INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Grupo Aval Acciones y Valores S.A. and subsidiaries:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying *consolidated* statements of financial position of Grupo Aval Acciones y Valores and subsidiaries (Grupo Aval) as of December 31, 2018 and 2017, the related consolidated statements of income, other comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). We also have audited Grupo Aval's internal control over financial reporting as of December 31, 2018, based on "criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission".

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Also in our opinion, Grupo Aval maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018 based on "criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission".

Change in Accounting Principle

As discussed in Note 2.5 to the consolidated financial statements, Grupo Aval has changed its method of accounting for financial instruments and for revenue from contracts with customers in 2018 due to the adoption of IFRS 9 *"Financial instruments"* and IFRS 15 *"Revenue from contracts with customers"*.

Translation of consolidated financial statements into United States Dollars

The accompanying consolidated financial statements as of and for the year ended December 31, 2018 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in Colombian pesos have been translated into United States dollars on the basis set forth in note 2.4 of the notes to the consolidated financial statements.

Basis for Opinions

Grupo Aval management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *"Management's annual report on internal control over financial reporting"*. Our responsibility is to express an opinion on Grupo Aval's consolidated financial statements and an opinion on Grupo Aval's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have served as Grupo Aval's auditor since 1985.

/s/ KPMG S.A.S.

KPMG S.A.S

Bogotá, Colombia

April 24, 2019

Grupo Aval Acciones y Valores S.A.
Consolidated Statement of Financial Position
At December 31, 2018 and 2017
(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

	Notes	December 31, 2018 US$ (1)	December 31, 2018	December 31, 2017 (2)
Assets				
Cash and cash equivalents	**6 , 7**	**8,739.5**	**Ps. 28,401,283**	**Ps. 22,336,838**
Trading assets	**6 , 8**	**2,216.9**	**7,204,312**	**5,128,088**
Investment securities	**6 , 9**	**7,086.7**	**23,030,159**	**21,513,199**
Hedging derivatives assets	**6 , 10**	**9.3**	**30,138**	**55,261**
Loans:	**4.1 , 6 , 11**			
Commercial		31,512.9	102,408,977	99,428,894
Consumer		17,064.4	55,455,064	50,382,895
Mortgages		5,721.1	18,592,103	16,151,299
Microcredit		131.0	425,697	409,688
		54,429.4	**176,881,841**	**166,372,776**
Allowance for impairment losses	**4.1.5**	(2,522.1)	(8,196,187)	(5,618,481)
Total loans, net		**51,907.3**	**168,685,654**	**160,754,295**
Other accounts receivable, net	**6 , 12**	**2,862.0**	**9,300,643**	**6,521,883**
Non-current assets held for sale	**13**	**57.5**	**186,714**	**101,382**
Investments in associates and joint ventures	**14**	**302.4**	**982,743**	**1,043,014**
Tangible assets:	**15**			
Property, plant and equipment for own-use and given in operating lease, net		1,744.1	5,667,953	5,804,073
Investment properties		257.4	836,324	783,794
Biological assets		25.9	84,206	66,139
		2,027.4	**6,588,483**	**6,654,006**
Intangibles				
Concession arrangement rights	16	1,696.9	5,514,481	3,114,167
Goodwill	17	2,252.0	7,318,594	6,901,056
Other intangible assets	18	318.1	1,033,884	848,681
		4,267.1	**13,866,959**	**10,863,904**
Income tax assets:	**19**			
Current		182.7	593,837	907,476
Deferred		105.0	341,338	139,423
		287.8	**935,175**	**1,046,899**
Other assets		**142.4**	**462,890**	**519,771**
Total assets		**79,906.2**	**Ps. 259,675,153**	**Ps. 236,538,540**

(1) See note 2.4, “convenience translation into U.S. dollars”.
(2) See note 2.32, Changes in presentation.
The accompanying notes are an integral part of the consolidated financial statements

Grupo Aval Acciones y Valores S.A.
Consolidated Statement of Financial Position
At December 31, 2018 and 2017
(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

