2Q2023 CONSOLIDATED EARNINGS RESULTS CALL TRANSCRIPT

GRUPO AVAL ACCIONES Y VALORES S.A.

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Operator: Welcome to Grupo Aval's Second Quarter 2023 Consolidated Results Conference Call. My name is Regina, 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 regulations in Colombia and applicable U.S. securities regulations. 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 Bogota executed a spin-off of the 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. On December 19, 2022, Banco de Bogota sold 20.89% of the outstanding investment of BHI through a tender offer. As of December 31, 2022, Banco de Bogota held 4.11% of BHI. This investment is reflected as an investment at fair value through other comprehensive income.

Following the sale, the equity method recognized under the share of profit of equity accounted investees, net of tax, equity method, between April and November was reclassified to discontinued operations. For comparability purposes of this presentation, we have reclassified BHI's equity method for the second and third quarters of 2022 to net income from discontinued operations. Banco de Bogota's remaining 4.11% interest in BHI was disposed of in March 2023.

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. 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.

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
President

Good morning, and thank you all for joining our second quarter 2023 conference call. On today's call, I will limit my intervention to 3 main points: An outlook of the economy, a summary of recent legal resolutions including Grupo Aval and Corficolombiana and a brief review of our performance during this quarter. I will try to be as comprehensive as possible regarding legal issues. And I ask for your understanding, as I am sure you know that we are constrained by our resolution agreements to take questions in that reference.

As we have been anticipating, the economy took a dive during the second quarter. GDP growth was only 0.3% when compared to same quarter last year and contracted 1% on a quarterly basis as consumer demand dropped. Conversely, public spending increased significantly, particularly in social services, which helped to mitigate the slowdown. More importantly, the [niches] budget execution was staggeringly low. Consequently, liquidity to the tune of COP 45 trillion approximately remains frozen in the Central Bank, thus causing a liquidity crunch in the financial system.

Logically, this crunch resulted in a new surge of cost of funds, especially when comparing average funding rates versus sovereign debt yields. In sharp contrast, the global economy has continued to exceed expectations. Despite tight global monetary policy, economies around the world are trending upward. Additionally, a soft landing of the U.S. economy appears now to be the likelier scenario as market participants have revised downward the probability of a recession occurring in the coming months. Meanwhile, in Colombia, high-interest rates and persistent inflation have affected downward domestic demand, affecting particularly the purchase of durable goods such as vehicles.

In fact, the most dynamic sector during the quarter was government services that grew 4.4% and represented 15.9% of GDP. The leased dynamic sectors in the second quarter were commerce and manufacturing, which accounted for 17.5% and 11.6% of GDP and contracted 3.7% and 3.1%, respectively.

Gross capital formation decreased 22.2% for the same period driven by weak investment in machinery and equipment. Based on the aforementioned, we anticipate the GDP growth in 2023 will be in the 1.5% area.

As we had anticipated, annual inflation continues to decline. In July, inflation for the last 12 months decreased to 11.78%, down from 12.13% in June. Notably, food prices, which were a significant driver of consumer price increases in 2022, have now become the main source of disinflation with a monthly variation of 0.22% in July. However, transportation has continued to exert upward pressure on the overall price index, resulting in a monthly reading of 1.07% in July.

Going forward, market expectations and our own view indicate that annual inflation will continue to decrease over the next few months, reaching around 9% by year-end. Notably, this number will oscillate depending on the government's commitment to increase the price of gasoline and maybe also of diesel, thus decreasing very popular subsidies which currently produce a deficit of COP 2.5 trillion per month in an effort to reduce its gigantic debt with Ecopetrol. Notwithstanding the inflation trend. In its meeting at the end of July, the Central Bank maintained the repo rate at 13.25% in a unanimous decision.

