4Q2020 CONSOLIDATED EARNINGS RESULTS CALL TRANSCRIPT

GRUPO AVAL ACCIONES Y VALORES S.A.

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Operator: Welcome to Grupo Aval's fourth quarter 2020 consolidated results conference call. My name is Richard and I'll 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. 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 Superintendence 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-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 fourth quarter 2020 conference call. I trust that all of you and your families are keeping healthy.

The year 2020 will be infamously remembered as the year of the coronavirus, but above all it will be remembered for the devastating loss of lives and the global economic crisis which advanced rampant heeding no attention to geographical borders or political inclinations. It is said, that on average, a pandemic hits humanity once every century. However, it's impossible to really know how well prepared one is to face the next to hit. In that respect, I am proud to say that Grupo Aval and its employees have endured in exemplary fashion the situation lived in the past 12 months. I don't mean to imply that Aval's results were not affected. Indeed, our results were negatively affected, as were our clients'. However, as you will ascertain as we go through today's presentation, so many years of conservative risk management, a strategy of diversification among business lines and geographies, and the adaptability of our employees to the new normal, permitted us to face this past year with relative success when compared to the rest of the region's financial systems. In fact, despite multiple headwinds, our attributable net income for the year was COP $2.35 trillion, only 22.5% lower than the all-time high net income of COP $3.0 trillion recorded in 2019. This represented a return on average equity of 11.7% and a return on average assets of 1.5% for the year.

Since the start of the first lockdown exactly one year ago, we had the opportunity to test our contingency procedures with very positive results. Throughout the year we managed debt relief packages that involved over 30% of our Colombian loan portfolio and around 45% of our Central American loan portfolio, strengthened our digital channels, and increased the capacity of our call centers, none of which would have been possible without the dedication of our credit officers, our IT and digitalization personnel, our operators and our branch network employees. I am proud of their resilience.

As I usually do, before we jump into the detail of our financial results, I will refer to the situation of the economies of the countries in which we operate, and I will provide an update of the status of our clients' loan reliefs, our digitalization program, our ESG efforts, and on recent developments regarding Ruta del Sol.

During 2020 Colombia's economy contracted 6.8%, less than anticipated by the OECD, which puts it at -8.3%, or the IMF, which put it at -8.2%, or the Central Bank, which put it at -7.2%. In the fourth quarter, the economy contracted 3.5% when compared with the fourth quarter of 2019. This was a material improvement versus contractions of 15.6% and 8.3% observed during the second and third quarters, respectively. Versus the third quarter, the last quarter of the year expanded by 6% and exceeded market consensus. Along with this result, we started to see a recovery in commercial dynamics, mainly in the retail business, as well as in banking fees.

Examining the year's performance, from the supply side, four sectors that represent 38% of GDP expanded: agriculture grew 2.8%, financial services grew 2.1%, real estate activity grew 1.9%, and government services grew 1%. The remaining sectors, which represent the bulk of the economy, contracted. Among those, commercial activities fell 15.1% and manufacturing contracted 7.7%.

From the demand side, investment fell 21.2%, while total consumption decreased 4.1%, led by a decrease of 5.8% in household consumption.

Unfortunately, this year the economy got off to a rocky start as Colombia experienced a second, more intense wave of contagion that triggered a new round of social mobility restrictions and regional lockdowns, which interrupted the economic recovery that had started towards the end of last year.

However, lately the number of cases and deaths has declined considerably, allowing government officials to ease restrictions. There is also cause for optimism as vaccinations started on February 17th. As a result of these two circumstances, we expect a rebound in domestic activity driven by stronger consumer sentiment.

Additionally, the recent increase in oil prices should narrow the trade balance deficit, which is expected at 3.7% of GDP for 2020. We thus expect a gradual normalization in business activity as the year progresses.

Although uncertainty remains high, we are cautiously optimistic about the country's growth prospects and believe that GDP growth will approximate 4.5% in 2021, with a decrease in GDP for the first quarter and sustained recovery for the remaining quarters.

In line with a bounce-back in domestic demand, we expect a widening of the current account deficit to 3.5% of GDP by year end, up from 3.3% of GDP in 2020. The widening of the current account deficit will be the result of a stronger domestic demand for imported goods and a lower elasticity of oil export volumes to the COVID-related cycle.

During the fourth quarter, the exchange rate appreciated from COP 3,868 per dollar to COP 3,432, mainly due to a worldwide increase in demand for risk assets and the result of the U.S. elections. So far this year, the exchange rate has remained volatile, recently oscillating around the COP 3,600 per dollar level. In the near term, we expect the peso to continue to fluctuate between COP 3,400 and COP 3,700 per dollar.

After peaking at 3.86% in March of last year, 12-month inflation ended the year at 1.61%, the lowest it has been since 1955. The decline in annual inflation was mainly explained by the quarantines between March and September, which weakened inflation pressures from the demand side. Other contributing factors included the fall in raw material prices and the government support of households through subsidies to public services and through a freeze of real estate rents. We expect 2021 inflation to gradually move upwards, approaching 2.5 to 3% by year end, which is within the Central Bank's target range, as some of the policies that cut regulated prices are no longer in place and also as a result of the bounce-back in demand that should set a floor to the decline in the prices of the service sector.

Lower 2021 inflation and well anchored medium-term expectations have given the Central Bank reasons to continue with its current expansionary monetary policy. In fact, the repo rate declined 250 basis points in 2020 to the current record-low level of 1.75%. We however believe that the Central Bank will leave unchanged its interest rate until at least the third or fourth quarter of 2021.

