1Q2022 CONSOLIDATED EARNINGS RESULTS CALL TRANSCRIPT

GRUPO AVAL ACCIONES Y VALORES S.A.

1Q2022

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Operator:

Welcome to the first quarter 2022 consolidated results under IFRS conference call. My name is Hilda and I will be your operator for today's call.

Grupo Aval Acciones y Valores S.A. – Grupo Aval is an issuer of securities in Colombia and in the United States ("SEC"). As such, it is subject to compliance with securities regulation in Colombia and applicable U.S. securities regulation. Grupo Aval is also subject to the inspection and supervision of the Superintendency of Finance as holding company of the Aval financial conglomerate.

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-IFRS measures such as ROAA and ROAE, among others, are explained when required in this report.

Banco de Bogotá executed a spin-off of a 75% equity stake in BAC Holding International, Corp ("BHI"); to its shareholders and Grupo Aval subsequently spun-off its equity interest to its shareholders on March 29, 2022. Prior to the spin-off, Banco de Bogotá was the direct parent of BHI. Grupo Aval has retained an indirect stake of approximately 17.2% in BHI (representing our proportional interest in the 25% equity stake in BHI retained by Banco de Bogotá). This interest in BHI is reported as discontinued operations for reporting periods prior to the spin-off, including for the full period in the three months ended March 31, 2022 and, will be reported under the "share of profit of equity accounted investees, net of tax (equity method)" line item for subsequent periods.

As a result, for comparability purposes, we have prepared and present supplemental unaudited pro forma financial information for the three months ended March 31, 2021 and the three months ended December 31, 2021 that assumes the spin-off was completed on January 1, 2021 and October 1, 2021, respectively. The supplemental unaudited pro forma financial information does not purport to be indicative of our results of operations or financial position had the relevant transactions occurred on the dates assumed and does not project our results of operations or financial position for any future period or date. The pro forma financial information is unaudited and the completion of the external audit for the year ended December 31, 2022 may result in adjustments to the unaudited pro forma financial information presented herein any such adjustments may be material.

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.

Recipients of this document are responsible for the assessment and use of the information provided herein. Matters described in this presentation and our knowledge of them may change extensively and materially over time but we expressly disclaim any obligation to review, update or correct the information provided in this report, including any forward-looking statements, and do not intend to provide any update for such material developments prior to our next earnings report.

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 Gutiérrez, Chief Executive Officer. Mr. Sarmiento Gutiérrez, you may begin.

Luis Carlos Sarmiento Gutiérrez:

Good morning and thank you all for joining our first quarter 2022 conference call.

As always, it is my pleasure to share with you our strong financial results for the quarter that ended on March 31.

Of significance: this quarter saw the execution of the BHI spin-off that we announced on September 15 of last year. The quarter was also marked by Colombia's strong growth and by the continued positive trend in our subsidiaries' performances.

As I usually do, I will provide an overview of Colombia's macro scenario, I will then describe in more detail the spin-off, followed by a quick update of the status of our clients' pandemic-driven loan reliefs, our digital efforts, and the main highlights of our financial performance.

Starting with an overview of the macro environment, this quarter was dominated by an increasingly challenging global economic environment and, as I mentioned before, a strong Colombian economy; needless to say, far from being devoid of domestic challenges.

As we all know, global economic prospects continue to be adversely affected; primarily, the Ukraine-Russia conflict has added inflationary pressures to the commodity markets and particularly to the energy and agricultural sectors.

In addition, a new wave of lockdowns in China has further disrupted global supply chains and, last but not least, a faster monetary policy normalization possibility in the U.S. has induced increased pressure on foreign exchange and reduced leeway for domestic monetary policy.

As a result, in April, the IMF revised down its forecast of global GDP growth for 2022 to 3.6%, down from 4.4%. In contrast, growth prospects in Colombia continue to be constructive despite the global scenario and the heightened uncertainty around the upcoming presidential elections.

For starters, low frequency data suggest that the economic recovery has continued its path during 2022. In fact, the Colombian economy grew 8.5% or 8.2% on a seasonally adjusted basis during the first quarter of this year. In more detail, from the supply side, 10 of the 12 sectors representing 79.8% of GDP expanded.

