

## CREDIT OPINION

17 March 2016

### Update

#### RATINGS

##### GRUPO AVAL ACCIONES Y VALORES S.A.

Domicile	Bogota, Distrito Capital, Colombia
Long Term Rating	Ba2, Possible Downgrade
Type	LT Issuer Rating - Fgn Curr
Date	09 Mar 2016
Outlook	Rating(s) Under Review
Date	09 Mar 2016

Please see the ratings section at the end of this report for more information.

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## Grupo Aval Acciones y Valores S.A.

Ratings downgraded and under review mirroring action on Banco de Bogota

### Recent Events

On 9 March, Moody's downgraded the local and foreign currency long-term issuer ratings of Grupo Aval Acciones y Valores, S.A. (Grupo Aval) to Ba2 from Ba1, and placed them on review for further downgrade, following the decision to place on review for downgrade Banco de Bogota's ratings.

### Summary Rating Rationale

Moody's assigns long- and short-term global local and foreign currency issuer ratings of Ba2/Not Prime to Colombia's Grupo Aval Acciones y Valores S.A. (Grupo Aval). Moody's also assigns a Ba2 to Grupo Aval's foreign currency senior debt notes issued through its subsidiary in the Cayman Islands, Grupo Aval Limited. The senior debt ratings are based on Grupo Aval's irrevocable and unconditional guarantee of Grupo Aval Limited's liabilities under the indentures.

Grupo Aval's ratings reflect the incorporation of structural subordination of the bank holding company's liabilities versus the liabilities of its highly regulated operating entities, mainly composed of Banco de Bogota S.A. (Baa2/Baa2 RUR, ba1). Grupo Aval's ratings are notched off Banco de Bogota's standalone baseline credit assessment (BCA) of ba1 (on review for downgrade). The one-notch differential takes into account that not all resources flowing up from the operating entities into Grupo Aval could be available, in case of stress.

The differential is limited to only one notch because it incorporates Grupo Aval's strong track record of intrinsic financial performance based on 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. Banco de Bogotá nevertheless contributes with about half of total dividends received, but the rest of dividends have also been consistently streamed up to the holding company.

Grupo Aval's ratings are on review for downgrade reflecting the review on Banco de Bogotá's BCA. If the latter were lowered, Grupo Aval's issuer ratings could also be lowered.

### Credit Challenges

- » Structural subordination of the bank holding company's liabilities versus those of its highly regulated operating entities
- » Strong governance bodies reduce concerns from family ownership

## Credit Strengths

- » Financial strength hinges on Grupo Aval's ample and stable dividend income
- » Double leverage ratios are adequate, and liquidity is strong and not dependent solely on Banco de Bogota's contributions

## Rating Outlook

Grupo Aval's and Grupo Aval Limited's ratings are on review for downgrade.

## Factors that Could Lead to an Upgrade

The ratings are under review for downgrade therefore upward rating pressure is unlikely at this juncture.

## Factors that Could Lead to a Downgrade

A downgrade of Banco de Bogota's standalone BCA could have a similar effect on Grupo Aval's ratings.

In addition, debt issuances or further acquisitions by Grupo Aval or its subsidiaries resulting in deterioration of double leverage ratios, would trigger a reassessment of both (i) the intrinsic strength of the group's operating entities and (ii) the notching differential between the BCA of Banco de Bogota and Grupo Aval's issuer and debt ratings.

## Key Indicators

Exhibit 1

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

	Sep-15	Dec-14	Dec-13	Dec-12	Dec-11
Total Assets (COP Billion)	31,655	31,369	27,170	22,636	18,897
Investments in Subsidiaries (COP Billion)	25,789	15,529	12,757	10,659	9,695
Loans to Subsidiaries (COP Billion)	2,349	1,804	1,412	1,839	0
Total Debt (COP Billion)	5,804	4,447	3,807	4,704	2,389
Shareholders' Equity (COP Billion)	25,099	26,430	22,938	17,530	16,178
Core Earnings (COP Billion) [2]	862	1,135	994	835	690
Interest Expense (COP Billion)	202	218	276	243	182
Double Leverage [3]	115.1%	117.7%	122.2%	131.9%	110.0%
Double Leverage excl. Senior Loans to Subs [4]	107.9%	109.0%	113.4%	113.1%	110.0%
Debt / Core Earnings [5]	5.0 x	3.9 x	3.8 x	5.6 x	3.5 x
Core Earnings / Interest Expense	4.3 x	5.2 x	3.6 x	3.4 x	3.8 x
Liquid Assets / Total Debt [6]	38%	42%	34%	38%	67%
Total Liabilities / Total Assets	20.7%	15.7%	15.6%	22.6%	14.4%

[1] Source: Grupo Aval + Grupo Aval Limited's unconsolidated data in IFRS for 2015 periods, Colombian GAAP and dividend income in Banking GAAP for all other periods; Moody's estimates. [2] Includes cash flow from dividends, investments and net operating cash outflows. [3] Investments in subsidiaries, goodwill and loans to subsidiaries as percentage of shareholders' equity excluding asset revaluations. [4] Investments in subsidiaries, goodwill and subordinated loans to subsidiaries as percentage of shareholders' equity excluding asset revaluations. [5] Core earnings have been annualized for comparability. [6] Liquid assets includes cash and cash equivalents and fixed income securities held to maturity.  
Source: Moody's calculations

