3Q2020 CONSOLIDATED EARNINGS RESULTS CALL TRANSCRIPT

GRUPO AVAL ACCIONES Y VALORES S.A.

2Q2020

CONSOLIDATED

EARNINGS RESULTS

CALL TRANSCRIPT

Operator: Welcome to Grupo Aval's third quarter 2020 consolidated results conference call. My name is Sylvia and I'll be your operator for today's call.

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The consolidated financial information included in this document is presented in accordance with IFRS as currently issued by the IASB. Details of the calculations of non-GAAP measures, such as ROAA and ROAE, among others, are explained when required in this report.

This report includes forward-looking statements. In some cases, you can identify these forward-looking statements by words such as "may", "will", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue", or the negative of these and other comparable words. Actual results and events may differ materially from those anticipated herein as a consequence of changes in general economic and business conditions, changes in interest and currency rates and other risks described from time to time in our filings with the Registro Nacional de Valores y Emisores and the SEC.

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The content of this document and the figures included herein are intended to provide a summary of the subjects discussed, rather than a comprehensive description.

When applicable in this document, we refer to billions as thousands of millions.

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session.

I will now turn the call over to Mr. Luis Carlos Sarmiento Gutierrez, Chief Executive Officer. Mr. Luis Carlos Sarmiento Gutierrez, you may begin.

Luis Carlos Sarmiento Gutierrez: Good morning and thank you all for joining our third quarter 2020 conference call. I hope that all of you and your families are keeping healthy.

During the third quarter, several of the countries where we operate started to ease their mandatory quarantines and the effect on their economies was felt almost immediately, more so after the sharp contraction experienced during the second quarter. Our subsidiaries also benefited, as evidenced by the pickup in banking fees and revenues from infrastructure. We are, however, months, if not years away from returning to business as usual, as economic recovery and health challenges remain ahead of us.

In today's presentation, I will cover the following: a macro review of the economy during the third quarter of 2020, a quick update of our loan relief programs, the progress of our digital efforts, and the main highlights of our financial performance. I will spare you of Ruta del Sol related topics because there have been no new developments since we last spoke.

Starting with macro, after the gradual reopening of certain sectors of the economy at the end of the previous quarter and the easing of the mandatory lockdowns since September, economic activity has reignited and has begun to slowly crawl back to its pre-pandemic level. Indicators such as energy demand, Google mobility and fuel deliveries showed a further acceleration of the economy in October.

During the third quarter, the economy contracted 9% when compared with the same quarter in 2019, a substantial improvement when compared to the 15.7% decline observed during the second quarter. In fact, when compared to the previous quarter, the economy grew 8.7%. As a result, during the first nine months of 2020, the economy has contracted 8.1%.

Examining the quarter's performance from the supply side, three sectors registered growth when compared to the same period during 2019: agriculture, which represents 7% of GDP, grew 1.8%; financial services, which represent 5.3% of GDP, grew 1.3%, and real estate activity, which represents 10% of GDP, grew 1.7%. The remaining nine sectors analyzed contracted, although at a slower pace than in the second quarter. Among those, commercial activities fell 20.6%, manufacturing contracted 6.9% and government services decreased 0.8%.

From the demand side, when compared to the same period in 2019, private investment fell 20.2%, household consumption decreased 9.3%, and government consumption grew 1.8%, resulting in domestic demand decreasing 9.8%.

We now expect GDP to contract approximately 6.5% in 2020. We are cautiously optimistic about the country's growth prospects for next year and believe that GDP growth will approximate 4% in 2021.

Although no figures are yet available for the third quarter it is worth mentioning that

Colombia’s current account deficit figures had narrowed significantly during the first half of the year, closing at 3.3% of GDP as of June 2020, down from 4.3% in 2019. In short, the country's trade balance deficit has narrowed, as oil exports have been aided by better oil prices, imports have decreased, and remittances have surprised on the positive side. We expect that Colombia's current account deficit closes 2020 at around 3.5% of GDP.

During the third quarter, volatility in the exchange rate decreased when compared to the second quarter of 2020, mainly due to a worldwide increase in demand for risk assets. Since June, the exchange rate has fluctuated in the 3,600 to 3,850 pesos per dollar range. We expect that the exchange rate will remain inside this range during the remainder of the year and in 2021.

Twelve-month inflation has continued its downward trajectory, falling significantly from its peak of 3.86% in March to 1.75% in October. During October, inflation registered at -0.06%, mainly driven by negative variations in rent, food and education. We now expect that 2020's inflation will be in the range of 1.8 to 1.9% and gradually move upwards to a range of 2.8 to 3% during 2021.

Low inflation and inflation expectations have given the Central Bank additional room to continue with its expansionary monetary policy, lowering the repo rate by 50 additional basis points since our last call to 1.75%, totaling a 250 basis points decrease this year. We believe that the Central Bank has reached the end of its interest rate cutting cycle and that rates will remain stable for at least the next two quarters.

In line with the adverse effects of the quarantines on business activity, the labor market has experienced a sharp contraction during 2020. However, the most recent payroll numbers for September showed some signs of recovery. In fact, urban unemployment, which reached a high of 24.9% in June, improved to 18.3% as of September. We believe that with the ongoing normalization in business activity, further improvement could be expected by the end of 2020 and we estimate that in 2021 unemployment figures improve by 200 to 300 basis points.

On the fiscal front, the government deficit targets for 2020 and 2021 were just revised, as were its expectations for GDP growth. As the government expectations for GDP contraction for 2020 increased from 5.5% to 6.8% and for 2021 decreased from 6.6% to 5%, the deficit targets are now 8.9% of GDP in 2020 and 7.6% of GDP in 2021. Consequently, the fiscal rule has been suspended until 2022.

Colombia's government has implemented two important economic programs to mitigate the effects of the pandemic. First, the National Emergency Fund, FOME, which amounts to 2.8% of GDP or COP 25 trillion, is being used to subsidize payrolls, expand the capacity of the healthcare system, and enlarge existing social programs to support low-income households. In addition, through the *Unidos por Colombia* program of the National Guarantee Fund, *Fondo Nacional de Garantías,* the government is providing guarantees for bank loans to small businesses for up to COP 25 trillion, of which COP 14.2 trillion have already been disbursed.

We obviously remain watchful and concerned of a possible second wave of the virus and hope that no further lockdowns will be required, as in some European countries.

