.0	11,059.2	10,905.2	8,185.8	8,196.2	5,618.5
Net Loans	53,107.0	198,454.8	190,848.3	171,223.4	161,050.5	153,475.2
Derivatives	231.0	864.9	1,290.1	1,084.0	798.8	383.7
Other Securities and Earning Assets	14,907.0	55,707.9	52,498.3	38,832.0	38,964.8	37,802.8
Total Earning Assets	68,246.0	255,027.7	244,636.7	211,139.4	200,814.1	191,661.6
Cash and Due From Banks	9,401.0	35,132.0	34,025.5	30,117.2	28,401.3	22,336.8
Other Assets	12,511.0	46,751.9	44,233.7	37,575.9	30,459.8	22,540.1
Total Assets	90,158.0	336,911.6	322,895.9	278,832.6	259,675.2	236,538.5
Liabilities						
Customer Deposits	59,428.0	222,077.7	211,841.6	175,491.4	164,359.5	154,885.2
Interbank and Other Short-Term Funding	2,506.0	9,363.1	7,179.6	9,240.5	6,814.0	4,970.4
Other Long-Term Funding	14,111.0	52,729.9	51,445.1	45,604.1	44,398.0	40,305.6
Trading Liabilities and Derivatives	241.0	899.8	1,509.2	1,056.7	1,006.8	312.1
Total Funding	76,285.0	285,070.5	271,975.6	231,392.7	216,578.3	200,473.4
Other Liabilities	4,455.0	16,646.1	15,480.7	14,091.6	13,542.5	10,193.9
Total Equity	9,418.0	35,195.0	35,439.6	33,348.3	29,554.3	25,871.2
Total Liabilities and Equity	90,158.0	336,911.6	322,895.9	278,832.6	259,675.2	236,538.5
Exchange Rate	–	USD1 = COP3736.91	USD1 = COP3444.90	USD1 = COP3294.05	USD1 = COP3275.01	USD1 = COP2971.63

^aFirst three months of 2021 only (1Q21, ended March 31).
Source: Fitch Ratings.

Summary Financials and Key Ratios

(Years Ended as of Dec. 31)	2021 ^a	2020	2019	2018	2017
Ratios (Annualized as Appropriate)					
Profitability					
Operating Profit/Risk-Weighted Assets	3.8	2.7	3.5	3.8	2.7
Net Interest Income/Average Earning Assets	5.1	5.1	5.6	5.7	5.7
Noninterest Expense/Gross Revenue	57.1	57.9	48.2	46.2	50.2
Net Income/Average Equity	16.7	13.5	17.3	19.5	12.7
Asset Quality					
Impaired Loans Ratio	3.4	3.6	3.3	3.1	2.8
Growth in Gross Loans	3.9	12.5	6.0	6.4	5.0
Loan Loss Allowances/Impaired Loans	154.9	151.7	140.1	158.0	128.2
Loan Impairment Charges/Average Gross Loans	2.3	3.0	2.4	2.5	2.5
Capitalization					
Fitch Core Capital Ratio	12.2	11.4	12.1	11.2	10.1
Tangible Common Equity/Tangible Assets	7.8	8.3	9.2	8.3	7.8
Net Impaired Loans/Fitch Core Capital	(15.5)	(14.3)	(9.5)	(14.4)	(7.0)
Funding and Liquidity					
Loans/Customer Deposits	94.3	95.2	102.2	103.0	102.7
Customer Deposits/Funding	78.2	78.3	76.2	76.2	77.4

^aFirst three months of 2021 only (1Q21, ended March 31).
N.A. – Not available.
Source: Fitch Ratings.

ESG Considerations

FitchRatings Grupo Aval Acciones y Valores S.A.

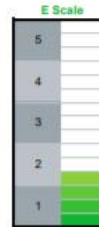
Banks
Ratings Navigator

Credit-Relevant ESG Derivation

<p>Grupo Aval Acciones y Valores S.A. has 5 ESG potential rating drivers</p> <ul style="list-style-type: none"> 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. 	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
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management, Ecological Impacts	1	n.a.	n.a.
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



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.

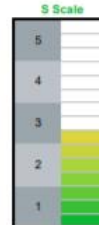
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far 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.

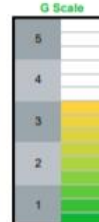
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
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
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
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
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



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
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
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



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.

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