The labor market experienced a sharp contraction with the average unemployment rate increasing to 16.1% at the end of 2020, up from 10.5% in 2019, and the average urban unemployment rate increasing to 18.4% from 11.2% in 2019. In fact, during 2020, 1.4 million jobs were destroyed, mainly in sectors such as commerce, entertainment, tourism and restaurants. Information from our pension fund manager indicates that in the last quarter of 2020 jobs started to recover albeit less quality jobs. The January lockdowns placed additional pressure on unemployment. However, as mobility restrictions are again eased and the pandemic comes under control, we expect an improvement of 2 to 3 percentage points by the end of 2021.

On the fiscal front, the fiscal deficit for 2020 was 7.8% of GDP, lower than the 8.9% expected by the government. This was a result of lower execution of expenses and an increase in tax collections. However, the government expects the fiscal deficit for 2021 to approximate 8.6% of GDP, mainly due to the adverse effect on fiscal revenues of the economic downturn, as well as the additional pandemic-related fiscal expenditures. As mentioned in our previous calls, the fiscal rule has been suspended until 2022.

Finally, the government has announced that it is planning to present to Congress a fiscal reform before June of this year with the goal of addressing structural fiscal issues both on the revenue and spending side with the objective of helping to correct the ongoing upward trend of public debt.

Moving on to Central America, as a result of the pandemic, the IMF expects a contraction of the region's economy of 5.9% in 2020 and a GDP growth of 3.6% for the region during 2021. Panama has been the most impacted, in line with the strictest lockdowns and the highest contagion rate in the region, experiencing a whopping 20.4% contraction over the first nine months of 2020. The IMF expects Panama's GDP to grow 4% in 2021.

GDP for El Salvador and Honduras contracted 9.9% and 9.5%, respectively, during the first nine months of 2020. Remittances were a transmission channel of the global shock for the two countries, as they contribute with slightly more than 20% of GDP in each of them. However, due to the recovery of the U.S. economy starting in the second half of the year, these inflows rebounded rapidly, supporting the recovery of those economies. The IMF now expects GDP to grow 4.9% in Honduras and 4% in El Salvador during 2021.

Costa Rica's GDP contracted 5% during the first nine months of 2020, impacted by a decrease in external demand for services, mainly tourism. However, mobility was not as restricted at the beginning of the pandemic as in other countries of the region and therefore, its contraction in key sectors of the economy, such as commerce, was less drastic. The IMF expects GDP to grow 2.3% in Costa Rica during 2021.

Guatemala's confinement was less strict than others in the region, therefore, in the second quarter, GDP contracted 9.6%, but only 1.8% in the third quarter. As a result, GDP only contracted 3.5% during the first nine months of 2020. The Guatemalan economy is expected to grow 4% during 2021, according to the IMF.

Finally, Nicaragua's GDP contracted 2.8% during the first nine months of 2020, the lowest in the region. Its lower exposure to the external shock, together with its limited confinement measures, supports its performance. According to the IMF, GDP is expected to contract 0.5% during 2021 in Nicaragua.

Let's move on to the status of our loan relief programs. As of December, we had active reliefs representing approximately 13% of our total consolidated loan portfolio for approximately COP 26 trillion. Active reliefs in Colombia amounted to COP 9.6 trillion, with COP 6 trillion in structurally restructured loans, representing 7.3% of the total Colombian loan portfolio. Reliefs in Central America amounted to COP 16.3 trillion, representing 23% of the region's portfolio. Of all loans that have concluded the relief period, 5.4% are currently past due 30 days or more, representing 1.4% of our total consolidated loan portfolio. Our cost of risk reflects our estimation of losses related to the eventual culmination of these relief programs.

Regarding our digital strategy, as mentioned in previous calls, we continue to primarily focus on transforming our core products into digital solutions and digitalizing core processes in our banks. These are some highlights of our achievements on this front during 2020. We increased the number of digital products offered by our banks by 68%. Our digital clients grew almost 40% from 3.5 million to approximately 5 million. Digital sales increased almost 70%.

In Colombia, during 2020, we launched 24 digitalization MVPs, three digital marketing cells, 29 analytical models, and we consolidated our data strategy capabilities by implementing a data platform, Augusta, which has undertaken over 40 cases, solving different business problems with advanced analytics models. In addition, during 2020 our digital channels significantly increased their share of total banking transactions and now represent almost 60% of total amounts transacted and 21% of the total number of monetary transactions, up from 46% and 16%, respectively. On the other hand, our branch network decreased its share of banking transactions during the year and now represents 40% of total amounts transacted and 17% of the total number of monetary transactions, down from 51% and 23%, respectively. ATMs and alternative channels such as nonbanking correspondents account for the rest.

In Central America, digital monetary transactions increased 45% during 2020 and currently represent 48% of the total number of monetary transactions, up from 33% in 2019. BAC Credomatic continued to work in multiple digital projects during 2020 with remarkable results, such as the implementation of a chat bot with a 19% rate of non-human interaction and the development of two different sites with housing and vehicle catalogs with more than 300,000 visits per month.

ESG has been an integral part of our strategy over the past few years. To affirm our commitment, in 2018 we engaged a leading consultant to help us build, over a period of four years, a world-class ESG program. These are a few of our 2020 ESG milestones. On corporate governance and risk management, we have steadily increased the representation of women on our boards and today almost 30% of our principal board members are women. Secondly, we implemented ESRA(Environmental and Social Risk Analysis systems), in Banco de Bogota, BAC Credomatic and Multibank. We are currently working on the implementation of ESRA in our other banking subsidiaries.

On the economic performance front, Porvenir and Corficolombiana signed their addition to PRI, which is the Principles for Responsible Investments. Banco de Bogota issued a COP 300 billion green bond. In addition, we launched green credit products in some of our banks.

Regarding corporate eficiencies, we're strengthening our corporate procurement policy to guarantee that the evaluation and selection criteria of suppliers is made under ESG standards. Through our loyalty program Tuplus, our customers were able to exchange loyalty points for donations to well-known non-for-profit organizations such as UNICEF and the Civil Air Patrol. We obtained the Friendly Biz Certification, positioning ourselves as the first financial group in Colombia and Latin America certified as friendly to the LGBT+ community with customer service policies for the sexually diverse.

