

CREDIT OPINION

6 July 2016

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RATINGS

Grupo Aval Acciones y Valores S.A.

Domicile	Bogota, Distrito Capital, Colombia
Long Term Rating	Ba2
Type	LT Issuer Rating - Fgn Curr
Outlook	Negative

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.

Ratings confirmed mirroring action on Banco de Bogotá

Recent Events

On 28 June 2016, Moody's confirmed the local and foreign currency long-term issuer ratings of Grupo Aval Acciones y Valores, S.A. (Grupo Aval) at Ba2 with a negative outlook, following the confirmation of Banco de Bogotá S.A.'s ratings, also with a negative outlook. This concludes the review initiated on 9 March 2016.

Summary Rating Rationale

Moody's confirmed the long- and short-term global local and foreign currency issuer ratings of Ba2/Not Prime of Colombia's Grupo Aval. Moody's also confirmed the Ba2 of 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 Bogotá (deposits Baa2/ senior unsecured Baa2 negative, BCA ba1). Grupo Aval's ratings are notched off Banco de Bogotá's standalone baseline credit assessment (BCA) of ba1. 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 have a negative outlook reflecting the negative pressure 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 not dependent solely on Banco de Bogotá's contributions

Rating Outlook

Grupo Aval's and Grupo Aval Limited's ratings have a negative outlook.

Factors that Could Lead to an Upgrade

The ratings have negative outlook therefore upward rating pressure is unlikely at this juncture.

That said, Grupo Aval's issuer and debt ratings could benefit from substantial and sustained improvements in core capitalization ratios in Banco de Bogotá, provided that asset quality metrics and profitability are at least maintained at good levels as observed to date.

Factors that Could Lead to a Downgrade

A downgrade of Banco de Bogotá'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 Bogotá and Grupo Aval's issuer and debt ratings.

Key Indicators

Exhibit 1

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

	Mar-16	Dec-15	Dec-14	Dec-13	Dec-12
Total Assets (COP Billion)	33,577	33,572	31,369	27,170	22,636
Investments in Subsidiaries (COP Billion)	16,600	17,198	15,529	12,757	10,659
Loans to Subsidiaries (COP Billion)	3,765	3,945	1,804	1,412	1,839
Total Debt (COP Billion)	5,937	6,032	4,447	3,807	4,704
Shareholders' Equity (COP Billion)	26,884	27,110	26,430	22,938	17,530
Core Earnings (COP Billion) [2]	297	1,204	1,135	994	835
Interest Expense (COP Billion)	90	283	218	276	243
Double Leverage [3]	134.4%	133.2%	117.7%	122.2%	131.9%
Double Leverage excl. Senior Loans to Subs [4]	123.4%	122.3%	109.0%	113.4%	113.1%
Debt / Core Earnings [5]	5.0 x	5.0 x	3.9 x	3.8 x	5.6 x
Core Earnings / Interest Expense	3.3 x	4.3 x	5.2 x	3.6 x	3.4 x
Liquid Assets / Total Debt [6]	12%	12%	42%	34%	38%
Total Liabilities / Total Assets	19.9%	19.2%	15.7%	15.6%	22.6%

[1] Source: Grupo Aval + Grupo Aval Limited's unconsolidated data in IFRS for 2015 and later 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: Grupo Aval and 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 Bogotá. The differential takes into account that not all

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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.

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 24% and 26% of the financial system's loans and deposits, respectively, as of March 2016.

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.

DOUBLE LEVERAGE RATIOS ARE ADEQUATE

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 123%, as of March 2016.

Liquid assets in the form of cash and cash equivalents declined to 12% of total debt through March 2016 because cash was used to finance a loan given to Banco de Bogotá. At the same time, Grupo Aval's investments in subsidiaries measured at book value represent almost 3-times total debt as of March 2016.

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.

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:

a) Five-year senior unsecured notes of USD600 million (coupon of 5.25%); first rated on 17 January 2012.

b) Ten-year senior unsecured notes of up to USD1 billion (coupon of 4.75%); first rated on 18 September 2012.

Ratings

Exhibit 3

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

Source: Moody's Investors Service

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