	Notes	December 31, 2018 US$ [(1)]	December 31, 2018	December 31, 2017 [(2)]
Liabilities and equity				
Liabilities				
Trading liabilities	**6 , 8**	**249.7**	**Ps. 811,305**	**Ps. 298,665**
Hedging derivatives liabilities	**10**	**60.2**	**195,539**	**13,464**
Customer deposits:	**20**			
Checking accounts		12,217.2	39,702,878	36,017,602
Savings accounts		17,608.0	57,221,439	55,778,677
Time deposits		20,571.7	66,853,012	62,616,163
Other		179.1	582,122	472,782
		50,576.0	**164,359,451**	**154,885,224**
Financial obligations:	**21**			
Interbank borrowings and overnight funds		2,096.8	6,814,078	4,970,430
Borrowings from banks and others		6,342.3	20,610,766	18,205,320
Bonds issued		6,197.5	20,140,350	19,102,196
Borrowings from development entities		1,122.2	3,646,796	2,998,090
		15,758.7	**51,211,990**	**45,276,036**
Provisions:	**23**			
Legal related		38.8	125,929	165,353
Other		175.2	569,359	527,262
		214.0	**695,288**	**692,615**
Income tax liabilities:	**19**			
Current		127.2	413,456	330,828
Deferred		665.0	2,160,942	1,696,843
		792.2	**2,574,398**	**2,027,671**
Employee benefits	**22**	**389.2**	**1,264,881**	**1,238,172**
Other liabilities	**24**	**2,771.9**	**9,007,953**	**6,235,466**
Total liabilities		**70,811.8**	**230,120,805**	**210,667,313**
Equity				
Owners of the parent:	**25**			
Subscribed and paid-in capital		6.9	22,281	22,281
Additional paid-in capital		2,607.1	8,472,336	8,303,431
Retained earnings		2,645.8	8,598,319	7,174,418
Other comprehensive income		214.4	696,773	786,866
Equity attributable to owners of the parent		**5,474.2**	**17,789,709**	**16,286,996**
Non-controlling interest	**26**	**3,620.2**	**11,764,639**	**9,584,231**
Total equity		**9,094.3**	**29,554,348**	**25,871,227**
Total liabilities and equity		**79,906.2**	**Ps. 259,675,153**	**Ps. 236,538,540**

(1) See note 2.4, "convenience translation into U.S. dollars".
(2) See note 2.32, Changes in presentation.
The accompanying notes are an integral part of the consolidated financial statements

Grupo Aval Acciones y Valores S.A.
Consolidated Statement of Income
For the years ended December 31, 2018, 2017 and 2016
(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