The most dynamic relevant sectors were commercial activities that grew 15%, manufacturing that grew 9.1%, and government services that grew 6.2%. Nonetheless, recreation and entertainment, which represents 3.6% of GDP, grew 35.4%.

Sectors that contracted in the first quarter included agriculture and financial services. These account for 5.9% and 4.4% of GDP, respectively. We stay very vigilant of these results as we set our loan growth strategy accordingly.

From the demand side, private consumption increased 12% and government spending 8.6%. Gross capital formation expanded 8.1% over the same period, driven by strong investment and machinery and equipment.

Accordingly, we have raised our estimate of the country's GDP growth and now expect it to be in the 5% area. The IMF expects a 5.8% growth figure, while market consensus forecasts a GDP growth close to 4.7% in 2022.

Furthermore, the labor market continues to improve. The unemployment rate fell 12.1% in March 2022 from 14.7% in March 2021 after 1.6 million jobs were created. As our recovery process continues, we expect additional gains in the payroll numbers and a further decline in the unemployment rate to an average in the 11% area, down from 15.9% in 2020 and 13.8% in 2021.

We still expect an exchange rate closer to the 3,800 pesos per dollar area during the second semester of the year, supported by the surge of oil prices in international markets and by healthy amounts of remittances flowing into the country. These positives, however, are contrasted by a substantial trade balance deficit that does not seem to correct with time.

Additionally, during the last few days, the peso has weakened north of 4,000 pesos per dollar as result of market jitters regarding the path of interest rates in the U.S. Also, preoccupation surrounding the outcome of local elections are likely to keep the exchange rate for the next month or so at the 3,900 to 4,100 pesos per dollar range.

As of April, 12-month inflation reached 9.2%, a new high since 2000; Food inflation, that accounts for approximately 15% of inflation, reached a 12-month high of 26.2%. The increase in consumer prices continued to be driven by supply factors. In fact, monthly inflation registered during April was 1.25%, driven by a 2.8% increase in food prices. Inflation expectations for the remainder of 2022 have continued to rise, driving the Central Bank to increase its inflation forecast to 7%. Given domestic and imported inflationary pressures, we anticipate that 12-month inflation could reach 7.5% by year's end.

In this context, the Central Bank will continue its normalization of monetary policy in 2022. The repo rate is currently at 6% after a 100-basis point hike during the last meeting in April. If inflation behaves as expected, we believe that the tightening cycle will continue until the second semester, resulting in rate hikes of between 50 and 100 basis points before June 30, and additional rate hikes of 50 to 100 basis points in the third quarter, up to a possible 8% before year-end.

We continue to expect the current account deficit to hover around 4.8% of GDP in 2022, improving from the 5.7% observed at the end of 2021, mainly driven by higher oil prices and increased crude and coal production levels.

On the fiscal front, the government expects a deficit of 6.2% of GDP in 2022, an improvement versus the 7.1% recorded in 2021, based on the ongoing economic recovery and additional revenues from taxes and oil exports. Tax revenue in April grew 36.2% in annual terms, reaching 37.3% of the collection target set for the whole year. However, the government's medium-term fiscal outlook remains challenging, considering that its goal is to reduce the primary fiscal deficit by 230 basis points from 3.4% in 2022 to 1.1% in 2023. Reaching this goal will require either a reduction in public spending or a new tax bill.

Moving on, as you are probably aware, on March 29th, we completed the spin-off of 75% of BAC Holding International Corp. or BHI. As mentioned in our previous calls, two were the main motivations to execute the spin-off.

Firstly, because of BAC success and also due to the devaluation of the Colombian peso, BAC had grown to be the size of Banco de Bogotá, causing a disruption in the ability to set strategies for the bank in Colombia. We believe that separating the Banco de Bogotá and BAC operations will strengthen their respective strategic positions, allowing them to capture future growth and to adapt to the local market dynamics more quickly, through more efficient capital, fiscal and regulatory structures. Secondly, we believe that spinning off BHI from Grupo Aval will unlock value for our shareholders by allowing both shares to trade independently and on their own merits.

These are some of the results of the spin-off:

Our exposure to Central America fell from 37% of Aval's total consolidated assets in December 2021 to 7% of our total assets as of March 31st. Our Panamanian exposure is now limited primarily to Multibank, which was not spun-off and is still owned 100% by Banco de Bogotá.