Analysts and interest rate swap markets now point to the beginning of an easing cycle in September or October. In line with market consensus, we anticipate that the interest rate cuts will start during the fourth quarter eventually reaching a range of 11.5% to 12% by year-end. June labor market data published by [DANE] reported that employees increased to $23.1 million in June, which implies 1 million more jobs than a year earlier. The stronger-than-expected job creation pushed the unemployment rate down to 9.3%, which is 2 percentage points lower than the rate reported 1 year ago, particularly strong in public administration, defense, professional activities, transportation and entertainment.

These sectors combined accounted for 76% of the positions added. Going forward, as business activity decelerates, we expect weaker job numbers. As a result, we expect average annual unemployment in 2023 at 11.2%, similar to 2022. Regarding the exchange rate on a year-to-date basis, the Colombian peso is the most revalued in the region with a 20% appreciation. A key driving force behind this trend appears to be a sentiment that the government will be unable to get its reform agenda approved through Congress in its current form. This sentiment prompted a reassessment of risk related to Colombian assets during the first half of the year, a correction of the value of the Colombian peso and a rally in the test market. With material volatility, the peso has recently hovered around COP 4,000 per dollar. We believe that at current exchange rate levels, there is less room for a relevant correction of the Colombian peso.

Once this process is over, we foresee the peso to reestablish a depreciation path. Although the depreciation of the peso will reduce pressures on government's overall financing needs, Colombia's external financing needs, longer-than-expected high-interest rates in developed economies and decreasing oil exports and persistent inflation will result in a relatively high current account deficit of around 4% of GDP by the end of this year.

Finally, on the fiscal front, the deficit of the central government for 2023 was revised to 4.3% of GDP, up from the previous estimate of 3.8%.

Let's move on to legal matters related to Ruta del Sol. These are the most relevant and, in our opinion, very positive developments. Let's start with the Class Action suit. As you may recall, in January 2017, the Procuraduria General de la Nacion filed a Class Action Suit against Concesionaria Ruta del Sol, CRDS, its shareholders, including Episol and others, for the violation of certain collective rights. No other Grupo Aval companies were mentioned in that lawsuit. The Tribunal Administrativo de Cundinamarca, or TAC, a lower judicial instance produced a first ruling in December 2018, in which it found CRDS, its shareholders, including Episol and other individuals and entities not related to Aval or its affiliates, jointly and individually liable in order that the dependents pay damages to the nation for the violation of collective interests in the amount of approximately COP 716 billion. In addition, the TAC ruled the department of the defendants from contracting with the Colombian government for a term of 10 years.

Episol as well as other dependents appealed the decision to the Consejo de Estado, the highest court in the country that reviews these administrative decisions. On July 27, 2023, the Consejo Estado issued a final non-appealable ruling, revoking several of the tax rulings such as the order to pay any amount of damages the department of Episol and others from contracting with the government and the joint and several liability nature of the rulings. It also revoked several injunctions or interim measures and confirmed that certain collective rights were affected. As a result, Episol will not have to pay any damages pursuant to this action and may continue to contract with the government. Let's move on to investigations by United States authorities.

On August 10, 2023, Grupo Aval and its subsidiary, Corficolombiana, announced the end after 5 years of the investigations of the U.S. government through the U.S. Department of Justice, DOJ, and the U.S. Securities and Exchange Commission, SEC, regarding Grupo Aval and Corficolombiana related to Ruta del Sol 2. These resolutions are the result of previously and abundantly disclosed investigations by the DOJ and the SEC related to the construction of the Ruta del Sol sector 2 by a joint venture in which Corficolombiana through its subsidiary, Episol, held a minority interest and the resolutions are based on information gathered by U.S. authorities, including testimonial evidence from third parties relating to actions taken by a former Corficolombiana executive in connection with an Odebrecht-led bribery scheme related to Ruta del Sol 2.

