

MOODY'S

RATINGS

Rating Action: Moody's Ratings takes actions on Colombian financial institutions

28 Jun 2024

Actions follow the change to negative from stable of the outlook on the Government of Colombia

New York, June 28, 2024 -- Moody's Ratings (Moody's) has today taken rating actions on four Colombian banks, including Bancolombia S.A. (Bancolombia), Banco Davivienda S.A. (Davivienda), Banco de Bogotá S.A. (Banco de Bogotá) and BBVA Colombia S.A. (BBVA Colombia). All ratings and assessments assigned to these banks were affirmed and the outlook on their long-term bank deposits and senior unsecured debt ratings (where applicable) was changed to negative, from stable. In addition, the ratings of Grupo Aval Acciones y Valores S.A. (Grupo Aval) and Grupo Aval Limited were affirmed, while the outlook on Grupo Aval's long-term issuer ratings and Grupo Aval Limited's backed senior unsecured debt rating remained negative.

The rating actions were prompted by the change to negative from stable of the outlook on the Government of Colombia's (Colombia) Baa2 sovereign debt rating. For further information on the sovereign rating action, please refer to the press release dated 27 June 2024 (https://www.moodys.com/research/Moodys-Ratings-changes-Colombias-outlook-to-negative-from-stable-affirms-Rating-Action--PR_490181).

Please refer to the end of this press release for a full list of the affected credit ratings.

RATINGS RATIONALE

(1) OUTLOOKS CHANGED TO NEGATIVE FROM STABLE

The change of outlook to negative from stable on the long-term deposit ratings and/or long-term senior unsecured debt ratings (where applicable) of Bancolombia, Banco de Bogotá, Davivienda and BBVA Colombia were driven by the change to negative of the outlook on Colombia's sovereign debt rating. As these banks' deposit and senior unsecured debt ratings benefit from an uplift due to our assessment of government support, a downgrade of the sovereign would imply a weaker capacity to provide

support and could therefore lead to a downgrade of the banks' supported ratings. Our consideration of government support captures the large deposit franchises of the affected banks, our assessment of the Colombian authorities' willingness to provide support to systemically important distressed financial institutions; and the material systemic consequences of an unsupported failure of any of them. While the government's willingness to support the banks, if necessary, remains unchanged in our opinion, its financial capacity is reflected by its rating, and therefore a downgrade would imply a deterioration in such capacity.

In addition, the negative outlook on Colombia's sovereign rating reflects factors that could weigh negatively on banks' operating environment, including less favorable macroeconomic and financial conditions, and heightened political noise that continues to weigh on investor confidence. Weak investment dynamics have contributed to slower-than-expected economic growth. These factors could further limit banks' business prospects and lead to negative pressure on their asset quality, profitability and capital.

(2) RATINGS AFFIRMATION

BANCOLOMBIA S.A.

The affirmation of Bancolombia S.A.'s ba1 baseline credit assessment (BCA) reflects the strength of its business model that has been sustained even in challenging conditions both in its core Colombian operation and in its Central American subsidiaries. The bank's BCA incorporates the strong and above-peers earnings generation, as well as its ample access to stable core funding, which is supported by its well-established market position in Colombia. These strengths are counterbalanced by Bancolombia's high problem loan ratio (6.0% of gross loans in March 2024, measured as loans classified as stage 3 under IFRS) that is however cushioned by adequate loan loss reserves; and moderate capitalization and liquidity profiles. The bank's strengths partially offset its exposure to riskier operating environments in countries of Central America, which result in a weaker weighted Macro Profile for the bank at Moderate, relative to Colombia's Moderate+.

The affirmation of Bancolombia's Baa2 long-term deposit and senior unsecured debt ratings reflects: (1) the affirmation of the bank's ba1 BCA; and (2) our assessment of a very high probability of government support considering the bank's systemic importance, which continues to result in a two-notch uplift from the bank's BCA.

BANCO DE BOGOTÁ S.A.

By affirming Banco de Bogotá's ba1 BCA, we acknowledge the bank's resilient earnings generation capacity as a large commercial bank in Colombia, with 12% loan and deposit market share as of March 2024, a stable access to domestic deposits and adequate capital position. These strengths are partially offset by the bank's moderate liquidity buffers, relatively weak asset quality evidenced by high level of impaired

loans classified as stage 3, and below-peers loan loss reserve coverage.

The affirmation of Banco de Bogotá's Baa2 long-term deposit ratings reflects: (1) the affirmation of the bank's ba1 BCA; and (2) our assessment of a very high probability of government support considering the bank's systemic importance, which continues to result in a two-notch uplift from the bank's BCA.