		For the years ended			
	Notes	**December 31, 2018 US$ (1)**	**December 31, 2018**	**December 31, 2017 (2)**	**December 31, 2016 (2)**
Interest income calculated using the effective interest method					
Loan portfolio	**11**	5,351.4	Ps. 17,390,615	Ps. 17,899,967	Ps. 16,665,516
Investments in debt securities		297.3	966,021	841,866	881,454
Total interest income		**5,648.6**	**18,356,636**	**18,741,833**	**17,546,970**
Interest expense					
Deposits					
Checking accounts		(107.8)	(350,173)	(309,333)	(258,925)
Savings accounts		(460.7)	(1,497,038)	(1,978,986)	(2,139,841)
Time deposits		(1,014.4)	(3,296,508)	(3,560,478)	(3,413,489)
		(1,582.8)	**(5,143,719)**	**(5,848,797)**	**(5,812,255)**
Financial obligations					
Interbank borrowings and overnight funds		(81.9)	(266,064)	(287,361)	(570,184)
Borrowings from banks and others		(236.7)	(769,184)	(770,015)	(575,710)
Bonds issued		(357.8)	(1,162,699)	(1,162,203)	(1,278,253)
Borrowing from development entities		(44.1)	(143,175)	(159,323)	(156,003)
		(720.4)	**(2,341,122)**	**(2,378,902)**	**(2,580,150)**
Net interest income		**3,345.4**	**10,871,795**	**10,514,134**	**9,154,565**
Impairment (losses) recoveries on financial assets					
Loans and other accounts receivable		(1,277.0)	(4,149,972)	(4,119,334)	(3,004,184)
Other financial assets		10.0	32,506	(142)	(70,411)
Recovery of charged-off financial assets		98.5	320,121	264,582	290,444
Net impairment loss on financial assets		**(1,168.5)**	**(3,797,345)**	**(3,854,894)**	**(2,784,151)**
Net interest income, after impairment losses		**2,176.9**	**7,074,450**	**6,659,240**	**6,370,414**
Income from commissions and fees		1,678.1	5,453,382	5,202,125	4,879,187
Expenses from commissions and fees		(188.9)	(613,763)	(623,114)	(619,528)
Net income from commissions and fees	**28**	**1,489.2**	**4,839,619**	**4,579,011**	**4,259,659**
Income from sales of goods and services		2,500.5	8,126,014	5,792,850	6,654,623
Costs and expenses of sales goods and services		(1,686.9)	(5,482,102)	(5,035,827)	(5,725,328)
Net income from sales goods and services (2)	**28**	**813.6**	**2,643,912**	**757,023**	**929,295**
Net trading income	**29**	**179.3**	**582,709**	**561,362**	**724,698**
Net income from other financial instruments mandatory at fair value through profit or loss	**16**	**63.3**	**205,803**	**209,937**	**180,982**
Other income (2)	**30**	**418.1**	**1,358,681**	**1,151,745**	**1,676,106**
Other expenses	**30**	**(2,883.6)**	**(9,371,033)**	**(9,003,091)**	**(8,567,309)**
Net income before tax expense		**2,256.8**	**7,334,141**	**4,915,227**	**5,573,845**
Income tax expense	19	(661.5)	(2,149,590)	(1,752,794)	(2,056,909)
Net income for the year		**1,595.4**	**Ps. 5,184,551**	**Ps. 3,162,433**	**Ps. 3,516,936**
Net income for the year attributable to:					
Owners of the parent	**25**	**896.3**	**2,912,694**	**1,962,414**	**2,139,866**
Non-controlling interest	**26**	**699.1**	**2,271,857**	**1,200,019**	**1,377,070**
		1,595.4	**Ps. 5,184,551**	**Ps. 3,162,433**	**Ps. 3,516,936**
Net income per share basic and diluted (in Colombian pesos, see note 25)			**130.725**	**88.076**	**96.040**

(1) See note 2.4, “convenience translation into U.S. dollars”.
(2) See note 2.32, Changes in presentation.
The accompanying notes are an integral part of the consolidated financial statements

Grupo Aval Acciones y Valores S.A.
Consolidated Statement of Other Comprehensive Income
For the years ended December 31, 2018, 2017 and 2016
(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

	Note	December 31, 2018 US$ [1]	December 31, 2018	December 31, 2017	December 31, 2016
Net income for the year		**1,595.4**	**Ps. 5,184,551**	**Ps. 3,162,433**	**Ps. 3,516,936**
Other comprehensive income					
Items that may be reclassified to profit or loss					
Net gain (loss) on hedges of net investments in foreign operations:	**10**				
Foreign currency translation differences from hedged foreign operations		346.1	1,124,732	(47,197)	(475,000)
Hedging derivative instrument		(168.4)	(547,310)	16,832	291,506
Hedging non-derivative instrument		(177.5)	(576,881)	30,568	35,819
Cash flow hedges	**10**	**(6.1)**	**(19,789)**	**(2,340)**	**17,967**
Foreign currency translation differences from unhedged foreign operations		**(92.3)**	**(299,804)**	**(91,497)**	**(125,161)**
Unrealized gains (losses) on securities at FVOCI (2017: available for sale securities)					
Debt financial instruments	9	(33.0)	(107,084)	284,480	948,212
Equity financial instruments		—	—	57,245	34,509
Investments in associates and joint ventures	**14**	**6.9**	**22,400**	**1,128**	**(20,061)**
Income (Expenses) tax	**19**	**99.4**	**323,138**	**(97,698)**	**(378,877)**
		(24.8)	**(80,598)**	**151,521**	**328,914**
Items that will not be reclassified to profit or loss					
Unrealized gains (losses) on equity securities at FVOCI		(41.3)	(134,084)	—	—
Actuarial gains (losses) from defined benefit pension plans	22	5.5	18,013	(100,232)	(41,228)
Income (expenses) tax	19	(4.0)	(13,082)	24,081	14,521
		(39.7)	**(129,153)**	**(76,151)**	**(26,707)**
Total other comprehensive income		**(64.5)**	**Ps. (209,751)**	**Ps. 75,370**	**Ps. 302,207**
Total comprehensive income, net of taxes		**1,530.8**	**Ps. 4,974,800**	**Ps. 3,237,803**	**Ps. 3,819,143**
Total comprehensive income for the year attributable to:					
Owners of the parent		854.5	2,776,768	1,999,663	2,351,354
Non-controlling interest		676.4	2,198,032	1,238,140	1,467,789
		1,530.8	**Ps. 4,974,800**	**Ps. 3,237,803**	**Ps. 3,819,143**