Moving on to Central America, the IMF updated its expectation for the region's GDP and now expects a contraction of the region's economy of 5.9% in 2020 and growth of 3.6% in 2021, numbers with which we concur. A key variable will be a continued recovery in remittances.

Panama and El Salvador are expected to be the most impacted, contracting their GDP by 9% each in 2020, in line with the strict lockdowns implemented at the beginning of the pandemic in these countries. GDP for both countries is expected to grow 4% in 2021.

GDP for Honduras is expected to contract 6.6% in 2020, mainly impacted by lower exports and to grow 4.9% in 2021.

Both Costa Rica and Nicaragua are expected to evidence a contraction of 5.5% in their GDP in 2020. GDP, however, is expected to grow 2.3% in 2021 in Costa Rica and to decrease an additional 0.5% in Nicaragua.

Finally, Guatemala is expected to be the least impacted economy, contracting only 2% in 2020. The Guatemalan economy is expected to grow 4% in 2021.

Regarding our debtor relief programs, as of September 30, we had granted debt relief to approximately 35% of our consolidated loan portfolio or approximately COP 73 trillion. Approximately half of this reliefs were granted in Colombia and the other half in Central America. As of the same date, about half of total reliefs granted were still active, approximately COP 35 trillion or 17% of our total consolidated loan portfolio. Active reliefs are also split 50/50 between our Colombian and Central American operations.

Active reliefs in Colombia represent 14% of our Colombian portfolio, while in Central America they represent 23% of the region's portfolio. Of all loans that have concluded their relief periods, as a percentage of our total consolidated loan portfolio, 1.3% are currently past due 30 days or more.

Regarding our digital strategy, up to now, we have primarily focused on transforming our core product into digital solutions. In fact, we now offer more than 30 digital products through our banks.

By all indications, the current juncture has accelerated digital adoption. Digital sales grew 50% in the last nine months compared to the same period of 2019. In addition, the migration process of monetary transactions from brick and mortar to digital channels has accelerated. The following figures exemplify what we have achieved.

In Colombia, 71% of moneys transacted during the third quarter were conducted through our digital channels, compared to 56% a quarter earlier. On the other hand, during the same period, 25% of moneys transacted were conducted through our branch network, down from 41% in the previous quarter. Monetary transactions done through our branch network represented 13% of total monetary transactions in the third quarter, down from 30% a year earlier.

In Central America, BAC has enabled hundreds of new service request options in both web and, most recently, mobile channels. In just the first month of implementation, service requests via the mobile banking platform represented more than a third of all digital requests. Monetary transactions in self-service channels have reached an all-time high, increasing 44% year-over-year.

With respect to remotely assisted service, this quarter BAC processed 22% more service requests than last quarter via WhatsApp. In fact, for the first time, digitally inbound interactions surpassed telephone calls. WhatsApp now represents more than a third of all inbound interactions and close to 70% of the digital inbound interactions.

And now referring to our financial results, our net income results for the quarter showed a marked improvement when compared to the previous quarter, mainly driven by a strong contribution of our fixed-income portfolios, a recovery in fee income, and higher income from our non-financial businesses, especially from our toll roads and Promigas. Cost of risk during the quarter slightly decreased, although we expect to continue to show high cost of risk in the next few quarters.

Although Diego will refer in detail to our financial performance, these are a few highlights for the quarter.

Aided by the acquisition of Multibank, Aval's consolidated assets have grown 21.9% year on year to COP 334 trillion. Consolidated gross loans have grown 17.2% year on year to COP 210 trillion and consolidated deposits by 24.7% year on year to COP 217 trillion. We're currently targeting loan growth of 9.5 to 10% during 2021.

As I mentioned before, the ratio of 30-days past due loans now reflect the end of about 50% of our debt relief programs. Consequently, as of September 30, this ratio increased from 4.1% at the end of June to 5.2% in the third quarter. As expected, most of the increase in 30-days past due loans was concentrated in the consumer loan portfolio, whose 30 day past due indicator increased by 180 basis points.

Cost of risk during the quarter slightly decreased to 2.9% from 3.1% in the second quarter and up from 2.5% in the third quarter of 2019. Cost of risk for the nine months was 2.8%, compared to 2.2% during the nine-month period of last year. During the quarter, we increased to 35% the coverage of our total exposure to Avianca, up from 20% a quarter earlier. As we have mentioned in previous calls, we expect cost of risk to end 2020 at approximately 3%. We now estimate that cost of risk will decrease to about 2.5% during 2021.

NIM on loans remained unchanged at 5.9% during the quarter, mostly as a result of significantly better cost of funds. We expect that NIM on loans will remain fairly constant at this level during the remainder of 2020 and 2021. Total NIM during the third quarter of 2020 decreased by 21 basis points versus total NIM during the second quarter, mainly driven by a 110 basis points decrease in NIM on investments. Total NIM for the first nine months was 5.1%, a decrease of almost 60 basis points versus total NIM during the first nine months of 2019.

Driven by recovering banking fees, gross fee income increased by 14% when compared to the second quarter, but still remains shy from pre-COVID levels, showing a 4.8% decrease when compared to the third quarter of 2019.

Other operating income increased significantly, by almost 45% versus the previous quarter and almost 50% when compared to the third quarter of 2019, driven by gains in sales of fixed-income investments.

Income from our non-financial sector operations grew 207% when compared to the second quarter and by 11% versus the third quarter of 2019, mainly due to a significant increase in revenues from infrastructure, as construction has recovered its expected pace and by an increase in income from the oil and gas sector related to higher gas demand from the industrial segment. For the nine-month period, income from this sector remains approximately 2% below that from the same period of last year.

Expenses increased by only 0.1% in the quarter, even though this was the first quarter with the full impact of the Multibank acquisition. Our cost to income ratio improved from 51.3% in the second quarter to 44%, and our cost to assets ratio improved from 3.2% in the second quarter to 3.1%. We will keep working on cost containment and currently estimate growth of operating expenses for 2021 at a maximum of 4%.

Our funding and liquidity positions continue strong, as evidenced by the deposits to net loans ratio of 1.07 times and the cash to deposits ratio of 18%.