On talent management, we have also increased the representation of women in our workforce, and currently this gender represents 55% of our total consolidated employment. In addition, we're working with ACDI/VOCA from USA on our corporate inclusion and diversity policy.

Banco de Bogota, Occidente and Corficolombiana received the Great Place to Work certification. Furthermore, Banco de Occidente was voted the best bank to work for in Colombia.

Regarding the social and environmental initiatives, Banco de Bogota and Corficolombiana became part of the Dow Jones Sustainability Index. 58% of the total loans made by Corporacion Microcredito Aval, a non-for-profit affiliate dedicated to making loans to very low income debtors with no previous credit histories, were granted to women heads of households. Female heads of households currently represent 60% of Corporacion Microcredito Aval's total loan book.

We implemented through our subsidiaries several environmental initiatives, including the decontamination of the Bogota River, reforestation of the Amazon and the use of renewable energies in some of our branches and headquarters.

Finally, our subsidiaries, jointly with our controlling shareholder, are fully funding the construction of a USD 500 million state-of-the-art cancer treatment and research center in Colombia.

Moving on to an update on legal matters surrounding Ruta del Sol, there have been the following developments:

- On December 28, 2020, the Superintendent of Industry and Commerce issued resolution number 82510 of 2020, closing the investigation with respect to all parties charged with an alleged conflict of interest, including Grupo Aval, Diego Solano and myself, as well as Corficolombiana and its officers. We welcome this correct resolution of the matter.

- As to the charge related to the bribe paid and confessed by Odebrecht in connection with the Ruta del Sol sector 2 project, the Superintendent decided to impose fines on all of the investigated entities and individuals, including Corficolombiana and Episol. In the case of our subsidiaries, the SIC fined Corficolombiana and Episol because of Jose Elias Melo's knowledge of Odebrecht's crime. Corficolombiana was fined the equivalent in pesos of approximately USD 15 million and Episol was fined the equivalent in pesos of approximately USD 9.5 million. Odebrecht's affiliates were fined twice those amounts and Odebrecht's employees were fined close to the maximum allowable under the law.
- On January 28, 2021, Corficolombiana and Episol filed an appeal against the mentioned resolution. This appeal, seeking reconsideration of its decision to fine, is decided by the Superintendent himself. If the appeal is denied, the fines become payable with an impact of approximately USD 9.5 million to the attributable net income of Grupo Aval. Half of this amount was provisioned in 2020.
- In any case, Corficolombiana and Episol may further appeal the decision before Colombia's Administrative Superior Courts.
- There is also good news on a personal level. Based on the evidence we have presented to the authorities over the last few years, as well as other evidence gathered by the Fiscalia General de la Nacion, the Attorney General's Office, we recently formally requested that the Fiscalia General closed any investigation of me relating to Ruta del Sol. The good news is that I was recently formally notified about the official closure of the investigation, including the referral after the Jose Elias Melo trial.

Regarding our financial results, Diego will refer next in detail to our financial performance during 2020. However, I would highlight the following.

First, I would reiterate that Aval's diversification strategy and its approach to profitable and sustainable growth and risk management paid off. In fact, the strong results from Corficolombiana and Porvenir provided additional earnings to cope with the negative impact on our banking business of this global crisis.

The results of our banking business during the year were driven by: first, a significant contraction in the average rates of our loan portfolio derived from the cuts in the repo rates of the Central Bank, also from the intensification of competition via interest rates and the effects of the loan relief program.

Second, a 60% increase in loan loss provisions up to COP 2.2 trillion. However, despite this increase, our overweight in loans in segments with higher credit quality mitigated the need for additional cost of risk.

Third, a decrease in fee income as a result of materially lower usage of our branches, ATMs and other physical points of service due to the restrictions on mobility, also because of the temporary waivers of fees related to the use of our digital channels granted by us during the initial months of the crisis.

Fourth, an intense cost optimization plan that allowed us to reduce our total expenses by 2.2% in our operations in Colombia and by 3% in our operations in Central America, excluding the exchange rate effect. Obviously, these cost savings were partially offset by the recently acquired MFG's operating expenses.

Finally, acceptable growth, obviously driven in Central America by the MFG acquisition of close to 16% in consolidated assets, 13% in consolidated gross loans and 21% in consolidated deposits.

I thank you for your attention and now I'll pass on the presentation to Diego, who'll explain in detail our business results and provide guidance for 2021. Thank you very much.

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

Starting on page 10, assets grew 15.8% during 2020 and decreased 3.3% during the quarter. Excluding the acquisition of MFG and FX movements of our Central American operations, total assets grew 8.4% in 2020. Colombian assets grew 7.5% year on year and decreased 0.9% during the quarter, while Central American assets recorded a 29.3% year on year growth and a 4.1% quarterly increase, both in dollar terms. MFG contributed 19% of the year on year growth. A 4.7% depreciation over the last 12 months resulted in an annual growth in COP of Central America of 35.4%. During the quarter, an 11.2% appreciation resulted in a 7.5% contraction in COP. The weight of Central America decreased slightly during the quarter to 35% of our book.

Moving to page 11, loans grew 12.5% over the year and decreased 3.9% during the quarter. The acquisition of MFG added COP 11.6 trillion or USD 3.4 billion to our loan portfolio and explains 6.5 percentage points of our 12-month consolidated growth in COP terms. Our Colombian gross loan portfolio grew 5.6% over the year and contracted 0.5% during the quarter. Our quarterly performance reflected a stronger dynamic in retail lending and a softer one in commercial lending, in line with the trends of the Colombian banking system.