On the day of the spin-off, our consolidated assets decreased by 111.2 trillion pesos, our consolidated net loans decreased by 69.8 trillion pesos, and our consolidated deposits decreased by 83.8 trillion pesos. Banco de Bogotá's and Grupo Aval's total shareholders' equity decreased by 9.66 trillion pesos, Grupo Aval's attributable equity decreased by 6.64 trillion pesos, and our minority interest decreased by 3.02 trillion pesos. It is important to note that of the 9.66 trillion pesos equity reduction, only 3.56 trillion pesos was tangible equity, while 6.1 trillion pesos was intangible equity.

To strengthen both Grupo Aval's and Banco de Bogotá's capital structures, both shareholder meetings approved the distribution of dividends in shares or cash at the option of the shareholders. 90% of Aval's dividend was accepted to be paid in shares. We expect a similar percentage of Banco de Bogotá's dividend to be paid in shares as well.

We booked 720 billion of extraordinary attributable net income from the realization of certain OCI accounts as a byproduct of the spin-off.

As announced, the capitalization ratio of Banco de Bogotá after the spin-off remained at a similar level to those at year end 2021, despite the headwinds from a depreciation of the fixed income portfolio due to rising rates, and an increase in risk-weighted assets derived from operational risk as part of the migration to Basel III.

Finally, as of May 17th, the sum of the prices of the shares of Grupo Aval and BHI was 1,126 pesos, approximately 12% higher than the price for Grupo Aval before the spin-off. During the same period, the Colcaap has lost 2.9% of its value.

As of March, active debt reliefs in Colombia amounted to approximately 4% of the total consolidated loan portfolio and the active debt reliefs in Panama, mainly Multibank, amounted to approximately 2% of the total consolidated loan portfolio. Of all loans that have concluded the relief periods, less than 1% are currently past due 90 days or more and 1.4% are currently past due 30 days or more.

Let's move on to digital, where these are some noteworthy numbers regarding our digital strategy. Over the last year, our active digital clients grew approximately 45% from 2.6 million at the end of March of 2021 to 3.8 million on March 31, 2022. 60% of all sales of retail products that have digitalized solutions, were conducted digitally.

Our banks sold over 500,000 digital products during the first quarter of this year, an increase of 54% versus the first quarter of 2021. Our recently improved mobile banking apps and personal banking platform reached a 57% digital adoption. We expect to have closer to 65% by year's end.

Campaigns using advanced analytics developed based on our unified database platform, Augusta, have been able to increase by 22% the use of credit cards and improved by approximately 10% the recovery of written-off loans.

The amount of qualified credit leads for our banks increased over 3.4 times since the implementation of our first mobility ecosystem initiative CarroYa.

Finally, with the collaboration of the consulting company McKinsey we have revamped our digital payment strategy and expect to launch it in the second half of this year.

Regarding our financial results, Diego will refer next in detail to our financial performance during the first quarter of 2022. However, I would highlight the following:

I believe that having spun off 75% of BHI will allow Banco de Bogotá to focus on its Colombian operation and will more transparently allow us to present our results without the resulting complexity that foreign exchange usually places on asset growth, coverage strategies and regulatory capital.

This quarter yielded an excellent attributable net income number of approximately 1.73 trillion pesos. As I mentioned before, the number includes an extraordinary gain of 0.72 trillion pesos, resulting from the realization of certain OCI accounts as a byproduct of the spin-off. Because the spin-off took place at the end of the quarter, the 1.73 trillion pesos number also includes a full quarter of BHI's net income for approximately 0.37 trillion pesos. What's exciting to me is that stripping the quarter's attributable net income of the extraordinary gain and also of the additional net income related to the 75% of BHI, which will not be a part of Aval's attributable net income going forward, the resulting pro forma attributable net income is similar to the net income achieved in some of the best quarters that we have posted in the past years, when we achieved our best historical results, including the 100% of BHI. Obviously, this is only an estimation and in no way of prediction but in any case, it gives us a reason for satisfaction.

Tricky times are ahead of us, in any case. The economy is currently moving in the right direction, but inflation is looming dark over our heads. Monetary policy will eventually contribute to moderate that worrisome economic statistic, but it is yet to be seen what effect the remedy to inflation will have over GDP growth and over loan quality. Also, we have yet to see the final consequences of the Russian invasion of Ukraine and the time it will ultimately take to fully restore the supply chain.