As a result of the aforementioned, net income for the quarter was COP 691 billion or 31 pesos per share and return on average equity was 13.6%. Return on average assets and return on average equity for the nine months were 1.4% and 11.4%, respectively. We expect to finish 2020 with a return on average equity slightly higher than 10%, rising to about 13% during 2021.

And with that, I'll be glad to pass the presentation on to Diego, who will explain in detail our business results. Thank you very much.

Diego Solano Saravia:

Thank you, Luis Carlos. I will now move to the consolidated results of Grupo Aval under IFRS.

Grupo Aval's third quarter results reflect the positive impacts of the economic recovery as lockdowns ended, boosting non-financial sectors and fee income performance. In addition, falling interest rates allowed our banks to improve trading income and realize OCI gains on fixed income.

However, cost of risk remained high and asset quality began to evidence the anticipated deterioration that results from reliefs expiring, as well as the negative impact of the economic cycle on our customers' payment behavior.

Starting on page 8, our quarterly asset growth was 0.3% and 12-month growth reached 21.9%. As mentioned in our last call, the MFG acquisition was closed last May. Given the acquisition of MFG and FX movements of our Central American operations, total assets grew 11% over 12-months.

Our Colombian assets decreased 0.6% in the quarter and grew 12.5% year on year, while our Central American assets reported a 1% quarterly decrease in dollar terms and a 28.5% year-on-year growth. MFG contributed with 20.4% of the year's annual growth.

A depreciation of 11.2% for 12 months and a 2.9% for 3 months take our annual and quarterly growths in pesos of Central America to 42.8% and 1.9%, respectively. The weight of Central America increased slightly during the quarter to 36% of our book.

Moving to page 9, our loan book grew slightly over the quarter, reflecting an improvement in dynamics of the retail lending in Colombia, while incorporating the charge-off of Ruta del Sol loan. Central American operations maintained stringent underwriting thresholds with loans contracting in dollar terms and growing 2.3% when translated into Colombian pesos.

Loans increased 0.4% over the quarter, reaching a 17.2% growth year on year. The acquisition of MFG added COP 13.1 trillion or USD 3.4 billion or year-on-year loan portfolio growth and explains 7.3 percentage points of 12-month consolidated growth in peso terms.

Colombian gross loan portfolio increased 7.9% over the year and contracted 0.7% during the quarter. This quarter's performance reflected a recovery of our Colombian consumer portfolio, a reduction in our commercial portfolio, and the write-off of Ruta del Sol.

Demand for consumer loans improved in Colombia, resulting in a 2.1% growth in the quarter and 6.5% year on year. Quarterly growth was driven by secure products and was reported on an improvement in economic activity and increased effectiveness of our sales network, as the sanitary restrictions and lockdowns were progressively lifted.

Payroll lending, which accounts for 57% of our Colombian consumer portfolio, grew 4.3% and auto financing, that accounts for 7% grew 0.3%. As other secured retail products, mortgages remained dynamic in Colombia, expanding 3% over the quarter and 12.2% year on year. In contrast, credit cards contracted 2% and personal loans 0.7%. These products account for 14% and 22% of our Colombian consumer portfolio, respectively.

On the other hand, our Colombian corporate loan portfolio decreased by 2.5% over the quarter, while growing 8.2% over 12 months, when excluding repos. Corporate lending retrenched 2.1 trillion over the quarter, mainly in large corporates, as they repaid working capital loans disbursed as a safeguard through the first set of lockdowns back in March. Also affecting our growth, we opted to pass on some large corporate and institutional loans that might be mispriced by the market as competition intensified this quarter. Finally, we charged-off Ruta del Sol for COP 824 billion. That accounted for 99 bps of the quarterly decrease in commercial means.

Moving to Central America, our gross loan portfolio contracted 0.6% over the quarter and grew 23.2% year on year in dollar terms. Excluding the impact of the acquisition of MFG, Central America grew 2.6% year on year.

Quarterly performance resulted from a 1% and 0.6% contractions of commercial and consumer loans, respectively. Mortgages increased by 0.3% over the quarter. Performance in Central America's commercial loans reflected similar drivers as in Colombia. Consumer loans were mainly driven by a 0.7% contraction in credit cards and a 2.6% decrease in personal installment loans.

We expect that commercial loans growth will continue to be affected by the pricing competition and leverage of large corporates focused on high quality, institutional, and corporate customers. On the other hand, we expect that loans will continue to recover as employment outlook improves, households slowly regain confidence in a scenario with no further countrywide lockdowns.

On pages 10 and 11, we present several loan portfolio quality ratios. As anticipated, delinquency metrics deteriorated through the quarter, evidencing the effect of loan reliefs expiring and a portion of them transitioning into 30- and 90-day PDLs. As of September, 17% of our loan portfolio had active reliefs. Active reliefs were 14% in Colombia and 22% in Central America.

Our loan portfolio deteriorated by 111 basis points, 5.16% on 30-day PDL basis and by 21 basis points to 3.21% on a 90-day basis during the quarter. Our 30-days PDLs is now 61 bps inferior to that recorded a year earlier, and our 90-day PDLs ratio is five basis points better.

Breaking these figures down by portfolio. Our commercial loan portfolio deteriorated 61 basis points to 4.7% on a 30-day basis over the quarter and by 13 basis points to 3.7% on a 90-day basis. In Colombia, commercial PDLs deteriorated 61 basis points to 5.9% on a 30-day basis and remained stable on a 90-day basis at 4.7%. Ruta del Sol, which was charged-off, had a 95 basis point positive effect on these ratios.

In Central America, 30-day PDLs deteriorated 74 basis points to 2.1%, while 90-day commercial PDLs deteriorated 55 basis points to 1.6%. Looking at our consumer portfolio, this portfolio deteriorated 188 basis points to 5.7% on a 30-day basis over the quarter and 43 basis points to 2.4% on a 90-day PDL basis. In Colombia, 30-day PDLs deteriorated 152 basis points to 5.8%, while 90-day consumer PDLs deteriorated 7 basis points to 2.7%. In Central America, 30-day PDLs deteriorated 245 basis points to 5% while 90-day consumer PDLs deteriorated by 100 basis points to 1.9%. Mortgage PDLs deteriorated 124 basis points on a 30-day basis to 5.7% and 15 basis points on a 90-day basis to 2.9%.