GRUPO AVAL

The affirmation of Grupo Aval's rating considers our assessment that Banco de Bogotá's BCA remains adequately positioned at ba1. As a holding company, Grupo Aval has its Ba2 issuer rating anchored at Banco de Bogotá's ba1 BCA, capturing the importance of the bank as its main subsidiary comprising close to 63% of its dividend income in 2023 and 78% in 2022. Grupo Aval's rating is one notch below the bank's BCA due to structural subordination. In addition, the holding company has a relatively high double leverage ratio at 123% in March 2024, while the ratings are supported by its relatively low near-term refinancing risks, historically adequate liquidity profile and good coverage of interest with dividends and interest income. In turn, Grupo Aval Limited's Ba2 backed senior unsecured debt rating is based on Grupo Aval's irrevocable and unconditional guarantee of Grupo Aval Limited's liabilities.

The negative outlook on Grupo Aval and Grupo Aval Limited's long term ratings continue to capture the company's relatively high double leverage ratio, despite recent reduction, calculated considering the combined value of the holding company's equity and hybrid equity investments divided by the holding company's own equity. If persistent over time, high double leverage could lead to an increase in the notching gap between Grupo Aval's rating and Banco de Bogotá's ba1 BCA.

BANCO DAVIVIENDA S.A.

We affirmed Davivienda's BCA at ba2 still reflecting the bank's large and well-established commercial franchise in Colombia, with operations in Central America as well. Despite that, the bank's ba2 BCA has been challenged by weaker profitability and asset quality metrics compared to historical levels. Davivienda reported net losses in 2023 and in first quarter 2024 reflecting a material rise in loan loss provisions, as well as falling net interest margins as a result of the slowdown of business activity in Colombia, amid weakened economic conditions, and also by higher funding costs driven by a high monetary policy rate and the implementation of the NFSR in Colombia, particularly between March and December 2023. Despite recent increase in Davivienda's problem loan ratio, measured as stage 3 loans under IFRS to gross loans, to 4.85% in March 2024, from 3.74% one year prior, it remains below those of its large peers. In terms of capitalization, Davivienda's common equity tier 1 (CET1) ratio of 10.4% maintained adequate cushion over minimum regulatory requirement, following the bank's public share offering also last March.

The affirmation of Davivienda's Baa3 long-term deposit ratings reflects: (1) the

affirmation of the bank's ba2 BCA; and (2) our unchanged assessment of a very high probability of government support, which results in a two-notch uplift to the bank's deposit ratings.

BBVA COLOMBIA S.A.

BBVA Colombia's standalone BCA was affirmed at ba1. However, we view that there is a negative pressure on the bank's standalone BCA that incorporates recent weakening of its profitability, capital and asset quality metrics. In March 2024, BBVA Colombia posted net losses that reflected an increase in loan loss provision expenses in response to an acceleration of problem loans in the segment of consumer portfolio. The bank's problem loan ratio went up to 5.18% in March 2024, from 4.40% one year prior. At the same time, BBVA Colombia's capitalization, measured as regulatory CET1 ratio, was 7.8% in March 2024, only slightly above the minimum level of 7.0%. In 12 April 2024, the bank announced it will receive a 210 million euro capital injection from its parent bank, therefore, improving its core capitalization. Despite that, should BBVA Colombia report sustained negative bottom-line results in the next two quarters, its capital position could be pressured further, challenging its standalone BCA.

The affirmation of BBVA Colombia Baa2 long-term deposit ratings reflects: (1) the affirmation of the bank's ba1 BCA; (2) our unchanged assumption of a moderate probability of support from its parent Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) (A2 developing, baa2), resulting in one notch of uplift to the bank's Adjusted BCA of baa3; and (3) our unchanged assessment of a high probability of government support, which results in an one-notch uplift to the bank's deposit ratings from its adjusted BCA.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Considering the negative outlook on Colombia's sovereign rating, upward rating pressure is unlikely at this time for these four Colombian banks. However, a stabilization of the outlook on the sovereign rating could lead to a stabilization of these banks' ratings outlook, provided that there is no negative pressure on their BCAs. Upward pressure on these banks' BCAs would stem from material and consistent improvement in their credit fundamentals, particularly asset quality and capital, coupled with a recovery of profitability levels and an improvement of Colombia's or Central America's operating environment.

These four banks' deposit ratings and senior unsecured debt ratings (where applicable), which benefit from government support uplift, would face negative pressure in case Colombia's sovereign debt rating is downgraded, which supports the negative outlook being aligned with the outlook on the sovereign rating. Additionally, all of the banks' long-term ratings would face downward pressure if their BCAs were downgraded. These banks' BCAs could be downgraded if recent negative pressure on

asset quality extends over time and leads to higher provisioning needs, affecting their earnings and, ultimately, capitalization.

Either upward or downward pressures on Grupo Aval and Grupo Aval Limited's ratings would be associated with an upward or downward change of Banco de Bogota's BCA, because the holding company's Ba2 issuer rating is anchored to the bank's BCA. However, Grupo Aval's ratings could also face downward pressures from an additional increase on the holding company's double leverage ratio, or if a gradual reduction in the metric did not materialize, or a persistent deterioration in its interest coverage ratio and liquidity buffers.

LIST OF AFFECTED RATINGS

Issuer: Banco Davivienda S.A.