Locally, it is no secret that the upcoming elections might, at least for a period of time, alter the way we are accustomed to doing business. We are, however, strong believers in this country's ability to move forward.

I thank you for your attention and now, I'll pass on the presentation to Diego.

Diego Fernando Solano Saravia:

Thank you, Luis Carlos. As mentioned, we will present pro forma numbers to provide a more consistent baseline with which to compare this quarter's results and to better understand the guidance for the remainder of this year.

Recapping, the spin-off of 75% of our equity interest in BHI was completed at the end of first quarter. This implied deconsolidating 100% of BHI in the ending balance for the quarter, and the inclusion of Banco de Bogotá's remaining 25% equity interest under investments in associates and joint ventures.

Given that BHI represented approximately 30% of our book, the spin-off implied substantial variations of loans, fixed income investments, deposits, equity, and other balance sheet items. Given the date at which the spin-off was completed, 100% of the net income of BHI contributed to our results during the quarter.

Starting second quarter 2022, the 25% interest in BHI retained by Banco de Bogotá will be recorded under other income through the equity method.

To make the comparisons easier, the baseline quarters included in this report are pro forma figures, where 100% of BHI's contribution is subtracted from our assets, liabilities and net income. In addition, performance ratios that use average balance sheet figures as a denominator, such as NIM, cost of risk and cost to assets, deduct 100% of BHI, including from the beginning balance of first quarter 2022. Return on average assets and return on average equity are presented as reported.

The adjustments are based on IFRS figures. However, some pro forma line items and ratios are not IFRS figures and are presented for comparison purposes only. Please bear in mind that this may differ from our audited consolidated financial statements and ratios reported under IFRS or be revised in the future.

I will now move to the consolidated results of Grupo Aval, starting on page six. On a comparable basis, assets grew 10.3% over the year and 2.6% during the quarter. Annual and quarterly performance were driven by net loan growth, as shown by the increase of its weight over the mix of consolidated assets. Following the spin-off, our asset mix shifted slightly towards net loans and unconsolidated equity investments. The later mainly reflects Banco de Bogotá's remaining 25% equity interest in BHI, accounted for as an investment in associates. Central American assets now account for 7.2% of our consolidated assets, down from 37.3% in December 2021, prior to the spin-off, and are located exclusively in Panama through MFH.

Moving to page seven, we present the evolution of our loans on comparable basis. Gross loans grew 8.5% over the year and 2.6% during the quarter. Following the spin-off, our gross loan mix shifted toward commercial loans, giving BHI's had a higher portion of retail lending, particularly of mortgages. Commercial loans account for 57.5% of gross loans, while consumer and mortgage loans now account for 32.8% and 9.5%, respectively.

Our Central American operations through Multi Financial Holding in Panama account for 8.6% of our consolidated gross loans, down from 38.8% in December 2021, prior to the spin-off.

Our quarterly performance reflected a strong dynamic, both in commercial and retail lending. Commercial loans continued to gain traction after a slow second half of 2021, reaching a 2.7% growth over the quarter and 5.9% over 12 months.

Demand for consumer loans continued to be strong, resulting in a 2.4% growth during the quarter and 11.6% for 12 months. Payroll loans that concentrate 59% of our consumer book continued driving quarterly and 12-month growth with 3% and 12.9% increases, respectively. However, other types of loans have increased their contribution to growth, given changes in our banks' risk appetite, in line with a more favorable economic outlook.

Personal loans were the most dynamic product over the quarter with 3.9% growth that took the annual figure to 12.2%.

Over the year, automobile loans grew 10.2% and credit cards, 5.4%. Both products remained relatively flat over the quarter.

As other secured retail products, mortgages remain dynamic, expanding 2.2% over the quarter and 15.1% year-on-year.

Moving forward, business confidence in Colombia and the positive trends in economic activity continue supporting a stronger commercial loan growth rate than what was recorded over the past few years. In addition, we expect that retail lending momentum will persist as the employment continues its recovery and household demand consolidates, allowing banks to continue extending beyond of the lower-risk products. We have a positive view on 2022 growth despite temporary headwinds in confidence during the second quarter of this year derived from the uncertainty associated with changes in monetary policy, global geopolitical events, and the Colombian election cycle.