Demand for consumer loans was strong in Colombia, resulting in growth of 4.4% during the quarter and 8% for the full year. Growth remained driven mainly by secured products, particularly payroll loans. Even though competition has begun to shyly open to other products and segments, the market risk appetite remains focused on lower risk markets. Nonetheless, payroll lending, which accounts for 58% of our Colombian consumer portfolio, grew 6.7% during the quarter and auto financing, which accounts for 7%, grew 3.7%. As other secured retail products, mortgages remain dynamic, expanding 2.8% over the quarter and 11.5% year on year. In contrast, credit cards, which accounted for 13% of our Colombian consumer loan portfolio, contracted 1%.

On the other hand, our Colombian corporate lending growth continues to be weaker. Commercial loan portfolio, excluding repos, contracted 3.3% over the quarter, bringing annual growth down to 3.8%. Despite this soft result, we were able to increase our market share of commercial loans in Colombia by 18 basis points during the quarter.

Moving to Central America, our gross loans portfolio grew 22% in dollar terms year on year and 1.6% over the quarter. Excluding the impact of the acquisition of MFG, Central America grew 1.9% year on year in dollar terms. Quarterly performance in Central America evidenced a recovery in economic activity that resulted in 1.8% and 1.7% growth of consumer and commercial loans, respectively. Mortgages increased 0.9% over the quarter.

We expect loan growth to continue recovering as the countries where we operate overcome the lockdowns experienced during 2020. We expect commercial loan growth to pick up as economic activity and business confidence progressively returns to normality throughout the year. In addition, we expect that the retail lending growth will accelerate as employment outlook improves, allowing banks to extend beyond low-risk products and as demand consolidates with households slowly regaining confidence in a scenario with no further countrywide lockdowns.

On pages 12 and 13, we present several loan portfolio quality ratios. As discussed throughout 2020, the unusual circumstances related to reliefs triggered by the pandemic led us to book in advance to actual delinquency an unusually high cost of risk based on expected credit losses. As this behavior is opposite to normal cycles, throughout this year we expect to experience increases in delinquencies while our annual cost of risk decreases.

As of December 31st, we had 7.1% of our gross loans under payment holidays and 5.8% under structural payment programs, together accounting for 12.7% of our loan portfolio. Payment holidays in Colombia are substantially over, with a fraction migrating to structural payment programs. Payment holidays have extended longer in Central America, particularly in Panama.

In Colombia, 2.8% of our gross loans are under payment holidays and 4.6% under structural payment programs. Together, 7.3%. In Central America, 15.2% of our gross loans are under payment holidays and 7.9% under structural payments programs. Together, 23.1%. Panama accounts for over 50% of active benefits, being the first in the region, with close to 34% of gross loans relieved, mainly under payment holidays. In the rest of the region, 17% of gross loans benefited from reliefs, two thirds of which are structural payments programs.

Out of the loans that benefited either from payment holidays or structural payment programs and that have returned to active payments schedules, 5.4% were past due more than 30 days. This represents 1.4% of our total gross loans. In Colombia, 1.2% of gross loans and 5.3% of benefited loans. In Central America, 1.8% of total gross loans and 5.5% of benefited loans.

Regarding delinquency metrics, 30-day PDLs improved during the quarter after a particularly high reading three months earlier as a portion of the initial reliefs ended or migrated into structural payment programs. 90-day PDLs increased, as 30-day new PDLs recorded during the third quarter advanced to their natural aging cycle.

The quality of our loan portfolio increased by 26 basis points to 4.90% quarter on quarter on a 30-day PDL basis and deteriorated 35 basis points to 3.56% on a 90-day basis. Our 30-day and 90-day PDLs are now 54 basis points and 31 basis points higher than they were a year earlier.

Breaking these figures down by portfolio, our commercial loan portfolio improved 14 basis points to 4.5% on a 30-day PDL basis over the quarter and deteriorated by 29 basis points to 4% on a 90-day PDL basis.

In Colombia, our commercial PDLs improved 12 basis points to 5.7% on a 30-day PDL basis and deteriorated 43 basis points on 90-day PDL basis to 5.1%.In Central America, 30-day PDLs improved 38 basis points to 1.7%, while 90-day commercial PDLs improved 18 basis points to 1.4%.

Moving to our consumer loan portfolio, we recorded over the quarter a 33 basis point improvement to 5.4% on a 30-day basis and 58 basis points deterioration to 3% on a 90-day PDL basis. In Colombia, 30-day PDLs basis improved 10 basis points to 5.7%, while 90-day PDLs deteriorated 76 basis points to 3.5%. In Central America, 30-day PDLs improved 78 basis points to 4.7%, while 90-day consumer PDLs deteriorated by 18 basis points to 2%.

Mortgage PDLs improved 66 basis points on a 30-day basis to 5% and deteriorated 8 basis points on a 90-day basis to 2.9%.

As anticipated, the fourth quarter has the highest cost of risk of the year. This reflects a deterioration of asset quality measured by stages under IFRS 9. During the quarter, we transitioned relieved clients rated as high risk to stage two. This triggered additional provisions as the probability of default moved from 12 months to lifetime, among other considerations.

Contraction of our corporate loans and of higher risk consumer lending products slightly mitigated the impact on cost of risk arising from the increase in the balance of stage two and stage three loans.

2020 cost of risk net of recoveries was 3%, in line with our previous guidance. This includes a 60 basis point increase in cost of risk of our total portfolio over the quarter, with increases of 64 basis points and 48 basis points in commercial and retail, respectively.

Quarterly cost of risk increased 94 basis points in Colombia and remained flat in Central America. In Colombia, this behavior was driven by retail loans that increased 133 basis points, while commercial loans increased 63 basis points. In Central America, cost of risk of our retail portfolio improved 60 basis points and was offset by a 66 basis points deterioration of commercial loan portfolio.