Our provision expenses remained high during the quarter, reflecting offsetting trends between an improving macroeconomic outlook in Colombia and a softer one in Central America, as well as the deterioration of asset quality measured by stages under IFRS 9. Contractions in riskier portfolios in our corporate loans favored our quarterly cost of risk.

Cost of risk improved by 18 basis points on the quarter, 6 basis points which are explained by better recoveries of charged-off assets. Cost of risk of commercial loans improved 82 basis points and that of retail loans deteriorated 63 basis points. Cost of risk in Colombia improved 60 basis points and deteriorated 57 basis points in Central America.

The increase in cost of risk in Central America resulted from a pickup in cost of risk for retail loans, partially explained by a recovery in dynamics of credit cards. Our third quarter cost of risk incorporates a 0.7% contraction in credit cards that favorably compares to the 4.6% contraction recorded during the second quarter. In addition, Central American cost of risk detects an earlier expiration of reliefs, particularly in Costa Rica and Guatemala.

Meanwhile, in Colombia, cost of risk for retail loans was lower during the quarter, mainly due to an improving macro scenario and an increase in recoveries of charged-off retail loans.

Our banks continued to assess the loans according to risk level in order to evaluate Expected Credit Losses and determined impairment charges. This resulted in an increase in stage 2 exposures, and in individually assessed commercial loans under stage 3.

As mentioned in previous calls, consolidated exposure to the Avianca Group is approximately USD $188 million, equivalent to COP 727 billion as of September 30, 2020. 73% of this exposure is secured with international billings and 20% is secured with Avianca's headquarter buildings in Bogota. Coverage for Avianca reached 35% as of end of September. Avianca rolled into 90-PDLs in third quarter.

Recoveries of charged-off assets improved during the quarter, as collection efforts regained traction with lockdowns receding. We expect that our provision expenses will increase in the fourth quarter, as we incorporate a deterioration in Central American macro expectations, whilst related provisions are booked and reliefs continue expiring and a portion of stage two loans transition to stage three. Finally, our PDL coverage of 90-day PDLs slightly decreased to 1.5x times.

On page 12, we present funding and deposit evolution. Funding growth during the quarter continued to reflect a conservative liquidity profile to face the risk associated with the pandemic.

As a result, our deposits to loans ratio increased to 107% while our cash to deposits ended the quarter at 18%. Our funding structure shifted slightly towards deposits, now accounting for 77% of total funding. Deposits increased 2.3% during the quarter and 24.7% year on year. Colombia grew 0.7% during the quarter. Central America grew 1.9% in dollar terms during the quarter. In the 12-month period Colombia grew at 12.7% and Central America at 34.9% in dollar terms, with 18.9% explained by MFG.

On page 13, we present the evolution of our total capitalization, our attributable shareholder's equity, and the capital adequacy ratios of our banks.

Total equity grew 9.5% year on year, while attributable equity increased 7.8%, mainly driven by our earnings. Quarterly growths were at 3.7% and 4.4% respectively. As of third quarter 2020, our banks showed appropriate Tier 1 and proper solvency ratios.

The quarterly increase in Tier 1 for Banco Popular is mainly explained by the risk-weighted assets contraction. Banco de Bogota solvency remained flat. We expect that the transition to Basel III and the solvency ratios of Occidente, Popular and Villas will increase a few percentage points, while Bogota should remain at a similar level to the current ratio.

On page 14, we present our yield on loans, cost of funds, spreads, and net interest margin.

Our net interest margin performance during the quarter was driven by a stable NIM on loans and a lower NIM on investments. NIM on loans remained stable during the quarter, mainly due to an aggressive strategy to incorporate the Central Bank dynamics that yielded a 31 basis points reduction in cost of funds. In addition, our second quarter included a COP 74 billion reduction in interest income or 14 basis points reduction in net interest margin on loans associated with the recognition of a decrease in present values of loans due to the terms under which reliefs were granted.

We expect that competitive pressure on pricing of loans, particularly that for the highest quality risk, will persist as the macro outlook improves. However, when compared to 2020, 2021 is expected to benefit from lower rates paid by our banks as they fully incorporate the Central Bank intervention rate cuts observed this year.

Net interest margin on investments will continue to depend on global liquidity and geopolitical events for the last quarter of the year.

On page 15, we present net fees and other income.

Gross fee income for the quarter reflects the increasing activity due to end of lockdowns and of the temporary waivers on transactional and other fees. Pension fund fees were positively affected by an increase in performance-related fees on mandatory pension funds and assets under management fees charged on severance funds.

Quarterly gross fees increased 14.3% in Colombia and 16.8% in dollar terms in Central America. We expect to see further recovery in this front as economic activity continues to improve over the following quarters.

The performance of the non-financial sector reflects the recovery of the infrastructure and gas sectors, our two main non-financial businesses.

Most restrictions on the infrastructure sector in Colombia were lifted earlier in the third quarter; construction progress picked up to pre-COVID levels. The energy and gas sector was positively impacted by a recovery of the demand for industrial gas. Finally, on the bottom of the page, higher other income during the third quarter is mainly explained by strong results in OCI realization and high income and FX in Central America given by the depreciation of the colon over the quarter.

On page 16, we present some efficiency ratios. All our business units continued implementing cost contention and reduction initiatives during the quarter. As a result, cost to assets improved to 3.1% down from 3.2% in the previous quarter and 3.9% a year earlier.

Cost to income decreased during the quarter to 44%, reflecting a recovery of fees and income from the non-financial sector, as well as a strong other income, as described before.

Other expenses remained flat both over the quarter and year-on-year, despite the acquisition of MFG and FX fluctuations. Excluding these effects, other expenses contracted 0.5% in the quarter and 8.2% year on year.

Quarterly Colombian other expenses decreased by 3.5% over the quarter and 9.1% year-on-year. Central American expenses increased 8.1% over the quarter and 2% year-on-year in dollar terms, now incorporating a full quarter as MFG up from one month in the second quarter. Excluding MFG, Central American other expenses grew 4% over the quarter and decreased 6.9% year on year in dollar terms. Quarterly growth in Central America was influenced by an USD $8 million increase in severance payments.

Our consolidated quarterly personnel expenses increased 4.5% over the quarter and 7.1% year on year. Over the quarter, personnel expenses increased 3.7% in Colombia and 8.5% in dollar terms in Central America, now including a full quarter of MFG. Personnel expenses grew 1.8% without the effect of MFG including the severance payments mentioned before.