## Detailed Rating Considerations

### STRUCTURAL SUBORDINATION

Grupo Aval's Ba2 issuer ratings reflect the incorporation of the structural subordination of the liabilities of the holding company versus the liabilities of its highly regulated operating entities, namely Banco de Bogota. The differential takes into account that not all resources flowing up from the operating entities into Grupo Aval may be available, in case of stress. That said, upstream of dividends has been consistent among all subsidiaries.

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**DOUBLE LEVERAGE RATIOS ARE ADEQUATE AND LIQUIDITY IS STRONG**

The more a bank holding company relies on debt to fund the equity in its subsidiaries, the greater the structural subordination imposed on holding company creditors.

Moody's calculation of double leverage includes investments in subsidiaries at book value, loans to subsidiaries and goodwill as a percentage of shareholders' equity excluding asset revaluations. Nevertheless, if senior loans to subsidiaries are excluded from the calculation of double leverage, Grupo Aval's ratio was 108%, as of September 2015.

Liquid assets in the form of cash and cash equivalents covered 38% of total debt through September 2015, from 42% as of year-end 2014. At the same time, Grupo Aval's investments in subsidiaries measured at book value represent over 4x total debt as of September 2015.

**FINANCIAL STRENGTH HINGES ON GRUPO AVAL'S AMPLE AND STABLE DIVIDEND INCOME**

Grupo Aval maintains a strong track record of 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.

Grupo Aval owns the second largest bank in Colombia in terms of loans, Banco de Bogotá, as well as the fifth largest Banco de Occidente S.A. (unrated), the eighth largest Banco Popular S.A. (unrated) and the eleventh largest Banco Comercial AV Villas S.A. (unrated). Grupo Aval also incorporates geographic and industry diversification through Banco de Bogotá's BAC International Bank, Inc. (BAC, Baa3/- stable, baa3), a universal bank present throughout Central America and Corporación Financiera Colombiana S.A. (Corficolombiana, unrated), Colombia's largest merchant bank, as well as from the group's ownership of the country's largest asset manager AFP Porvenir S.A. (Porvenir, unrated). Combined, Grupo Aval's banks comprise the largest franchise in Colombia, with a combined market share of 27.8% of both the banking system's loans and deposits, as of September 2015.

The acquisitions made over time by Grupo Aval have strengthened the franchise of its existing operating entities yet these have also carried an increase in goodwill. Banco de Bogotá's acquisitions of Guatemala's Grupo Financiero Reformador (unrated) and Banco BAC de Panamá (unrated), both completed in December 2013, strengthened the market presence of BAC in two key growth markets in the region. The acquisition of BBVA Horizonte AFP S.A. in Colombia added notable market share to Porvenir and assured Porvenir's dominance in the administration of mandatory pension funds and severance funds in Colombia and its position as the third-largest provider of voluntary pensions.

**STRONG GOVERNANCE BODIES REDUCE CONCERNS FROM FAMILY OWNERSHIP**

Moody's acknowledges the depth 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 had the ability to elect a majority of directors, executive officers and set management policies which have proven effective over time, reducing concerns about potential corporate governance risks. The controlling shareholders have also proven to be willing supporters of the group in cases of stress.

Although Grupo Aval is not supervised through banking regulators, it is registered and regulated under Colombia's National Registry of Shares and Issuances and the US Securities and Exchange Commission, and is required to comply with corporate governance and periodic reporting requirements. Grupo Aval is traded in the NYSE Euronext under ticker AVAL.

## Ratings

Exhibit 3

Category	Moody's Rating
<b>GRUPO AVAL ACCIONES Y VALORES S.A.</b>	
Outlook	Rating(s) Under Review
Issuer Rating	Ba2
ST Issuer Rating	NP
<b>BAC INTERNATIONAL BANK, INC</b>	
Outlook	Stable
Bank Deposits	Baa3/P-3
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
<b>GRUPO AVAL LIMITED</b>	
Outlook	Rating(s) Under Review
Bkd Senior Unsecured	Ba2
<b>BANCO DE BOGOTA S.A.</b>	
Outlook	Rating(s) Under Review
Bank Deposits	Baa2/P-2
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)
Senior Unsecured	Baa2
Subordinate	Ba2

Source: Moody's Investors Service

### Foreign Currency Debt Rating

Moody's rates two long-term foreign currency debt notes issued through Grupo Aval's subsidiary in the Cayman Islands, Grupo Aval Limited at Ba2. 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 indenture:

- Five-year senior unsecured notes of USD600 million (coupon of 5.25%) due 1 February 2017; first rated on 17 January 2012.
- Ten-year senior unsecured notes of up to USD1 billion (coupon of 4.75%); first rated on 18 September 2012.

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