Regarding large delinquent exposures, our coverage of Avianca reached approximately 45% at year end. At December 31st 2020, our consolidated exposure to the Avianca Group was approximately USD 189 million, equivalent to COP 648 billion. As mentioned in previous calls, 73% of this exposure is secured with international billings, 20% is secured with Avianca's headquarters building in Bogota.

Our PDL coverage of 30-day and 90-day PDLs improved during the quarter.

Finally, we expect our cost of risk to move down to the 2.5% area during 2021, still impacted by the COVID pandemic. This incorporates the high risk associated with relief loans reinitiating repayment schedules, high unemployment levels, and certain areas of the economy taking longer to recover to the pre-pandemic levels.

On page 14, we present funding and deposit evolution. Funding growth during the quarter continues to reflect a high liquidity environment. As a result, our deposits to net loans ratio remained high, slightly increasing to 108% while our cash to deposits ended the quarter at 16.1%.

Funding structure continued shifting towards deposits, which now account for 78% of total funding. Deposits increased 20.7% year on year and decreased 2.4% during the quarter. Colombia contracted 0.4% during the quarter, while Central America grew 6.3% in dollar terms. Through the 12-month period, Colombia grew 10.8% and Central America 35.4% in dollar terms. In Central America, 17.2% is explained by MFG.

On page 15 we present the evolution of our total capitalization, our attributable shareholders equity and the capital adequacy ratios of our banks. Our total equity grew 6.3% year on year, while attributable equity increased 4.1%, mainly driven by our earnings. Total equity remained stable during the quarter, while attributable equity decreased 0.7%.

At the 4Q2020, our banks show proper tier 1 and total solvency ratios.

Our estimates for solvency ratios at year end 2020 show that Occidente, Popular and Villas would increase their core equity tier 1 capital under Basel III, between 2.5 and 4.5 percentage points to levels ranging between 12.8% and 13.7%. Banco de Bogota would increase its ratio slightly over 1 percentage point.

On page 16 we present our yield on loans, cost of funds, spreads and net interest margin. 2020 rate behavior was driven by falling reference rates, a market focused on lower risk/lower return products and segments, and an increased price competition of those. The average Central Bank rate in Colombia contracted by 138 basis points to 2.87% in 2020, while the average three-month LIBOR contracted by 168 basis points to 0.65%. These negatively impacted yields in both regions.

In this environment, 2020 yield on loans fell 102 basis points down to 9.35%, despite a 64 basis points reduction in cost of funds down to 3.1%, the spread between average yield on gross loans and average cost of funds contracted 38 basis points. Rates continued to fall during the year, reaching an average yield on loans of 8.66% and a 2.56% average cost of funds by fourth quarter.

Regarding NIM on investments, after a poor first half, fixed income portfolios had a strong performance during the remainder of 2020, with average yields on fixed income and interbank and overnight funds of 5.56% for the fourth quarter and 4.93% for the full year. As a result of these trends, our yearly NIM decreased 53 basis points to 5.2% during 2020, driven by a 45 bps decrease in NIM on loans to 5.9% and a 71 basis points decrease in NIM on investments to 1.6%. Quarterly NIM increased 22 basis points as a result of an 8 basis points higher NIM on loans and 100 basis points higher NIM on investments. NIM on loans improved, mainly driven by an increase of retail lending in the mix.

We expect that competitive pressure on pricing of loans, particularly that for the highest quality risks, will persist while recovery consolidates. However, when compared to 2020, it is expected to benefit from lower rates paid by our banks as they fully incorporate the Central Bank rate cuts observed during the year and a recovery in risk appetite, tied to an improvement in the macro outlooks.

NIM on investments will continue to depend on global equity and geopolitical events.

On page 17, we present net fees and other income. Gross fee income for the year reflects the negative effect of lockdowns on banking fees and incorporates our decision to waive electronic transfers and ATM withdrawal fees for two months during the initial phase of the pandemic. However, we have experienced a progressive recovery of gross fee income due to an increase in transactional volumes and number of loans underwritten and the expiration of the digital fee waivers that we granted to support our customers. Quarterly, gross fees increased 9.4% in Colombia and 12.7% in dollar terms in Central America. Despite this progress, 2020 consolidated gross fees decreased 4.1%. Gross fees fell 3.3% in Colombia and 15.2% in dollar terms in terms in Central America.

Income of the non-financial sector mainly reflects a strong performance of the infrastructure and energy and gas sectors. Our infrastructure sector, that is the largest contributor to our non-financial income, grew 0.9% in 2020, in an environment in which construction was halted for a few weeks during the initial round of lockdowns and a decrease in traffic implied lower toll collections. These were compensated by a prompt recovery of the construction in most of our road concessions. Energy and gas companies were the drivers of growth of our non-financial sector. Gas distribution and transportation activities held strong over the year. In addition, some of Promigas companies in Peru booked income as a result of contractual and tariff uncertainties being dissipated, with an impact on our attributable net income of approximately COP 53 billion.

Although historically a low contributor to our non-financial sector, our hospitality business lost COP 22 billion during 2020 due to low occupancy rates and restrictions to national and international flights.

Finally, at the bottom of the page, higher other income over the year was driven by strong results in OCI realization and higher income on FX and derivatives. In the fourth quarter, some of our banks in Colombia executed capital and property, plant and equipment optimization strategies.

Banco de Bogota realized COP 247 billion in foreign currency denominated retained earnings and its offshore agencies in Miami and New York increased in income from FX and derivatives net. In addition, Banco de Bogota and Banco de Occidente continued executing their property, plant and equipment optimization by transferring some non-strategic investment properties and noncurrent assets held for sale in exchange for equity in NEXUS real estate capital funds and private equity funds specialized in real estate management. These transactions generated a net positive effect of COP 70 billion in other income.