(1) See note 2.4, “convenience translation into U.S. dollars”.

The accompanying notes are an integral part of the consolidated financial statements

Grupo Aval Acciones y Valores S.A.
Consolidated Statement of Changes in Equity
For the years ended December 31, 2018, 2017 and 2016
(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

	Subscribed and paid-in capital	Additional paid – in capital	Appropriated retained earnings	Other comprehensive income (OCI)	Equity attributable to owners of the parent	Non-controlling interest (NCI)	Total equity
Balance at December 31, 2015	**Ps. 22,281**	**Ps. 8,307,765**	**Ps. 5,699,446**	**Ps. 538,129**	**Ps. 14,567,621**	**Ps. 8,338,659**	**Ps. 22,906,280**
Change in accounting policies	—	—	(7,061)	—	**(7,061)**	(4,870)	**(11,931)**
Acquisition of non-controlling interest	—	(238)	—	—	**(238)**	—	**(238)**
Dividends declared	—	—	(1,310,123)	—	**(1,310,123)**	(743,909)	**(2,054,032)**
Other comprehensive income	—	—	—	211,488	**211,488**	90,719	**302,207**
Net income	—	—	2,139,866	—	**2,139,866**	1,377,070	**3,516,936**
Balance at December 31, 2016	**Ps. 22,281**	**Ps. 8,307,527**	**Ps. 6,522,128**	**Ps. 749,617**	**Ps. 15,601,553**	**Ps. 9,057,669**	**Ps. 24,659,222**
Acquisition of non-controlling interest	—	(4,096)	—	—	**(4,096)**	—	**(4,096)**
Dividends declared	—	—	(1,310,124)	—	**(1,310,124)**	(711,578)	**(2,021,702)**
Other comprehensive income	—	—	—	37,249	**37,249**	38,121	**75,370**
Net income	—	—	1,962,414	—	**1,962,414**	1,200,019	**3,162,433**
Balance at December 31, 2017	**Ps. 22,281**	**Ps. 8,303,431**	**Ps. 7,174,418**	**Ps. 786,866**	**Ps. 16,286,996**	**Ps. 9,584,231**	**Ps. 25,871,227**
Change in accounting policies on January 1, 2018[2]	—	—	(419,304)	45,833	**(373,471)**	(19,647)	**(393,118)**
Balance at January 1, 2018	Ps. **22,281**	**Ps. 8,303,431**	**Ps. 6,755,114**	**Ps. 832,699**	**Ps. 15,913,525**	**Ps. 9,564,584**	**Ps. 25,478,109**
Issuance of shares [3]	—	—	—	—	**—**	988,072	**988,072**
Dilution [4]	—	181,579	—	—	**181,579**	(181,579)	**—**
Dividends declared	—	—	(1,069,489)	—	**(1,069,489)**	(749,987)	**(1,819,476)**
Acquisition of NCI without a change in control	—	(12,674)	—	—	**(12,674)**	(54,483)	**(67,157)**
Other comprehensive income	—	—	—	(135,926)	**(135,926)**	(73,825)	**(209,751)**
Net income	—	—	2,912,694	—	**2,912,694**	2,271,857	**5,184,551**
Balance at December 31, 2018	**Ps. 22,281**	**Ps. 8,472,336**	**Ps. 8,598,319**	**Ps. 696,773**	**Ps. 17,789,709**	**Ps. 11,764,639**	**Ps. 29,554,348**
U.S. dollars at December 31, 2018 [1]	**6.9**	**2,607.1**	**2,645.8**	**214.4**	**5,474.2**	**3,620.2**	**9,094.3**