Importantly, as a result of the investigations, the DOJ and SEC resolutions do not contain any allegation of corrupt knowledge or intent against any officer, director or shareholder of Grupo Aval nor any officer, director or shareholder of Corficolombiana other than the former CFC executive. Additionally, the [DOJ] did not bring any enforcement action against Grupo Aval in connection with the RDS2 project. Corficolombiana did enter into a resolution with DOJ and Grupo Aval and Corficolombiana entered into several administrative resolutions with the SEC.

The resolutions with the SEC established an amount of $40.2 million to be paid to the SEC and the resolution with the DOJ establish an amount after credits to be paid to the DOJ of $20.3 million for a total amount of $60.5 million, which will be paid by Corficolombiana and was provisioned on its June 30, 2023 financial statements. Because of its ownership stake in Corficolombiana, the amount to be paid has an approximate impact of $24 million and Grupo Aval's June 30, 2023, attributable net income. In entering into these resolutions, Corficolombiana and Grupo Aval recognized and accepted the responsibility under U.S. law for the actions of the former Corficolombiana executive.

From my point of view, equally noteworthy is the fact that the DOJ and SEC recognized Corficolombiana and Grupo Aval extensive cooperation with the investigations and that in the many years since the events occurred, Corficolombiana and Grupo Aval have enhanced their compliance programs and the internal controls. Again, the resolutions with the DOJ and SEC conclude those U.S. agencies' investigations into Grupo Aval in Corficolombiana related to Ruta del Sol 2.

Additionally, Corficolombiana and Grupo Aval consider this painful chapter closed. As I explained at the beginning, other than the facts that I just mentioned, I will not address any questions regarding this matter. Before passing on this call to Diego, I will briefly address Aval's financial results in the second quarter. I guess I will divide our performance into positives and negatives.

Let's start with the negatives. First, the cost of funds continues to be a challenge for the industry, and our banks are not the exception, especially those with majority fixed rate consumer loan portfolios. Because of the obligation to comply with NSFR requirements between the third quarter of last year and the first quarter of 2023, the banking system loaded their balance sheets with time deposits at exorbitant costs when compared to the yields of government-issued fixed-rate debentures.

Consequently, a relevant portion of the systems time deposits are set to mature between June and October 2023. A mad dash has already begun to replace those with new time deposits. As a result, since mid-June, the banking system has experienced a steep increase in spreads between cost of funds and sovereign debt yields, even beyond those seen during the first quarter. This need for funding could not come at a worst moment, very low public budget execution results in funds that do not circulate in the economy, but rather stay deposited in the Central Bank.

As of last week, these deposits amounted to approximately COP 45 trillion. Even though the Central Bank makes available a portion of these funds through repo operations, they are short term in nature and do not contribute to the liquidity coverage ratios. Second, our bank's cost of risk increased to 2.16% in the second quarter as certain loan portfolio started to struggle because of the economy's degradation.

Third, as a result of the resolutions with the DOJ and SEC, our infrastructure sector results include an extraordinary COP 253 billion negative impact, the equivalent of $60.5 million, which upon consolidation, translates into a onetime negative impact of COP 102.5 billion, the equivalent of $24 million in Aval's net attributable net income.

Fourth, in addition, the contribution of our infrastructure nonfinancial sector investments was lower than in the past, explained by projects starting to move from the construction to the operation phase.

There are; however, some positives. First, growth of our loan portfolios during the quarter, excluding the steep evaluation of the peso rose to 1.2%, which compares favorably to GDP growth. Second, although credit quality deterioration continued during the quarter, particularly in consumer loan portfolios, in the last 2 months, PDL formation has started to stabilize in unsecured consumer loans. Our portfolios are further benefited by our loan mix. We foresee the peak in cost of risk in the third quarter.

Third, if our views are correct, the cost of funds will begin to subside after the third quarter once the government starts to execute budgets and the Central Bank starts cutting rates.