On page 18, we present some efficiency ratios. All our business units continued implementing cost contention and reduction initiatives during the quarter. Cost to assets for 2020 was 3.4%, down from 3.8% in 2019. Cost to income was 46%, down from 47.6% a year earlier. Other expenses increased 4.7% year on year, excluding the effects of the acquisition of MFG and FX fluctuation on our Central American operations, other expenses fell 2.6%, with Colombia decreasing 2.2% and Central America 3.1% in dollar terms.

Personnel expenses increased 7.7% in 2020 compared to 2019. Excluding the effects of the acquisition of MFG and FX fluctuations on our Central American operations, personal expenses contracted between 0.2%, with Central America contracting 3.8% in dollar terms and Colombia growing 2.8%.

General and administrative expenses increased 0.2% in 2020. Excluding the effects of the acquisition of MFG and FX fluctuations on our Central American operations, G&A expenses fell 5.5% in Colombia, contracting 6.7% and Central America 3.6% in dollar terms.

Depreciation and amortization increased 12.6% year on year. Excluding the effect of the acquisition of MFG and FX fluctuations on our Central American operations, depreciation and amortization increased 4.3%, with Colombia growing 5.3% and Central America 2.9% in dollar terms.

We expect our cost contention efforts to remain strong over 2021, compensating the headwinds from increased activity due to a stronger economy, such as higher usage of transactional channels and other infrastructure, as well as expenses linked to a more dynamic marketing and commercial activity.

Finally, on page 19, we present our net income and profitability ratios. Attributable net income for 2020 was COP 2,349.5 billion or COP 105 per share, 22.6% lower than the results for 2019. Attributable net income for the quarter was COP 635 billion or COP 29 per share. Our return on average assets and return on average equity for the year were 1.5% and 11.7%, respectively. These ratios were 1.7% and 12.3% for the fourth quarter.

Before moving to questions and answers, I will now summarize our general guidance for 2021. We expect loan growth to be in the 9% to 10% range. We expect our cost of risk, net of recoveries, to be in the 2.5% area. We expect full-year net interest margin to be similar to that for 2020 in the 5% area and net interest margin on loans to be on the 5.9% area. We expect other expenses to grow in the 4.5% to 5.5% range. We expect gross fees to grow at a similar pace as loan volumes. We expect our non-financial sector to continue to be a strong contributor to income, as it has done over the past couple of years. Finally, we expect return on average equity to be in the 12.5% area.

We are now available to address 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) on your touchtone phone.

Standing by for questions.

And our first question online comes from Jason Mollin, from Scotiabank. Please go ahead.

Jason Mollin: Hi, thank you for the opportunity to ask questions.

My first question is on the relief programs and Luis Carlos and Diego, you mentioned some numbers that I want to make sure that I got correctly. So I understood that COP 26 trillion was I guess the total portion of loans of the loan portfolio under relief and that from the portion that's post relief, 5.4% are past due more than 30 days. So I just want to confirm those numbers and just ask how that 5.4% past due number is comparing to what you were expecting previously.

And my second question is on the non-financial sector results. Diego, you mentioned some of the drivers there, butperhaps you could give us some more color on what drove those really good results this quarter and you said that we should expect these results to be strong, continue to be a good contributor. Does that mean it should be at the same level? Is that what you're talking about for 2021?

Diego Solano Saravia: Ok, Jason, let me start by the end, with the non-financial sector. Yes, this was a particularly strong quarter for the non-financial sector, and that's why we actually pointed out that there were some strong results coming from the Peru operation. Part of that has to do with adjustments under IFRS 15 under better expectations of some of the concessions. In that sense, I would say that roughly half of the results that came from Peru would be something that would be recurrent. The other piece has to do more with an adjustment that, even though could happen once again in the future, you can´t really build into the numbers. That was perhaps the only thing that was particularly different from what we saw during the third quarter. And that's why we are actually guided into something that would be similar to what has happened over the past couple of years, rather than just what happened during 2019.

Regarding reliefs, I think you never want to be overoptimistic, but we've had a pretty good performance of some of the portfolios. In addition, we've been able through the kind of regulation that we had in place in Colombia to reduce the reliefs in a very substantial manner. As I mentioned, the numbers went down to less than 3% of our portfolio being under holidays. That is perhaps the riskiest part of what the reliefs are, because once you move into the more structural programs where actually the payment schedule moves into lower debt service, our customers become much stronger and these are programs where to be admitted you need to really have a fair chance of succeeding in that process. So we don't want to claim that things are over at this point but Colombia is moving in a very good fashion.

Then there is an element that is bringing our numbers up in Central America and it is Panama. You take Central America as a whole, the kind of reliefs of different ways, of different styles, reliefs that are on holidays or more structural ones, we're talking of around 23% of the portfolio. But ex Panama, we're talking of 17% and coming down. The Panama case is perhaps the one that has taken longer and the one that is pushing up the numbers of the region. It has to do with regulation that is taking payment holidays longer than expected.

So trying to wrap up, I would say that Colombia is behaving better than what we had expected. Central America, ex Panama, is behaving as expected and Panama perhaps is a little slower than what we would have desired.

Luis Carlos Sarmiento Gutierrez: Jason, also, you asked about the COP 26 trillion number and the outstanding loans under relief as of December 31st, 2020. It was a much larger number when we started. And I think I mentioned that when we started, about 30% of the Colombian portfolio was under relief, as well as about 40-something-percent of our Central American portfolio. So it's really dropped and it's now at COP 26 trillion.

Jason Mollin: Thank you very much.

Operator: Thank you. Our next question comes from Mr. Brian Flores, from Citibank. Please go ahead.

Brian Flores: Hi, thank you for the opportunity to ask questions. I just wanted to know, what is your take on the implementation of Basel III? We didn't see any comments and I know some of your peers started or mentioned it during this quarter. So just wanted to know your stance, given your conglomerate status and if you have an estimate of the impact or any color you might give us will be greatly appreciated. Thank you.