On pages eight and nine, we present several loan quality ratios on comparable basis. The quality of our loan portfolio remained stable during the quarter with improvements in composition by stages and in 90-day PDLs. These results are better than those reported a year earlier under all metrics presented on these pages.

Cost of risk improved relative to a year earlier and remained flat over the quarter. Composition of our loan portfolio classified by stages continued improving, as well as the coverage ratios for each stage. Stage 1 loans now represent 82.6% of our gross loans, improving from 80.3% and 81.7% twelve and three months earlier.

Reliefs continued to wind down. As of March, 0.3% of our total gross loans remained under payment holidays and 6.1% under structural payment programs, together accounting for 6.5% of our loan portfolio. Remaining payment holidays are limited almost only to Panama.

At the end of period, 6% of our total loans that in the past had benefited either from payment holidays or were restructured and that had returned to active payment schedules were past due more than 90 days. These past due loans represent 0.9% of our total gross loans. These numbers were 9.4% and 1.4% for loans past due more than 30 days.

Regarding delinquencies, 90-day PDLs fell to 3.53%, a 59-basis point improvement over 12 months and a 10-basis point improvement over three months. 30-day PDLs fell to 4.65%, an 82-basis points improvement over 12 months and stable over three months.

As anticipated, the level of Stage 2 loans continued improving, as previously relieved customers maintained healthy payment behavior or fully paid their outstanding balances. This performance was mainly driven by our consumer loan portfolio, which recorded 163 basis points, increasing the share of Stage 1 loans to 85.6% and a 129 basis points decrease in Stage 2 loans to 11%.

Cost of risk net of recoveries was 1.7%, approaching our guidance of 1.6% for the year. This result incorporates a 58-basis point improvement in commercial loans and a 74 basis points increase in retail.

Finally, the ratio of charge-offs to average 90-day PDLs was 0.55x for the quarter, 20% less than that recorded a year earlier.

On page 10, we present funding and deposit evolution on comparable basis. Funding growth during the quarter reflects a stronger loan dynamic. As a result, our deposit to net loans ratio remained at 100%.

Our funding structure remained relatively stable with deposits accounting for most of our funding at 71%. Deposits increased 3.1% during the quarter and 4.7% year-on-year, driven by growth in checking accounts. Our funding and deposit mix after the spin-off has a larger portion of funding from bonds and saving accounts relative to BHI's funding structure. BHI historically operates with higher liquidity ratios, considering that it operates several countries that are dollarized and thus do not rely on a central bank.

On page 11, we present the evolution of our total and attributable equity and the capital adequacy ratios of our banks, as reported. The spin-off resulted in a 9.66 trillion decrease in our total equity, of which 6.64 trillion are attributable equity and 3.02 trillion are minority interest. However, the tangible equity spun-off was only 3.56 trillion out of the 9.66 trillion decrease in total equity.

In addition to the spin-off, our equity decreased 0.21 trillion from the net effect of net income, changes in OCI, and dividends declared by our subsidiaries to their minority shareholders.

The spin-off led to an improvement in our tangible equity ratio, which now stands at 10.0% compared to 8.2% and 7.8% reported a quarter and a year earlier. Our ratio of equity to assets also improved over the quarter and the year.

As anticipated, on our last call, Banco de Bogotá's core equity Tier 1 and total solvency ratios remained relatively stable after the spin-off compared to a quarter earlier despite these headwinds.

Offsetting the benefits of the spin-off, certain events consumed solvency of Banco de Bogotá as well as of other Colombian banks. Equity and regulatory capital suffered from a sharp decline in prices of fixed income securities and FX volatility that led to unrealized losses recognized to our bank's OCIs. In addition, as part of the transition to Basel III, risk-weighted assets increased due to a step-up during the quarter of the coefficients used to convert operational risk into risk-weighted assets.

As part of the deconsolidation of BHI that resulted from the spin-off, OCI associated with BHI was reclassified and realized through net income during this quarter without an impact on the solvency ratio of Banco de Bogotá.