When excluding the effect of MFG and FX fluctuations, personnel expenses increased 2.8% over the quarter and decreased 2.2% year on year.

Quarterly general and administrative expenses increased 2.9% over the quarter and decreased 6.8% year on year. The latter reached a 12.8% decrease when excluding the effect of MFG and FX fluctuations.

Finally, on page 17, we present our net income and profitability ratios. Attributable net income for the third quarter 2020 was COP 691 billion or COP 31 per share. Year-to-date attributable net income reached COP 1.7 trillion or COP 77 per share. Our return on average assets and return on average equity for the quarter were 1.5% and 13.6% respectively. Year-to-date return on average assets and return on average equity reached 1.4% and 11.4% respectively.

Finally, even though a high level of uncertainty persists, I will summarize our expectations for 2020 and 2021.

We expect loan growth to be in the 17% area in 2020 and 9.5% - 10% next year. Our net interest margin should remain fairly stable at 5.9% for both years.

ROE for this year should be close to 10% and improve to 12.5% to 13% in 2021.

We will have a 2020 cost of risk in the 3% area improving next year to close to 2.5%.

Fees should grow a couple percentage points faster than the loan portfolio, and finally, we will have a 2020 expense growth in the 4% area, as we had this year.

We'll now open it for your questions.

Operator: Thank you. We will now begin the question and answer session. If you have a question, please press star (*) then one (1) on your touchtone phone. If you wish to be removed from the queue, please press the pound sign or the hash key (#). If you are using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again, if you have a question, please press star (*) then one (1).

Q&A:

Operator: And our first question comes from Jason Mollin, from Scotiabank.

Jason Mollin: Yes, hi. Thank you for the opportunity to ask questions. My question is on the level of provisioning and provisioning is high relative to past levels. And you talk about a cost of risk potentially around 3% this year, declining to 2.5% next year. One question is, how should we feel about the level being sufficient that you have now, especially relative to some of your peers are making higher provisions if you want to measure it as a percentage of NPLs, which is complicated at this point because of the risk rescheduling. It's hard to look at that ratio, in my view, also as a percentage of net interest income or as a percentage of total loans. How can you give investors assurance that the provisioning levels you have now are sufficient?

Diego Solano Saravia: Thank you, Jason.

I will try to summarize some of the things we've said in the past that have become apparent throughout the cycle, and it is we have a different structure of our loan portfolio, where we are overweighted in some of the safest products and underweighted in some of the products and segments that are riskier. Particularly we have a higher portion of payroll loans to government employees and retirees and we have as well a smaller portion of unsecured consumer lending, as well as we are underweighted in the SMEs segment.

So part of what you're seeing at this point is the way our portfolio is evolving and in the way that different portfolios have behaved. We are not covering this in the call but when you look at a micro level, there is a wide variation in the sort of provisions needed for the different products and segments that I mentioned before. Then, as you might have seen, there is an implied slight pickup in provisioning during the fourth quarter to be able to get to the 3% and what we are doing at that point is particularly raising some of the provisions that we have in Central America, as well as there is a process of stage two loans migrating into stage three that should also imply additional provisions.

And finally, something that we have mentioned in the past that is changing already is the speed at which we are growing.

Part of the lower provisions that we had in the past was basically shrinking our riskier portfolios, particularly the credit card portfolios. During the second quarter, in the order of magnitude we shrunk was around 5%. Then this quarter it was around 1%, the quarter we are reporting. But moving into the fourth quarter, we've begun to see additional growth. And as employment is improving, our willingness to start lending more is there. So you've seen that part of what has been happening has been recoveries, particularly linked to some of these portfolios that we are strengthening.

So what I can tell you is at this point, obviously, it's not over. You can see that our guidance for this year is still at 3% and the guidance for next year is halfway of what we should be running this year so it's going down to around 2.5%. That implies that we might have a few additional quarters with higher levels of provisioning than migrating at the kind of levels that we used to run before.

Operator: The next question comes from Gabriel Nobrega, from Citigroup.

Gabriel Nobrega: Hi, everyone. Good morning and thank you for the opportunity to ask questions, and I actually have two questions. The first of them is on NPLs. We have noticed that your write-offs start this quarter, but we still saw your 90-day NPL ratio increasing. So I wanted to understand if the 20 bps increase in the quarter is mainly due to Avianca. And then as for my second question, it's actually on the NIMs. You are guiding that the NIMs are going to remain stable through the end of the year and also in 2021. But as your stage three loan portfolio starts increasing, we have to remember that these loans, they also don't accrue interest rates. And then there's also another important part here that your banks are going to start repricing their loans for the lower interest rating environment. So I just wanted to maybe pick your brain and understand where are you trying to maybe work harder to be able to maintain some net interest margin. Thank you.

Diego Solano Saravia: Ok, so let me try to answer your question on the asset quality and if I didn't get your question right, please correct me.

What is going on now is that we've begun to get off the reliefs. Therefore, the calendar starts ticking first for the 30-day past due loans and then migrates to higher 90-day PDLs. Historically, a kind of transition that we've had from 30-day past due loans to 90-day past due loans could be somewhere around 60% to 70% or something of that order or magnitude. So, it's a matter of time for some of these to migrate into the 90-day past due category, and that's the reason why we've also guided higher provisions into the fourth quarter. Regarding where things should end, we are fairly comfortable that at this point, we have more visibility and in the absence of new countrywide lockdowns, we should be evolving as I described previously.

Now, moving into your question on net interest margin, there's a number of forces happening here. We had a big hit from repricing of our loans in advance to repricing of our deposits in the past that we've already been able to catch up, and there's some room for additional reduction in cost of funds that will continue helping us.

On the other hand, we had, I would say, a temporary effect of reliefs that were reducing our net interest margin, as we had conditions that in net present value were reducing the value of those loans and we had to pass that through our interest income.

And finally, more structural, it is during these months we have been prioritizing growing in very high-quality loans. Therefore, when you see our loans that are sort of flattish during this quarter, what you have is a combination of shrinking of riskier loans and moving our portfolio to higher quality loans. In that process, obviously we've had to reprice.

Something that I do have to mention or reiterate that we said before is we've had to pass on some loans that we believe the market has mispriced and that has implied two things: on the one hand, that we have grown at a modest level, and on the other hand, we've been able to defend our net interest margin. So, there will be some transition there where we'll be migrating into some loans that we had basically disincentivized during these months.