Fourth, during the quarter, we saw a positive performance of NIM on loans from our banking operations as it reverted to the level of last year's last quarter. Furthermore, for the first time in 10 quarters, we saw a slight increase in NIM on retail loans as old portfolios come due and new ones are booked at current higher rates. We foresee that our total banking NIM will increase during the last quarter of this year. Fifth, our banks continue to deploy cost control initiatives that enabled OpEx to remain materially flat quarterover- quarter.

And finally, our pension fund administrator had a strong quarter as commissions and contributions evolved favorably, and stabilization reserves posted returns in excess of 10%. Going forward, Porvenir could benefit from improving asset valuations in a falling interest rate environment.

I thank you for your attention. And now I'll pass on the presentation to Diego, who will explain in detail our business results and provide guidance for the remainder of 2023.

Diego Fernando Solano Saravia
Chief Financial Officer

Thank you, Luis Carlos. Beginning on Page 6, assets decreased 0.3% during the quarter and grew 7.9% over the year. During the quarter, our mix slightly increase in net loans and increasing fixed income investments.

Moving to Page 7, represent the evolution of our loans. Gross loans contracted 0.1% during the quarter and grew 10.7% year-on-year. Peso-denominated loans increased 1.2% during the quarter and 12.1% over the year. The 10.1% quarterly appreciation of the Colombian peso led to an 8.5% decrease in the balance of our dollar-denominated loans, which grew 1.8% in dollar terms. 12-month depreciation of the Colombian peso was 0.6% and had no material effect on dollar-denominated loans growth in peso terms.

Quarterly growth was led by a recovery in demand for commercial loans. On the other hand, high interest rates, slow economic activity and a lower macro outlook drove us after performance of retail loans. Commercial loan growth reached 0.2% over the quarter and 10.8% over the 12 months. Consumer loans contracted 0.3% over the quarter and grew 10.2% year-on-year.

Payroll loans continue to be our main consumer lending product accounting for 54.7% of the total, followed by personal loans and credit cards that account for 23.8% and 12.3% of our consumer portfolio respectively. Other loans represent

8.8% of our consumer book. Payroll loans fell 1.6% over the quarter and grew 2.5% over 12 months. Personal loans increased 2.2% quarter-on-quarter and 27.8% year-onyear. Credit cards grew 3% quarter-on-quarter and other loans contracted 2.6%. Other loans have been affected by an increase in car sales. Year-on-year credit card and auto loans have increased 18% and 10.5%, respectively.

Finally, mortgage has contracted 1.5% over the quarter and increased 11.8% year-on-year. We expect loan growth to remain soft across products and segments in line with the Central Bank's policy and software, local and global economic outlook.

On Pages 8 and 9, we present several loan portfolio quality ratios. The quality of our loan portfolios measured by stages improved a Stage 2 loan growth to Stage 3 and were ultimately charged up, although still high PDL formation and a 30-day horizon decelerated during the quarter.

Regarding delinquencies, 30-day PDL increased to 5.1%, a 23 basis point deterioration over 3 months and 71 basis points over 12 months. 90-day PDLs were 3.6%, a 12 basis point deterioration in the 3 months and a 24 basis point deterioration over 12 months. PDL formation reflects an improvement in the 30-day horizon and the go forward to 90 days of a portion of loans that became delinquent last quarter.

Regarding 30-day PDL formation, the improvement was driven by a decrease in commercial PDLs and a slight increase in consumer PDLs. Cost of risk, net of recoveries was 2.2%, up from 1.7% a quarter earlier and 1.4% in second quarter 2022. This was mainly driven by personal loans and credit cards. Our loan mix or weighted in payable lending and underweighted in personal loans and credit cards has been protected during this credit cycle. However, even though milder than our peers, we expect pressures on cost of risk to continue into third quarter as consumer PDLs roll forward and require further impairment charges.