To further strengthen Banco de Bogotá's and Grupo Aval's capital basis, their respective shareholders' meetings approved the distribution of stock dividends. Shareholders are required by law to accept stock dividends or else are paid in cash. 90% of Aval's dividends were accepted to be paid in stock. We expect a similar percentage of Banco de Bogotá's dividends to be paid in shares as well.

Aval's cash dividend payout ratio was 3.6% of 2021s net income. In recent years, Aval and Banco de Bogotá have distributed an average of close to 50% of their annual net income as cash dividends.

Banks normally report their lowest levels of core equity Tier 1 and total solvency ratios at the end of first quarter, given that dividends are normally declared during this period.

In addition, as mentioned, this quarter was negatively impacted by OCI, unrealized losses and by a step-up in risk-weighted assets associated with operational risk, due to the transition to Basel III.

On page 12, we present our yield on loans, cost of funds, spread and NIM on comparable basis. NIM performance through the quarter was driven by a slightly tighter NIM on loans. A sharp increase in the Central Bank intervention rate that continued pressing up cost of funds during the quarter, implying increases of 65 basis points and of 94 basis points relative to fourth quarter and first quarter 2021.

During this inflection phase of monetary policy, NIM on loans is subject to a downward pressure, given that the repricing of loans, particularly that of fixed rate consumer loans, lags the repricing of funding. In addition, the increase in rates has implied lower yields or losses on fixed income securities, further affecting our NIM.

We expect NIM on loans to increase progressively throughout the year, as NIM on commercial loans continues to benefit from the upward interest rate cycle and as retail loan maturity and origination lead to higher NIM on retail loans.

During this quarter, our NIM on loans contracted 20 basis points to 5.11%, as the spread between yield on loans and cost of funds decreased 18 basis points to 5.32%. Average lending rate on commercial loans increased 89 basis points over the quarter, while NIM on retail loans decreased 11 basis points, building in as well additional competition.

NIM on investments was 0.62% during the quarter, impacted by the poor performance of fixed income security markets in a rising rate environment. We believe NIM on investments will continue under pressure in this environment and could be affected by global monetary policies and geopolitical events.

On page 13, we present net fees and other income on comparable basis. Gross fee increased 6.6% year-on-year and decreased 1.1% quarter-on-quarter, the latter largely explained by the seasonality of fee income during the last quarter of the year and the lower performance of pension fees in 2022.

Income from the non-financial sector primarily reflects a stronger performance of the infrastructure and energy & gas sectors.

On the bottom of the page, the quarterly increase in other operating income is mainly explained by a 1,053 billion one-time income booked resulting from the realization of certain OCI accounts as part of BHI's spin-off. Aval's attributable portion of such income was approximately 720 billion.

Due to the fact that the spin-off was carried out at the end of March, we booked 100% of BHI's net income during the first quarter of this year, which we present on this page as net income from discontinued operations. Starting on second quarter 2022, we'll recognize 25% of BHI's net income under other income through the equity method.

On page 14, we present some efficiency ratios on comparable basis. Cost to income decreased to 30.9%, favorably impacted by other income from realization of OCI described on the previous pages. Cost to assets fell to 2.6%. Quarterly expenses grew 8.5% year-on-year, driven by administrative expenses that grew 7.7% and personnel expenses that grew 7.5%.

Finally, on page 15, we present our net income and profitability ratios as reported. Attributable net income for the quarter was 1,730 billion pesos or 78 pesos per share, 2.2 times the result for first quarter 2021. This result includes Aval attributable portion of approximately 720 billion resulting from the OCI realization and the loss of control of BHI. Our return on average assets and our return on average equity for the quarter were 3.8% and 35.3%, respectively.

Before moving into questions and answers, I will now summarize our general guidance for 2022. We expect loan growth to be in the 13% area with commercial loans growing in the 12% area and retail loans in the 14% area. We expect our cost of risk net of recoveries to be in the 1.6% area. We expect full year NIM to be in the 4.2% to 4.4% range, with NIM on loans between 5.25% and 5.5%, benefiting from a slight positive effect from the rising interest rate scenario. We expect cost to assets to be in the 2.6% area. We expect our fee income ratio to be in the 16% to 18% range. We raised our expectation of the contribution of our non-financial sector to be at 100% to 110% relative to 2021. Finally, we expect our full-year reported return on average equity to be in the 21% area.

We are now open for questions.

