

Rating Action: Moody's rates Ba2 Grupo Aval's proposed senior unsecured notes; affirms ratings, outlook negative

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New York, January 17, 2020 -- Moody's Investors Service ("Moody's") has today assigned a Ba2 foreign currency backed debt rating to the proposed USD-denominated senior unsecured notes to be issued by Grupo Aval Limited, the Cayman Islands subsidiary of Grupo Aval Acciones y Valores S.A. (Grupo Aval), with maturities of up to ten years. The backed debt is irrevocably and unconditionally guaranteed by Grupo Aval. The outlook on the backed debt issuance is negative. Moody's has also affirmed ratings assigned to Grupo Aval Acciones y Valores S.A. and Grupo Aval Limited. The outlook on the ratings remains negative.

Assignments:

..Issuer: Grupo Aval Limited

....Backed Senior Unsecured Regular Bond/Debenture, Assigned Ba2, Negative

Affirmations:

..Issuer: Grupo Aval Acciones y Valores S.A.

.... Short Term Issuer Rating, Affirmed Not Prime

.... Long Term Issuer Rating, Affirmed Ba2, Negative

..Issuer: Grupo Aval Limited

....Backed Senior Unsecured Regular Bond/Debenture, Affirmed Ba2, Negative

Outlook Actions:

..Issuer: Grupo Aval Acciones y Valores S.A.

....Outlook, Remains Negative

..Issuer: Grupo Aval Limited

....Outlook, Remains Negative

RATINGS RATIONALE

The Ba2 foreign currency backed debt rating assigned to Grupo Aval Limited's proposed issuance of senior notes reflects the irrevocable and unconditional guarantee of Grupo Aval Limited's liabilities under the indentures and is based on Grupo Aval's Ba2 long term foreign currency issuer rating. Grupo Aval's ratings incorporate the structural subordination of the bank holding company's liabilities versus the liabilities of the bank and its other subsidiaries and are notched off Banco de Bogotá S.A.'s (Banco de Bogotá) ba1 standalone credit assessment (BCA), which is the group's chief operating entity and main source of earnings and dividends. Moody's does not incorporate government support in the holding company's ratings.

The affirmation of Grupo Aval and Grupo Aval Limited's ratings with negative outlook incorporates the downward pressure on Banco de Bogotá's BCA. The bank's BCA reflects Banco de Bogotá's strong earnings and good access to core deposit funding. The negative outlook on Banco de Bogotá's ratings incorporates its large presence in potentially more volatile Central American markets, which continues to expose Banco de Bogotá's assets and earnings to increased risks that could lead to downward pressures on its baseline credit assessment. The affirmation of Grupo Aval's ratings also incorporates the expectation that the company's double leverage ratio, which reflects the extent to which a holding company relies upon debt to finance its investments in subsidiaries, will not significantly exceed 115%. The double leverage is measured by investments in subsidiaries divided by shareholders' equity. Moody's considers double leverage in excess of

115% to be high. Moody's noted that while Grupo Aval expects to use part of the proceeds of the new issuance to pay down existing debt and to lengthen its liability structure, proceeds may also be used for acquisitions that could put undue strain on the company's financials and management capacity. Moody's also noted that further weakening of leverage and debt service metrics (e.g. interest coverage ratios) could result in a downgrade of Grupo Aval's ratings.

Moody's believes Grupo Aval's exposure to environmental risks is low, consistent with its general assessment for the global banking sector. Grupo Aval's exposure to social risks is moderate, consistent with Moody's general assessment for the global banking sector. As well, governance risks are largely internal rather than externally driven. Moody's does not have any particular concerns with Grupo Aval's governance.

WHAT COULD MOVE THE RATINGS -- UP/DOWN

Upward/downward pressures on Grupo Aval and Grupo Aval Limited's ratings would be associated with similar pressures on Banco de Bogotá's BCA. The ratings could also face downward pressures if the group's double leverage appear likely to exceed 115% by a meaningful amount on a sustained basis and/or the interest coverage ratio decreases significantly.

The principal methodology used in these ratings was Banks Methodology published in November 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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