Finally, the ratio of charge-offs to average 90-day PDLs was 0.78x. On Page 10, we present funding and deposit evolution. Funding contracted 0.5% during the quarter and grew 8.1% over the year. Peso dominated funding increased 0.4% during the quarter and 8.7% over the year. Over the quarter, the balance of our dollar-denominated funding decreased 0.3% in dollar terms and 10.3% in peso terms. Deposits account for 73% of our funding, increasing 1.1% quarter-on-quarter and 12.6% year-on-year. Time deposits continue to be the largest component of our funding. Pressure on cost of funds used during the quarter following the steep effort to adjust for more demanding net stable funding ratio by the end of March. This allowed spreads for new time deposits relative to a sovereign debt to return close to historical levels. During the second quarter, our banks were able to reduce part of the expensive savings accounts that now have no contribution to net stable funding ratio.

However, pressure has built up again over the past few months as liquidity in the system tightened due to lower government budgeted execution and concentration of time deposits that were issued last year to adjust to the new net stable funding ratio coming due. To cope with the pressure derived from the new net stable funding ratio requirements while positioning for the expected interest rate reduction, our banks have increased the average maturity of time deposits, focusing on floating rates.

At the end of June, 23% of our time deposits were due in less than 1 year and 35% had floating rates. Our deposit to net loan ratio increased to [101%.] On Page 11, we present the evolution of our total and attributable equity and the capital adequacy ratio of our banks. Both our total equity and attributable equity grew 1.8% over the quarter with favorable valuations of fixed income investments held at fair value through OCI contributing to the growth during the quarter.

All of our banks have an adequate Q1 capital. The total solvency ratio of our banks, except Banco Popular were slightly higher than 3 months earlier. Banco Popular, the most affected by the contraction, has seen pressure on its separate and consolidated total solvency ratio due to the net losses accumulated over recent quarters.

On Page 12, we present our yield on loans, cost of funds, spreads and NIM for our banking operation and for Grupo Aval. Colombia Central Bank increased its reference rate by 25 basis points to 13.25% in April, marking the end of the current cycle according to market consensus. As mentioned on our last call, and exceptional pressure on demand for time deposits to comply with more demanding net stable funding ratio requirements built up throughout the banking system up to March 2023.

This pressure raised the spread between the time deposits and the Colombian sovereign debt, reaching close to 450 basis points above historical levels. Once banks comply with the new net stable ratio requirements, this level receded to 60 basis points by the beginning of April. This allows the NIM on loans for our banking operation to improve in second quarter 2023, the first time in more than a year. In addition, the positive increase of the Central Bank intervention rate allowed the repricing of loans to reduce the gap with the repricing of IVR-based funding. As a result, our loans increased

64 basis points during the quarter, while our cost of funds increased 16 basis points. NIM on commercial loans of our banking segment increased 60 basis points over the quarter. Our NIM on retail loans of our banking segment expanded 21 basis points, the first increase in more than 10 quarters.

However, the liquidity in the system tightened again, renewing pressure on cost of funds and spreads of time deposits to sovereign debt. This spread has reached 370 basis points by the end of June and 520 basis points as of last week. We expect this portion to reduce third quarter results. We expect that the releasing cost of funds could come by mid-October, as the concentration of time deposit maturities is over, the government budget execution increases, allowing these funds to flow into the economy and the Central Bank intervention rate starts to fall.

This quarter's NIM of the banking operation remained flat as NIM on investments of our banking segment contracted to 0.8% following a milder downward movement in the yield curve relative to a quarter earlier.

Moving to Page 13, we present net fees and other income. Gross fee income increased 2.2% quarter-onquarter to 21.5% year-on-year. Net fee income increased 4.9% quarter-on-quarter and 26.8% year-onyear. Pension fees increased over the quarter due to higher mandatory pension fund management fees, driven by wage increases and a resilient labor market. Trust fees decreased over the quarter, explained by lower performance-based fees. Income from the nonfinancial sector, specifically infrastructure was negatively impacted by the $60.6 million or COP 253 billion negative impact of the resolution agreement with the DOJ and the SEC.