Diego Solano Saravia: Well, perhaps I went too rapidly over those numbers. But basically what we're looking into is an increase from Banco de Occidente, Popular and Villas that will bring them up into numbers that are pretty strong on any metrics that you look at them. We're talking of numbers that are around 14.5 and 15 of total solvency. And then if you're looking into core equity tier one, we're talking of numbers that are in the 12.5 to 13.5 range roughly. That implies very substantial increases under both metrics.

Then Banco de Bogota is starting above these numbers as of December and actually those numbers depend very much on no changes in further regulation, but to give you more color, we should be increasing our core equity tier one in more than 1 percentage point and that will translate into a similar number in total solvency.

So in general, we are coming out much better out of Basel III. In addition, this already is including operational risk that deducts part of this solvency so we are in a metric that we could say is very close to what would be a very good global practice in what Basel III looks like.

Luis Carlos Sarmiento Gutierrez: Just to complement what Diego just said, there is one thing in Banco de Bogota we're still negotiating with the Superintendence of Finance as to how Banco de Bogota has to account for its investment in Corficolombiana, regarding the solvency ratio, regarding regulatory capital. Obviously not regarding just its books. That won't change. But regarding how to account for it, to calculate its regulatory capital. So any negotiation that we finally achieve with the Superintendence will serve to increase the 100 basis point increase and core equity tier one that Diego referred to.

Operator: Thank you. Our next question online comes from Sebastian Gallego, from Credit Corp. Please go ahead.

Sebastian Gallego: Hi, good morning. Thanks for the presentation. I have several questions. The first one, regarding stages under IFRS 9, we saw a meaningful increase, particularly on stage two clients over the quarter. My specific question is, how likely is for those clients to go onto a stage three during the upcoming quarters? That would be a first question.

The second question is a more strategic question from a medium-term perspective. We saw this week the announcement of Davivienda and Rappi alliance asking for a license. We know about the entrance of a Nubank and we know also that there could be some additional competitors on the digital front. It seems that Aval continues to be a little bit behind the curve on that digital front. I would like to understand better the strategy to compete with those kind of initiatives?

And finally, if you could comment a little bit more on the non-controlling interest on whether the Porvenir results impacted or caused a higher non-controlling interest during the quarter. Thank you very much.

Diego Solano Saravia: Ok, let me take the two quantitative ones and I'm going to pass the strategic one to Luis Carlos. Regarding stages, you are absolutely right when you look at stage two. What we have is we have tripled the percentage of stage two that we would have previous to the pandemia. Part of that has to do with overlays that we practiced at the end of the year. What I mean by overlays is under IFRS, you can be more cautious than what actually you would be required to do mechanically. And what we did was to bring all those that were relieved, even though they were unscheduled and hadn't been delinquent in the past, but that we had rated as high risk. So that's the reason actually why our cost of risk during the fourth quarter was higher than in the previous quarters and why our previous guidance that we actually met had been 3%, because that was basically in what we expected to get done.

Regarding stage three, what we have in stage three depends very much on how our portfolio looks like. And going back to Jason's question, when you look at our number, our number builds in that we have some products and segments that have moved into stage three faster, for example, the unsecured consumer lending and the SMEs that are pushing that bracket when they go up but other products, such as our payroll lending and some of the segments that we serve in the corporate segment have actually performed pretty well and aren´t moving into stage three.

So I know your question was what to expect moving forward. Moving forward, what we have looked into is we still have part of the normal deterioration process to happen that comes from the full ending of the relief programs, that we do expect continues to push the numbers. Then, the macro environment, even though when you look at GDP growth, it looks pretty well. When you look at absolute numbers, it still has high unemployment numbers on segments that will lag into 2022 or 2023 to be fully recovered.

So we end up adding not only movements between stage two and stage three, but also inside those stages in what the probability of default will look like as they start to default, therefore, that's why our guidance is not moving back to the 2% or south of 2% area where we would be performing in a normal year but somewhere in the middle of the way between a normal year and what last year looked like. I extended perhaps too much but I think that's a very relevant question.

Then, regarding the non-controlling interest, it wasn't actually Porvenir that moved the non-controlling interest. The way to think about it is how much do we get as a percentage that is attributable to Aval and in the case of Porvenir, we're basically in the fourth fifths area of what happens in Porvenir goes up to Aval. Therefore, it is one of those that contributes more to the attributable than to the minority side.

What is increasing or has increased since a few years ago the level at which the non-controlling performs is actually Corficolombiana. We get roughly 40% of what happens in Corficolombiana that is way below what our average controlling piece of our investments looks like. And Corficolombiana has performed very, very strongly. In this case, in addition, Promigas was particularly strong and we only get 20% of Promigas because Corficolombiana owns 50% of Promigas and we own 40% of Corficolombiana. So it was a very strong performer and that's why it had that contribution. So to go to the short and direct answer, it wasn't Porvenir. It was more what happened from the Promigas side.

Luis Carlos Sarmiento Gutierrez: Alright, let me round it up with your question about digitalization. To start with, our digital strategy is rather simple, I would think. We base our strategy on three axes. The first one is the digitalization of legacy products and processes and we are almost done. We have digitalized all our products or basically all our products on the liability and the asset side. We're working hard on digitalizing our processes and some of that could be seen by with the savings, very, very significant cost savings of 2020. Some of those obviously were also driven by the pandemic. We have come up with the first 100% digital mortgage product and our vehicle product is pretty good. So that's the first axis of our strategy and it's the one that we've been really investing most of our time in.

Secondly, we have a group of people always thinking about new products or how to actually bring very innovative digital products from other countries to Colombia and we have a group of people working on that. It's not that simple. We don't tend to go out and buy fintechs or buy initiatives of other people. We try to develop in-house through our digital labs.