We have already the full benefit of a year where we will be running substantially lower cost of risks, combined with the negative things that you said before. So that's why we come up with a net interest margin that is stable.

In addition to what happens with loans that you need to bear in mind, is even though the past two quarters have been very positive on net interest margin on loans, the second quarter was a very bad quarter there. So, when you add up the full year, the full year will end up somewhere around a 1% net interest margin. Therefore, migrating to next year, we will not have a relative deterioration there.

Luis Carlos Sarmiento Gutierrez: Diego, very complete answer. Just one thing I would add is that I think you asked why the 90-day past due loans had increased by, I think, you said 20 bps, and it is, as you assumed, Avianca. That's mostly it.

Operator: Our next question comes from Yuri Fernandes, from JP Morgan.

Yuri Fernandes: Thank you, Diego, Luis Carlos. Good morning. So very quickly here on the cost of risk.

So, if I got correctly, cost of risk should be around 3% by year-end. So this basically implied that for the first Q we should see the cost of risk around 3.5%, 3.6%, as you said on page three. And also Central America, right? So that's the first question I have. My second question is regarding a second wave. We are seeing some countries getting more concerned on that, like the hospital utilization moving higher as in Brazil, and also in Europe and in the US. What about Colombia? What is the outlook here for COVID? And do you think like if a vaccine is approved globally Colombia will be able to get the vaccine quickly? Because when we talked to some investors, there is a concern that maybe for the developed world, like US and Europe, we could see a vaccine being quickly deployed, but about other not developed countries, that's not clear. So my concern here is that if 2021 could also imply like a second wave, further lockdowns, so just to pick your brain here, and to help understand how you are seeing the outlook for Colombia. Thank you.

Diego Solano Saravia: Okay, Yuri, regarding your numbers on cost of risk, you're right. That's what is implied for fourth quarter. And on the second one, I'm sorry not to be able to answer your question, but I think we're not qualified to opine on the health side. We see differences in the initial cycle of what happened in Europe compared to what happened in Colombia, but at this point it's a combination of what we hear from public policy, where public policy is trying to defend employment and activity, and then on the health side, I really am unqualified to answer your question.

Luis Carlos Sarmiento Gutierrez: We're obviously looking with a lot of optimism at the results of the COVID vaccine tests, and hopeful that the smaller countries, the developing countries will have access to the vaccines almost as fast as the developed countries, and that might be the answer to not having to go through additional lockdowns and stuff like that.

Diego Solano Saravia: At least not countrywide lockdowns.

Luis Carlos Sarmiento Gutierrez: At least not countrywide, exactly.

Operator: Our next question comes from Juan Barrios.

Juan Barrios: Hello, guys. Thank you for letting me ask you a question. So I also have some questions regarding the provision and the risk of the loan book. So the first one is, if I understood well what Yuri mentioned, this implied a 3.5% cost of risk in the four quarter, right? So this would mean the highest provision expenses should be in the first quarter. So the question, if that is correct, is why the provision was not done before. Because if I understand, IFRS 9, you should anticipate the provisions with those macro assumptions, maybe GDP assumptions and stuff like that. So that's the first thing, and maybe linked to that, I understand that you have given your GDP assumptions for the next 12 months. So, you are expecting 2.2%, and it's not really easy to compare it with the other banks that are only giving for 2020 GDP numbers. So what GDP assumptions have you used for 2020 in order to estimate the provision expenses of expected losses? And yes, that's the main thing. Thank you very much.

Diego Solano Saravia: So let me try to take it piece by piece. Regarding provisioning and timing, I mentioned there's several forces happening here. Some of those forces are things that are only started to be known now, and some things that even though have not materialized, we are starting to see that that could be the way they evolve. So cost of risk here will have a combination of several things. One, that is the least, is what happens with the macro outlook. The macro outlook is one of the components of what goes into IFRS 9, but not the full component, and you have to bear in mind that it's actually forward-looking. So, at this point, when we end the fourth quarter, we're actually looking into 12 months forward, that are the full 2021, and that's where you're talking of around 4% GDP growth. So it's one of the pieces that needs to fall in place in your calculation, and then this year would be, I would say, horrible in Colombian standards. Most of that has already happened, therefore it doesn't build into IFRS 9.

Then regarding why hadn't we provisioned before, I would say because the performance, as we're looking into, indicated that that was the adequate level of provisioning, and I actually cued into where it will come from, and part of what I said is it's coming from Central America, where the initial forecasts from most analysts were much better than what we're currently looking as a consensus. So, that comes into why our numbers look that way. Then I also mentioned some things that are, I would say, good quality provisioning, and it is provisions linked to moving from contracting some of our portfolios to start growing them. So mathematically, that also implies that change.

And regarding this quarter, perhaps we didn't emphasize during the call, but when you look at the numbers that we provided, there is basically a flat gross provision expense that is improving with recoveries, and also with some of the provisions not related to loans, particularly provisions based on country risk of some fixed income portfolios that are not present during this quarter. Therefore, when you look at provisions, this quarter comes with some slightly slower rate of provisioning. However, at a gross level it is flat compared to the second quarter.

Luis Carlos Sarmiento Gutierrez: He wanted to know about our GDP projections.

Diego Solano Saravia: I think I mentioned that by end of this year, our GDP projections for next year would be in the 4% level, that's what we're looking into, and that's what's going to build into the IFRS numbers of year-end.

Luis Carlos Sarmiento Gutierrez: Right, 6.5% contraction this year, exactly, in Colombia.

Operator: Our next question comes from Andres Soto, from Santander.

Andres Soto: Good morning, Luis Carlos, Diego. Thank you for the presentation. I have a few questions. The first one related to expenses. If I heard correctly, your expenses in Colombia declined 9% on annual basis. I would like to understand what are the measures that you guys implemented to achieve such an important result? The second question is regarding your guidance for loan growth next year, trying to understand how that's breaking down between countries, in general, between Colombia and Central America, and also in between segments.

And finally, when I look at my numbers, looking into 2022, I assume that for 2022 you guys will be having a cost of risk already below the level you had in 2019, and with that, the ROE that you should be getting is in the area of 15%. I would like to confirm if that's the number, and more importantly, if this is what you believe is the potential ROE for Grupo Aval or is there any potential for additional increase in this number?