Given its characteristic, this was considered as a subsequent event that was accounted for as part of our second quarter results. In addition, results for infrastructure fell due to: first, a lower interest income on financial assets due to a lower inflation; second, the negative impact of FX appreciation and concession arrangement assets with dollar exposure, which was hedged with a positive effect in other income from FX and derivatives; and third, a slower construction progress in [indiscernible] due to unfavorable weather conditions. At the bottom of the page, quarter-on-quarter valuation of other operating income is mainly explained by higher income from derivatives and FX gains related with our nonfinancial sector hedging the negative impact of FX appreciation of our concession arrangement assets.

In addition, the first quarter incorporates the positive seasonal effect of dividends received by our subsidiaries. On Page 14, we present some efficiency ratios on a comparable basis. Cost to assets of 2.8% remained flat quarter-on-quarter, incorporating the results of our group-wide cost containment efforts. Cost to income increased to 53.7% over the quarter, close to half of quarterly increase is explained by the impact of the resolutions with the U.S. agencies. Quarterly expenses increased 0.6% quarter-onquarter and 19.1% year-on-year. Administrative expenses grew 0.1% quarter-on-quarter and 24.5% year-on-year. Administrative expenses growth has been pressured by a 55% year-on-year increase in operating taxes, particularly the industry and commerce tax and by increases in the deposit insurance costs associated with deposit growth.

This explained 12.4 percentage points and 2.6 percentage points of the administrative expense yearon- year growth. In addition, further pressure on administrative expenses growth came from the 16% minimum wage increase, by 13.1% 2022 inflation and the impact on our U.S.-denominated expenses of 12.9% year-on-year average depreciation of the Colombian peso for the quarter.

Personnel expenses increased 16.2% year-on-year, in line with the 16% increase in minimum wage in Colombia. Over the quarter, personnel expenses grew 1.1%.

Finally, on Page 15, we present our net income and profitability ratios as reported. Attributable net income for the quarter was COP 166 billion or COP 7 per share. The negative effect on our attributable net income of the resolutions with the U.S. agencies was COP 102.5 billion or COP 4.3 per share. Our return on average assets and return on average equity for the quarter were 0.6% and 4.1%, respectively. This incorporates the negative effect of the resolutions of the U.S. agencies of [0.3] percentage points on our return on average assets and up 2.5 percentage points on a return on average equity.

I will now summarize our general guidance for 2023. We expect loan growth to be in the 4% to 5% range with commercial loans growing in the 5% to 6% range and retail loans growing in the 3% to 4% range. We expect our cost of risk net of recoveries to be in the 2% area. We expect full year NIM of our banking operation to remain in the 4.3% area with NIM on loans in the 5% area. We expect full year consolidated NIM to be in the 3.5% area with consolidated NIM on loans in the 4% area. This incorporates the interest expenses of our nonfinancial activity.

We expect our cost to assets to be in the 2.8% area. We expect our income from the nonfinancial sector to be 60% of that for 2022. We expect our fee income ratio to be in the 20% to 25% range, with a 19% for our banking segment. Finally, we expect our full year reported return on average equity to be in the 6% to 6.5% range or 6.5% to 7%, excluding the negative effect of the resolution agreements with the U.S. agencies. We are now open for questions and answers.

Question and Answer

Operator

[Operator Instructions]

Your first question comes from the line of Nicolas Riva with Bank of America.

Nicolas Alejandro Riva

BofA Securities, Research Division

My first question is on the investigation related to Ruta del Sol. So of course, you did reach the settlement with the U.S. authorities with the SEC, the Department of Justice to pay in total $60 million, that investigation appears to be closed. Now separately, there were comments this week from [Petro] saying that he does want the Colombian authorities to assess any fines that potentially should be paid to the Colombian authorities as well related to this case. My question there is how should we assess the likelihood of a having to pay any fines related to this case in Colombia and also potential size of these fines.