Affirmations:

- Adjusted Baseline Credit Assessment, Affirmed ba2
- Baseline Credit Assessment, Affirmed ba2
- ST Counterparty Risk Assessment, Affirmed P-2(cr)
- LT Counterparty Risk Assessment, Affirmed Baa2(cr)
- ST Counterparty Risk Rating (Foreign Currency), Affirmed P-2
- ST Counterparty Risk Rating (Local Currency), Affirmed P-2
- LT Counterparty Risk Rating (Foreign Currency), Affirmed Baa2
- LT Counterparty Risk Rating (Local Currency), Affirmed Baa2
- ST Bank Deposits (Foreign Currency), Affirmed P-3
- ST Bank Deposits (Local Currency), Affirmed P-3
- Subordinate (Foreign Currency), Affirmed B2 (hyb)
- LT Bank Deposits (Foreign Currency), Affirmed Baa3 NEG from STA
- LT Bank Deposits (Local Currency), Affirmed Baa3 NEG from STA

Outlook Actions:

-Outlook, Changed To Negative From Stable

Issuer: BBVA Colombia S.A.

Affirmations:

- Adjusted Baseline Credit Assessment, Affirmed baa3
- Baseline Credit Assessment, Affirmed ba1
- ST Counterparty Risk Assessment, Affirmed P-2(cr)
- LT Counterparty Risk Assessment, Affirmed Baa2(cr)
- ST Counterparty Risk Rating (Foreign Currency), Affirmed P-2
- ST Counterparty Risk Rating (Local Currency), Affirmed P-2
- LT Counterparty Risk Rating (Foreign Currency), Affirmed Baa2
- LT Counterparty Risk Rating (Local Currency), Affirmed Baa2
- ST Bank Deposits (Foreign Currency), Affirmed P-2
- ST Bank Deposits (Local Currency), Affirmed P-2
- Subordinate (Foreign Currency), Affirmed Ba1
- LT Bank Deposits (Foreign Currency), Affirmed Baa2 NEG from STA
- LT Bank Deposits (Local Currency), Affirmed Baa2 NEG from STA

Outlook Actions:

-Outlook, Changed To Negative From Stable

Issuer: Bancolombia S.A.

Affirmations:

- Adjusted Baseline Credit Assessment, Affirmed ba1
- Baseline Credit Assessment, Affirmed ba1
- ST Counterparty Risk Assessment, Affirmed P-2(cr)
- LT Counterparty Risk Assessment, Affirmed Baa2(cr)
- ST Counterparty Risk Rating (Foreign Currency), Affirmed P-2
- ST Counterparty Risk Rating (Local Currency), Affirmed P-2
- LT Counterparty Risk Rating (Foreign Currency), Affirmed Baa2

- LT Counterparty Risk Rating (Local Currency), Affirmed Baa2
- ST Bank Deposits (Foreign Currency), Affirmed P-2
- ST Bank Deposits (Local Currency), Affirmed P-2
- Subordinate (Foreign Currency), Affirmed Ba3 (hyb)
- Senior Unsecured (Foreign Currency), Affirmed Baa2 NEG from STA
- LT Bank Deposits (Foreign Currency), Affirmed Baa2 NEG from STA
- LT Bank Deposits (Local Currency), Affirmed Baa2 NEG from STA

Outlook Actions:

....Outlook, Changed To Negative From Stable

Issuer: Grupo Aval Acciones y Valores S.A.

Affirmations:

- ST Issuer Rating (Foreign Currency), Affirmed NP
- ST Issuer Rating (Local Currency), Affirmed NP
- LT Issuer Rating (Foreign Currency), Affirmed Ba2 NEG
- LT Issuer Rating (Local Currency), Affirmed Ba2 NEG

Outlook Actions:

....Outlook, Remains Negative

Issuer: Banco de Bogota S.A.

Affirmations:

- Adjusted Baseline Credit Assessment, Affirmed ba1
- Baseline Credit Assessment, Affirmed ba1
- ST Counterparty Risk Assessment, Affirmed P-2(cr)
- LT Counterparty Risk Assessment, Affirmed Baa2(cr)
- ST Counterparty Risk Rating (Foreign Currency), Affirmed P-2

... ST Counterparty Risk Rating (Local Currency), Affirmed P-2
... LT Counterparty Risk Rating (Foreign Currency), Affirmed Baa2
... LT Counterparty Risk Rating (Local Currency), Affirmed Baa2
... ST Bank Deposits (Foreign Currency), Affirmed P-2
... ST Bank Deposits (Local Currency), Affirmed P-2
... Subordinate (Foreign Currency), Affirmed Ba2
... Senior Unsecured (Foreign Currency), Affirmed Baa2 NEG from STA
... LT Bank Deposits (Foreign Currency), Affirmed Baa2 NEG from STA
... LT Bank Deposits (Local Currency), Affirmed Baa2 NEG from STA

Outlook Actions:

...Outlook, Changed To Negative From Stable

Issuer: Grupo Aval Limited

Affirmations:

... Backed Senior Unsecured (Foreign Currency), Affirmed Ba2 NEG

Outlook Actions:

...Outlook, Remains Negative

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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