I was kind of surprised, when I asked this question to one of your competitors in terms of potential ROE long-term for Colombian banks, and that competitor said that they believe that the potential for ROE of Colombian banks has diminished as a consequence of a more difficult competitive environment and lower rates overall. So I would like to confirm if that's the view that you guys have in your sight. Thank you.

Diego Solano Saravia: I think there is a lot of questions there. I am going to try to go through them briefly.

Expenses, I think something that you mentioned we should have highlighted before is we have a very positive year-on-year comparison when we take the third quarter, because during the third quarter of last year, we had some benefits of a tax program that ended up generating benefits from the expense side. However, for the sake of completeness when you take OPEX year-to-date, to try to strip those things out, we are contracting something short of 1%. It's what's happening. So, that gives you a better idea, and there was some seasonality there, particularly last year, and I think that's a relevant point that you brought up there.

Then, regarding segment and country growth, what we expect to see is Central

America growing slightly on the lower side of the range that we mentioned, something in the order of 9% or 9.5% in dollar terms, and Colombia should be growing faster. What will be happening with Colombia is basically we had shut down the second half of this year the corporate growth. Therefore, as that growth is coming back, what we are looking into for Colombia is something more in the 10% area. So, it's basically taking the range with Central America growing at the lower side, and Colombia growing at the higher side of that spectrum. Inside Colombia, what we should start to see is corporate loans recovering some of the room that they had let go and have been letting go throughout this second half of the year.

Then moving into cost of risk for 2019, I have to go back into history, and when you are looking at our numbers, our numbers have these three large cases that we have been tracking over many of our calls that basically we got done with last year.

So, if you think of what we were looking into was: this year, absent of COVID, we should have been around 2%, implying that we are already done with Electricaribe, Ruta del Sol, and the SITP. So, the kind of recovery that we are looking into is halfway of what we should have been this year. This year we are going up to 3%, and next year we are recovering half of that room concentrated in the narrow part of the year.

And finally, ROE potential, we can't agree with our peers there. The way we look into those numbers is it very much depends on the ROE potential for each one of the institutions and that's linked to the kind of portfolio that each one of them has. At least in our case, we think that we can aspire to much higher levels than perhaps some of our peers have said.

Operator: Our next question comes from Nicolas Riva, from Bank of America.

Nicolas Riva: Thanks very much for taking my questions. I have two questions. On the first one, I apologize if you already mentioned this. I joined the call a bit late. It's on the relief program. You mentioned that the increase in the 20 bps in the NPL ratio this quarter was mainly driven by some clients exceeding the relief program. I was wondering what's the percentage of loans which are still in your relief program as of the end of the quarter, and how many of the regional clients already exited that program, and also, what's the plan for the remaining portion of clients which are still in the relief program, if the idea would be to restructure these loans.

And then, a second question, at the end of your initial remarks, you provided guidance for ROE for next year. I believe you said 12.5% to 13%. If I just look at the third quarter, you already made an ROE above that, in the third quarter; close to 14% this quarter, and I would imagine that things should improve from here, assuming that there are no more lockdowns in Colombia. The reason for this guidance, which looks a bit conservative for next year, is that basically related to cost of risk that you probably expect to still remain high, based on this migration of loans to stage three? Or is there anything else there going on as well? Thanks.

Diego Solano Saravia: Okay. So, regarding the relief programs, the number that we mentioned in the call was as of the end of September, we had around 17% of our loan portfolio relieved, and this number is more of an order of magnitude, but end of October, the numbers that we had estimated would be around 15%, so we're seeing, I would say, a return to normal that is happening at that sort of pace. If you're thinking of what percentage of the reliefs have expired, I would say that around half of those have expired. So when you look at the numbers of the reliefs that we gave out, there's a portion of that that went back to pay and have already amortized. There's a portion that are paying again, and then, within the reliefs there's a combination of some of the older reliefs there and some of the more structural ones being given out that will remain for some time after we're done with this cycle.

Then regarding the ROE, perhaps to break down what happened this quarter, and why we are guiding into a shy fourth quarter, this quarter included the realization of OCI gains on our fixed income portfolio that should add up to roughly I would say 130 billion, 140 billion in attributable earnings for Grupo Aval, so that in fact gave us a particularly strong quarter, that when we split that out, and then we keep up slightly our provision expenses we come up with the numbers that we guided into. Then I think your deeper question is what's going to happen next year and next year yes, you're right, I would say that at this point we can't be extremely aggressive with the rate of recovery and that's why we are standing in this kind of numbers.

Operator: Our next question comes from Sebastian Gallego, from CrediCorp Capital.

Sebastian Gallego: Hi. Good morning, everyone. Thanks for the presentation. I have a couple of questions or several questions. The first one is just a follow-up on probably the most relevant question my colleagues have asked about provision expenses. I understand your explanation about a more defensive portfolio, but still you have a lower coverage, higher PDLs and higher reliefs compared to peers. Why do you remember so confident that cost of risk should be at 2.5% next year?

Second question is regarding ROE. You mentioned that you don't agree with peers and it depends on the institution, so I would like to know what would be the outlook for ROE next year, when excluding the non-financial sector.

And finally, my last question would be, at the holding level. We have seen some deterioration on net debt to core earnings, net debt to cash dividends and double leverage as well. Can you provide an outlook on those measures and the levels you feel comfortable at this point? Thank you.

Diego Solano Saravia: Okay. Regarding your question on provision expenses, something that you have to keep an eye on is number one, the relative movement of what the coverage ratios look like, because coverage ratios are not the same for each one of the products and then perhaps with a risk of reiterating, the kind of provision that you need for a payroll loan is widely different from the kind of provisions that you need for an unsecured consumer loan.

So, the kind of numbers that we come up are build up from the bottom of what happens with each one of those segments and products, and as I mentioned when we look at our numbers, numbers vary very widely there. Just to give you some more flavor, you're looking into payroll lending and you're comparing a portfolio that is government and employees and retirees, that kind of provisions that we've had to spend are wildly different from those when you have payrolls for the private sector.

So this is very much of a micro discussion rather than a macro discussion, and I would invite you to look at historic comparison between what we have and what our peers have. And then, look from that point on, how things should be evolving. So that's the reason why we feel comfortable with what we said there.