And then my second question on a different topic, and this is not new, but this loan that you have provided for your controlling shareholder or $300 million. I was looking at the stand-alone balance sheet of the holding company, and I see loans to related parties for about $500 million, which is a bit more than 10% of the equity standalone of the holding company. My question there is, there's a policy really in terms of providing loans to related parties. And the driver for my question really is, there has been some considerations raised by investors, especially by credit investors relating to this loan to these -- you're controlling shareholders or the investment vehicle controlled by -- owned by our controlling shareholders. So if you have any comments on this, that would be helpful.

Luis Carlos Sarmiento Gutierrez
President

I'll take your first question regarding -- as you said, the matters in the United States have been settled. And in Colombia, that has happened as well. We want to an arbitrage tribunal and it had its own decision and all that was spending was [indiscernible] appeal. And with that, the bulk of anything pending in Colombia will be and has been resolved. So if you ask me what we expect, we expect nothing more.

Nicolas Alejandro Riva

BofA Securities, Research Division

Yes, if I can just follow up on that. Can you remind us if you had [indiscernible] and/or Corficolombiana had paid then any fines related to this investigation in Colombia in the past on the size.

Luis Carlos Sarmiento Gutierrez
President

Yes. Yes. As we announced some meetings ago, we paid a superintendence of industry and commerce, not Aval, Aval was not brought up on any charges, but Corficol was and Corficolombiana paid to the superintendency of industry and commerce, about COP 84 billion. And then the arbitrage tribunal and its ruling quantified the amount that had to be paid back to that Concesionaria of about -- I can't say the numbers exactly because I can -- I do not remember that, but it was maybe about COP 2 trillion but then it quantified damages and other was left was about COP 200 billion, and those COP 200 billion are being used to liquidate the company. So that's been settled as well. So yes, to answer your question that – and if you read the Consejo de Estado, its ruling, you will see that even the Consejo de Estado has determined that it's far as fines associated with the contract, that has been taken care of by its natural judge, if it's call it [indiscernible] calls as the natural judge has already ruled and that natural judge of the contract is arbitrage tribunal. So that's been settled as well.

Diego Fernando Solano Saravia
Chief Financial Officer

And regarding your second question on loans to related parties, there's a few things to mention. Number one, to do that, the company went through not only its internal consult process, but also through controls by regulation. In addition, those bonds were placed at a rate that was above what the capacity of generating revenue for the company was at that point, and it was as strongly supported by guarantees.

Operator

Your next question will come from the line of Yuri Fernandes with JPMorgan.

Yuri Rocha Fernandes

JPMorgan Chase & Co, Research Division

I had a question regarding dividends. I guess you already announced the dividend this year, I think, April. So the next quarter is already now, but given you are having this 6%, 6.5% ROE guidance, my question is regarding 2023. So 2024 payout, right? What should we expect? Because in the previous years, you have been paying 40%, 45% of previous year's payout. But given that we will be lower and given you have debt at the family, the holding, I'm not sure if you need to have like a higher payout to continue to serve this debt in a moment that ROE are very -- are lower, right, because of all the issues in old Colombian rates, on asset quality. So my question is, what should we expect on the dividend front and thinking also about capital?

Diego Fernando Solano Saravia
Chief Financial Officer

Thanks, two things. Number one, we can speculate about that because it's a shareholder decision. However, what we have done in the past has been based on cash into Aval, based on -- cash equivalent to cash out based on how much dividends our banks can pay. Obviously, as you mentioned, we have to take into consideration the capacity of which one of the banks to pay dividends, growth expectations and also their expected solvency moving forward. So I know I haven't been specific on what we were asking, what those have been the guidance we've used in the past to make sure that the company is balanced in cash in, cash out.