Operadora:

Thank you. We will now begin the question and answer session. If you have a question, please press zero (0) one (1) using your touchtone phone. If you wish to be removed from the question queue, please press zero (0) two (2). If you are using a speakerphone, you may need to pick up the handset first before pressing the numbers.

We have a question from Nicolas Riva, from Bank of America. Please go ahead.

Nicolas Riva:

Thanks very much, Diego and Luis Carlos, for the chance to ask questions. I have two questions. The first one on, Diego, I already asked this last quarter, but just to reconfirm that you plan to pay the 1-billion-dollar bond maturity in September with existing resources at the Aval holdco level. There's one page in your earnings report where you basically give some numbers for the unconsolidated balance sheet of the holdco and there I see 825 million dollars in liquid assets at the end of the quarter. So, just a bit short of the 1 billion maturity, but again, if you can reconfirm that you do not plan to raise any debt for this bond maturity of Aval in September. That's the first question.

And then the second question regarding capitalization. So, of course, there were a lot of moving parts in the balance sheet and income statement because of the spin-off of Central America in the quarter. As you said, all in all, the CET1 ratio of Banco de Bogotá was quite stable, up 20 basis points quarter-on-quarter. What I want to reconfirm here is that you still do not see a need to do an equity injection at either the Banco de Bogotá or the Aval level. You also explained that I believed that you paid 90% of the dividend of the Aval level in shares and plan to do something similar at the Banco de Bogotá level. But again, if you can confirm that you're not going to do an equity injection at Banco de Bogotá or Aval level at this time. Thanks.

Diego Fernando Solano Saravia:

Yes. Let me take the first question on paying the 1 billion dollars. The answer is yes and you're seeing part of the funds that we will be using, the remaining part of that that is not included in that account, are collection of some senior loans that we have with our subs.

Then, your second question regarding capitalization. At this point, we do not see a need of capitalization. This will depend very much on how growth evolves into the future. And I think that you pointed out the reason why there's not a need for total capitalization at this point and it is, number one, numbers are stable, and number two, with the decision made by Banco de Bogotá and Aval on how to declare dividends, what we actually did is equivalent to having paid out dividends and having gone through a capitalization process. So, at this point, there appears not to be a need for that.

Operadora:

Thank you. Our next question comes from Jason Mollin, from Scotiabank. Please go ahead.

Jason Mollin:

Hello, everyone. My first question is on the pro forma number calculation for the first quarter of 2021 and the fourth quarter of 2021. From the release, and it sounds from your statements as well, it's only for certain items like loans, allowances and interest fees, operating costs, but then you showed the reported return on assets and return on equity, can you inform us what those numbers would be on a pro forma basis, return on assets and return on equity?

And my second question would be on the political and regulatory outlook. Do you see changes in regulation that could impact your profitability in Colombia? And specific there would be particularly, I guess, on taxes. Thank you.

Diego Fernando Solano Saravia:

Okay, Jason, let me take the first one. And let me first explain why we didn't include pro forma numbers for return on equity and return on assets. The reason for that is there's too many moving parts, and we would have had to make too many assumptions in the process, for example, how dividends were paid in the past, how earnings were generated, how OCI was moving around. So, it made numbers perhaps misleading if we tried to include those. That's the reason why we have guided more into what the results for this year will look like. What we're looking into is something that will be north of 20% of ROE as reported. And then if you were to think on how the following quarters will be performing, they should be somewhere in the 16.5% area. Variations will depend very much on how rates will be evolving over time, but that's basically the order of magnitude, if we were to think moving forward how our numbers look like.

Luis Carlos Sarmiento Gutiérrez:

Let me take the second question, Jason, on the political outlook and possible changes in regulation or taxes. Right out of the top of my mind, your guess is as good as mine. I don't think that there will be anything in particular against the financial system. We are now paying a surcharge as you know with regard to income taxes. And they say in Colombia, there's nothing more permanent than a temporary tax. So that will probably continue over time and we'll have to see what the new government does, if they are going to try to meet the fiscal deficit goals that they've set for themselves.

As I said in the presentation, I don't know that this situation will put us there. So, we'll probably be talking about new tax rules sooner than later. We'll see, sometimes those are beneficial, sometimes they're not. But again, I don't think anything in particular will be done against the financial system. We'll probably see more competition from the state-run bank. But that's okay. Actually, we like that. So, yes, sorry, I'm not trying to evade your question, but as I said, your guess is as good as mine.