Then, regarding our ROE, something that we have mentioned in the past, it's not only the non-financial, it is diversification of our full book.

It is what we have coming from Porvenir that behaves as well as the non-financial has been behaving positively. Then Central America is not equal throughout the countries and throughout the banks. Our performance from our Central American operation has been quite positive, and the countries in which we are operating are also behaving better. So when you have to think of ROE, I wouldn't split out any one of the components. We've emphasized that we have a portfolio that is a diversified portfolio. Perhaps one might contribute better one year and then the following year the other one should turn around.

And then regarding the holding level, you're giving us a very good question particularly for those of you guys on the call that are from the fixed-income side, and it is when you look at the way that we repay our dollar-denominated bonds, it is basically with dollar-denominated assets that we hold inside Grupo Aval Limited.

So Grupo Aval Limited is a combination of interest-yielding investments. Those investments are mainly deposits or loans to our own entities, and then we have dollar-denominated liabilities that at this point are yielding a positive carry. So that's the way that we repay those bonds.

If you're looking into dividends, that's a discussion that comes on next year, but that in no way affects the way that we are serving the principal and interests of our bonds.

Operator: Our next question comes from Carlos Gomez, from HSBC.

Carlos Gomez: Hello. Thank you very much for the presentation. Two specific questions, one is the level of activity that you are seeing into this fourth quarter, both in Colombia and in Central America. In some countries, we have started to see activity falter after the recovery, and we wanted to know how you are seeing your own numbers internally.

Diego Solano Saravia: Your question was the levels of GDP?

Carlos Gomez: Level of activity of sections. Activities. Sorry if it was not clear.

Diego Solano Saravia: Okay. Well, you're right. The levels of activity are something that varies widely in the regions that we operate. We've already mentioned a lot of Colombia. Then if we are going to assume into Central America, the kind of our behavior we've seen this year, and things will vary next year, Honduras and El Salvador are the stronger performers. They're growing roughly, I would say this year it will be a 6% growth. Then you have a second tier that would be Panama, Costa Rica and Guatemala, growing at around 3.5%, and then you have Nicaragua, that he is contracting roughly as well 3.5%. Then moving into next year where we see most of the growth coming from is Guatemala and Panama that we're estimating should be growing north of 10%. Then we have a next year that would be Costa Rica, Honduras, and El Salvador that should be closer to 8%, and Nicaragua should be somewhere between flat and slightly positive. So yes, we're looking into different kinds of growth when we compare the countries in which we operate.

Operator: Our next question comes from Piedad Alessandri, from CrediCorp Capital.

Piedad Alessandri: Hi, thank you very much for allowing questions. I had a question regarding the addition to the PAD program, and if you could give us a bit more details on that. Then I wanted to ask, when do you expect to have the peak NPLs for the banks? And finally, what is your exposure to real estate in Central America, specifically in Panama?

Diego Solano Saravia: Okay, on the last one I will give you a qualitative answer and it is we are perhaps the lowest in the market there in relation to the size. I can't give you a number, but that's been a business that we've shied away from the very beginning, and as we've bought banks, we've reduced those portfolios.

Then your question on the more structural loans in Colombia, we are in the process of migrating some of our loans there. We are smaller than what our peers have done at this point, but we are indeed starting to use that much more. Percentage wise, we could be somewhere around 1% or 2% of our portfolio that has gone into the PAD.

And I'm missing one. Regarding the pickup of NPLs that you said there, at this point we are watchful on how things should evolve, and we should expect to see NPLs to go up during the fourth quarter, and to remain relatively high during the first half of next year. Then the numbers should start to come back to much more normal figures. I'm sorry not to give you a precise quarter where to see that, but I would say during the next three quarters we could be seeing still high numbers as they get digested. That cycle will end up synching with what is happening with provisions, where we've begun to provision in advance to some of that deterioration.

Operator: Our next question comes from Julian Ausique, from Davivienda Corredores.

Julian Ausique: Hi, everyone, and thanks for having my question. I have a really specific question about the Panama operation, because in conversations with your peers, the outlook in this country is a little bit worse than others, and so I would like to know what is your expectation in Panama specifically, and what is your expectation in provisions, because some of the relief plans will end in December or in January. Thank you.

Diego Solano Saravia: You are right, Panama has been hit strongly. If you're looking into GDP growth expectations for this year, let's say in order of magnitude the region could be contracting around, let's say, 6%, but Panama should be contracting around 10%. The reason for that happening is that the quarantines in Panama have been much more stringent than throughout the region. However, when you look into next year, next year the regional GDP growth could be somewhere at the 3.5% area, with Panama growing at around 5%. So I would say it's a combination of how much they got hurt this year compared to what is going to happen next year, where perhaps they will be one of the countries, with Honduras, that might be growing the fastest in the region.

And the reason why we might be seeing a different story than others, as one of your colleagues asked before, is because we've been away from some businesses that have been particularly risky in Panama, particularly mortgage lending was something that we took off our portfolio, some of the exporters we also took away from our portfolio when we acquired the banks in the past.

Julian Ausique: Okay, and I know that you already mentioned, but I couldn't get it because I have some connection problems. What is the reason that the efficiency rate here in Colombia was too low? I heard something about taxes, but I couldn't get it well, I don't know if you can repeat this.

Diego Solano Saravia: Yeah, I would say it hasn't been low this year. It was particularly low during the third quarter of last year. That's why we used that question to give some information on year-to-date performance.

Luis Carlos Sarmiento Gutierrez: Do we mean it's good or bad?

Diego Solano Saravia: Yeah, that's a clarification question. When you mean low, you mean a negative ratio or you mean a loan figure.

Operator: Our final question comes from Brian Flores, from Citibank.

Brian Flores: Hi, thank you. Just a quick follow-up on Avianca, could you repeat the level of coverage that position has, particularly?

Diego Solano Saravia: 35.

Brian Flores: Okay, thank you.

Operator: We have no further questions. I will now turn the call over to Mr. Sarmiento for closing remarks.

Luis Carlos Sarmiento Gutierrez: Thanks. Thanks again, guys and great questions as always. We're happy to take more of them if you wish on a one-to-one basis, and you can contact the team through Diego, and in the meantime we expect to keep it up, and hopefully have you all back in our next quarterly call. I want to thank you again. I'll see you next time then.

Operator: Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.