And then thirdly, we're working very hard on putting together ecosystems. And there are three that obviously it's not that we came up with the idea, other people in the world have come up with them. But we are close to launching for example a mobility ecosystem that includes a website for buying and selling automobiles together with our vehicle loan product, together with insurance, etc. We're thinking about other real estate and employment digital ecosystems. So our strategy, we're focused and that's what we're working on.

Now, you're saying, "Sometimes you guys look to be a little bit behind the rest." And I think that one of the ways that somebody could make that statement is if they compare the number of digital clients that we declare and compare to the number of digital clients that everybody else declares. The funny thing is that if you add up all the digital clients that everybody else claims to have, there are more digital clients than Colombians in the country. So there's something with the numbers that at some point we're going to have to sit down and see what it is that everybody who calls a digital client really refers to. We have 5 million digital clients who act and who transact digitally.

And regarding competition the more the welcome, and I'd tell you why. I've been an advocate for the longest time of doing away with the asymmetry in regulation. And that happens when you have a fintech competing against a bank. And when that happens and the fintech is not regulated in terms of regulatory capital, in terms of how to take in deposits, in terms of cost of funds, in terms of the quality of the loan portfolios, it's not really a fair competition because, as you know, a bank is always thinking of how to invest its next dollar of capital, while a fintech is basically thinking about the burn rate and how much cash can it burn next month. And so in that respect, when somebody announces that they are officially requesting a banking license, I am the happiest person in the world because it means that we get to compete shoulder to shoulder. So the more competition, the more welcome it is. And I think that if we were all shoulder to shoulder, competing with the same regulations, it's going to be a sweet competition, is going to be much better for the financial system and for the clients.

Operator: Thank you. Our next question on the line comes from Yuri Fernandes, from JP Morgan.

Yuri Fernandes: Thank you, gentlemen, for the opportunity to ask questions. I have a first one regarding your credit card strategy. I was checking the data on regulators in Colombia and it seems Aval banks have been losing a little bit of market share over the years and i know the message you have given the market is that you are more risk averse, more disciplined capital. But just to have some color here, what's the view of the bank here? Do you plan to recover market share, grow faster? How do you plan to achieve that, if that's the case? So I guess this is somewhat related to the digital clients question, right? Because it's a matter of the number of clients, it's a matter of the limits, the risk the bank wants to take. So just an overview on the credit cards, because I know it's a pretty important business line.

And my second question is regarding a broader strategy of the different branches of banks. How do you see those different banks now with a more digital world where maybe branches are not as relevant? That's the very recurring questions we used to see in the past for Aval, when should we see the banks consolidating a same branch? Is that possible? Is that something you are thinking more clearly now or still you think there are advantages of having different branches today? Thank you.

Diego Solano Saravia: Ok. I think you have two different types of questions. Regarding credit cards, let me break it down into pieces. But I would say that the overarching thought is we are basically taking care of the riskier segments, therefore that has affected the credit card penetration. We did that very fast from the very beginning of the pandemia and that was part of what helped us stop some of the deterioration by basically reacting pretty fast in the riskier products. So if you think of what you will see in Central America particularly, that was a strategic decision of trying to concentrate into the safest segments and that did affect the credit card business.

Then the other piece that has to do specifically with Aval is, following on Luis Carlos' comment on the number of users that you see in digital, we are actually also pruning those credit cards that are unused and actually looking into trying to find what the actual number of truly active customers looks like. And that's not only credit cards, but throughout what we're looking into. So that also ties to the actual numbers being reported.

And finally, I think there's something that goes beyond Aval and it has to do with how the economy is behaving. And there's a very close correlation between lockdowns and usage of credit cards. What we've seen is the number of transactions actually increases in some cases, but the price tag of purchases falling, just because people are not going out into the shopping centers, people are not taking vacations, people are not using those kind of higher ticket items that they used to consume in the past. So when you look at the market as a whole, you'll also see a contraction in the market as a whole that is pretty much driven by that kind of activity. To fully pick up, you need people fully active going to shopping malls, people fully active going and taking vacation again and all those kind of things that are tied to a much faster economy. So it's a combination of something going on in the market and something that is, I would say, Aval specifically trying to look into risk management as well as coming through the number of actual customers and products that we have.

Your other question was regarding the strategy of different banks tied to what is happening in digital. I have to start by saying that actually merging institutions is part of our shareholders decision and not only a managerial position. So that's one of the drivers that needs to be in place. However, having said so, what is happening is a combination of the banks earning the right to exist on a standalone basis. When you look at the performance of our banks, we're pretty happy of what they were already able to achieve during 2020, particularly. Even those that you would consider the weakest because of being the smallest ones were able to outperform in a very substantial way some of the very large competitive other players in the market.

The other piece there is digital is actually helping a lot. And in that sense, regardless if the banks are merged or not, they are working together, building on synergies. Actually, the digital lab works for all of the banks. When you look at the code and you see two products that look similar in the market, roughly 70% of the code is exactly the same code and only the 30%, these are just orders of magnitude, but around 30% can be the part that is customized for each one of the banks, meaning customized for the look and feel and customized due to the different legacy that they need to connect into.

Operator: Thank you. Again, for any questions press star (*) then one (1) on your touchtone phone. Standing by.

Luis Carlos Sarmiento Gutierrez: Alright.

Operator: And at this time I see we have no further questions. I will return the call to Mr. Sarmiento for closing remarks.

Luis Carlos Sarmiento Gutierrez: Alright, as always, guys, thank you very much for your attendance. Thank you for your attention.

Thank you for the questions. And nothing remains to be said except that we hope to keep delivering. We hope that 2021 will, in fact, materialize into a better year for humanity and for Colombians, for our banks. And I will see you in the next call.