Operadora:

Thank you. Our next question comes from Julián Ausique, from Davivienda Corredores. Please, go ahead.

Julián Ausique:

Thank you. Hi, everyone, and thank you for having my questions. I have two questions and the first one is regarding the net stable funding ratio around your banks, Banco de Bogotá, Occidente, AV Villas and Popular, because as we have seen in the market, the liquidity has been reducing. We have heard that this ratio is having some pressure. So, I would like to know how are you seeing this ratio in your banks.

And the second question is regarding a sensibility about the rise in interest rates from the Central Bank of Colombia and how they will impact positively. Of course, I know it will benefit the net interest ratio, but for example, how will affect if the rate is too high regarding the growth of loan growth? Thank you.

Diego Fernando Solano Saravia:

Okay. So, the first one, if I understand it right, you were referring to CFEN, and for the use of other participants in the call, that's a liquidity ratio that basically takes into account certain deposits and in that sense, ends up forcing banks to take funds from the capital markets. You might have missed it but Banco Popular recently issued a bond in that direction with which it really gets ahead of where it should be with CFEN. That was the only bank that we had that needed at some point to do something this year. Other banks in the group are considering depending on market conditions because they're not forced by timing.

Then, regarding the Central Bank monetary policy, I think that absolutely right, this is much more of an academic discussion. If rates go up, that, as Luis Carlos mentioned in his speech, might slow down what seems to be a very strong comeback from the Colombian economy. In that sense, what we expect is a moderate increase in rates from the point where we are up to. At this point, we're at 6% and as Luis Carlos mentioned, for the remainder of the year we might go up to something between 7% and 8%. So, most of the cycle is already built into what is happening now. However, you're right, higher rates slow down the economy. But at this point, I think inflation seems to be such a relevant issue around the world and in Colombia that we believe that the access of the Central Bank are the appropriate ones.

Operator:

Thank you. The next question comes from Alonso Aramburu, from BTG Pactual. Please go ahead.

Alonso Aramburu:

Yes. Hi. Good morning. Thank you for the call. Two questions. The first one on fee income, net fee income was negative due to the growth of expenses. Can you give us some color as to what happened there?

And the second question regarding your guidance in the non-financial sector, which has improved significantly from what you had mentioned in the previous quarters, if you can give us some color as to why are you more positive on that sector.

Diego Fernando Solano Saravia:

Regarding fee income, we have two things happening at this point. One, if you are to compare our numbers with our previous numbers, the Colombian contribution to fees was much lower than that from Central America. So, when we spin-off and we no longer consolidate the numbers, then that's the main reason why our fee ratio looks lower. Then there are two things happening, one, the numerator and the other one is the denominator. The denominator one is the easy one, and it is our other income was particularly high during this quarter. So, when you divide by a larger number, you end up with a lower fee ratio. And then on the numerator side, fees from our pension funds have been pressed by the lower rates and lower returns of the portfolio and those fees are very relevant when we're looking into growth of our fee income. So that's the first one.

The second one, I think I missed your question.

Alonso Aramburu:

Yes, I wanted to ask you for some color on the non-financial sector.

Diego Fernando Solano Saravia:

Yeah. Okay.

Alonso Aramburu:

Your guidance is stronger than usual.

Diego Fernando Solano Saravia:

Yeah. Our guidance is stronger on the non-financial sector because the toll roads are performing pretty well. The way the toll roads generate income has to do with expectations as well and given higher inflation that ties into the returns into the future, our toll roads have benefited from this environment. So that's the reason why up to this point, they've been quite strong, and we do expect them to continue being stronger. You might recall that on our last call, we had said that we expected our non-financial sector to be falling roughly one quarter of what it used to be. At this point, we believe it might exceed what we had last year.

Operadora:

Thank you. And at this moment, we have reached the time allotted for questions. I would like to turn the call back to Mr. Sarmiento for his final remarks.

Luis Carlos Sarmiento Gutiérrez:

Great. Hilda, thank you very much. And once again, thank you all for listening, and obviously, we'll try to keep producing the results as always, and we'll see you in our next call, hopefully. I appreciate your time.

Operadora:

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