Yuri Rocha Fernandes

JPMorgan Chase & Co, Research Division

And Diego, can you had something similar to what you did last year? I guess there was a year that we didn't pay dividend and just issued shares, like would that be something for you to consider also?

Diego Fernando Solano Saravia
Chief Financial Officer

I think we are ahead of time to have that discussion. Each decision is taken on annual basis based and juncture. The reason why that happened in the past had to do is the PHI spinoff. So it had special considerations.

Yuri Rocha Fernandes

JPMorgan Chase & Co, Research Division

Perfect. And if I may, a second one on operating trends here on asset quality, like you have a guidance on cost of risk, right, the 2% you just mentioned. What is the curve for that? Like should we expect the 3Q to be better on asset quality than this quarter? Because my concern here is that inflation is still very high in Colombia. So my concern is that maybe cost of risk is just higher, right, the economy is still slowing down, although growing a little bit. So what is your level of confidence that cost of risk could be 2% and not higher in the coming quarters?

Diego Fernando Solano Saravia
Chief Financial Officer

Let me walk you through the logic of our guidance. Basically, the way we think about it is we look into a PDL formation and a 30-day horizon. We know that there is a percentage of that, that needs to roll into 90-day PDL formation, and that's precisely the point where we get the highest cost of risk. There's a few things even though it is early to call home about that, but our positive signs and a test, end of second quarter, beginning of fourth quarter, we've seen a change in the trend of PDL formation, particularly our personal installment loans and credit cards that have been accountable for most of the cost of risk.

That looking at our own numbers, so just by -- due to math, if you see PDL formation falling in that horizon, you should expect 3 months out to see PDL 90-day PDL formation also coming down, therefore, cost of is coming down. On the other hand, there's a series of macro factors that can give us some positive view.

And it is, number one, we see unemployment holding much better than what we expected initially on the positive note. We also see that the end of the cycle might be soon because we've seen the Central Bank flattening down. We would expect to see changes in monetary policy closer to the end of this year.

And then government execution of budget should help GDP perform better. If you might -- I can't give you numbers, but qualitatively during this first half, government execution of budget has been a lag, but there's a decisive action from the President that points into government execution of budgets increasing during the second half. So those are some elements that give us some comfort on an improvement in the cycle. And as interest rates are able to come down due to monetary policy and also the distortions I mentioned when we went through the presentation, that should give some support to an improvement in cost of risk. Very long explanation, but just to let me know how we think about it.

Operator

Your next question is a follow-up from the line of Yuri Fernandes with JPMorgan..

Yuri Rocha Fernandes

JPMorgan Chase & Co, Research Division

Diego, it's me again. Just on this topic on margins and lower rates. Can you just refresh the sensitivity for lower rates for Grupo Aval, like how much of deep cuts help you on margins?

Diego Fernando Solano Saravia
Chief Financial Officer

Yuri, that has become a real problem in Colombia because we think that cost of funds detached in a very relevant manner with Central Bank rate since we had changes in the net stable funding ratio. The sort of distortion that we saw first quarter was up to 400 basis points. And as of last week, we were at around 500 basis points. We do expect that this portion to fade away around October. And that has become actually a stronger driving force than what the Central Bank rate looks like. So we do expect that marginal cost falling. You have to bear in mind that time deposits are close to 48% of our deposits. So it's very relevant what happens there, but that should be helping our margins in a very substantial way. So summarizing, we look forward to an adjustment back to a less distorted price of time deposits due to an improvement in the overall interest rate environment. And on the other hand, we also expect on top of that interest rate cuts by the end of this year.

Operator

There are no further questions at this time. Mr. Luis Carlos Sarmiento Gutierrez, I turn the call back over to you.

Luis Carlos Sarmiento Gutierrez
President

Thank you so much, Regina, and thank you all for joining our call today. We expect to see better financial times coming in the last quarter. And hopefully, we'll return to the numbers that we're accustomed to see. Thank you so much, and hope to see you again next time.

Operator

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