(1) See note 2.4, "Convenience translation into U.S. dollars".
(2) See note 2.5 "Changes in accounting policies".
(3) See note 1, "Reporting entity".
(4) See note 26, "Non-controlling interest".
The accompanying notes are an integral part of the consolidated financial statements

Grupo Aval Acciones y Valores S.A.
Consolidated Statement of Cash Flows
For the years ended December 31, 2018, 2017 and 2016
(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

	Note	December 31, 2018 US$ (1)	December 31, 2018	December 31, 2017 (2)	December 31, 2016 (2)
Cash flows from operating activities:					
Net income before tax expense		2,256.8	Ps. 7,334,141	Ps. 4,915,227	Ps. 5,573,845
Reconciliation of net income before taxes and net cash provided by operating activities:					
Depreciation of tangible assets	15	147.3	478,606	463,892	455,851
Amortization of intangible assets		147.3	478,568	437,822	323,677
Impairment losses and other accounts receivable	4	1,283.7	4,171,801	4,141,573	3,006,191
Net interest income		(3,345.4)	(10,871,795)	(10,514,134)	(9,154,565)
Accrued dividends	30	(22.0)	(71,487)	(50,439)	(28,027)
Gains on non-monetary transactions		—	—	—	(195,514)
Impairment of investments in associates and joint ventures	14	34.4	111,783	140,691	9,920
Effect of change in accounting polices		—	—	—	6,179
Gains on sales of non-current assets held for sale		(4.6)	(14,862)	(6,611)	(20,659)
Gains on sale of property plant and equipment for own-use	15	(106.9)	(347,510)	—	—
Valuations and interest from Concession agreements		(979.0)	(3,181,620)	(209,936)	(180,982)
Net losses (gains) on investment securities measured at FVOCI (2017: available for sale securities)		3.8	12,284	(51,712)	(210,373)
Writedown in concessions		0.3	1,136	2,875	5,992
Impairment loss on tangible assets		1.8	5,701	4,832	1,503
Foreign exchange (gains) losses		79.5	258,353	(98,977)	247,997
Share of undistributed profit of equity accounted investees, net of tax	14	(60.8)	(197,715)	(171,964)	(140,765)
Fair value adjustments to:					
Derivative financial instruments		(131.5)	(427,208)	(164,920)	(228,083)
Non-current assets held for sale	13	7.7	25,136	37,818	34,572
Investment property	15	(12.1)	(39,415)	(46,675)	(53,680)
Biological assets	15	(6.3)	(20,606)	(13,503)	(14,644)
Changes in operating assets and liabilities:					
Trading assets		218.3	709,398	2,316,539	3,100,462
Increase in other accounts receivable		(194.0)	(630,394)	(804,970)	(414,734)
Increase in derivative financial instruments		67.5	219,406	49,586	241,364
Other assets		4.2	13,710	177,648	207,856
Other liabilities and provisions		848.6	2,757,733	283,036	(375,163)
Employee benefits		13.1	42,617	46,514	45,139
Loans and receivables		(2,537.2)	(8,245,223)	(14,511,561)	(10,431,269)
Customer deposits		1,220.2	3,965,382	11,460,395	9,666,367
Interbank borrowings and overnight funds		527.0	1,712,600	(1,461,985)	(3,404,291)
Borrowings from development entities		(0.2)	(680)	(2,229)	(3,131)
Borrowings from banks and others		456.1	1,482,124	514,474	146,656
Interest received		**5,416.6**	**17,602,454**	**18,124,814**	**12,797,281**
Interest paid		**(2,195.8)**	**(7,135,811)**	**(8,326,553)**	**(7,417,620)**
Income tax paid		**(451.4)**	**(1,467,045)**	**(1,474,250)**	**(791,337)**
Wealth tax and equity tax payments		**—**	**—**	**(99,001)**	**(320,981)**
Net cash provided by operating activities		**2,686.8**	**Ps. 8,731,562**	**Ps. 5,108,316**	**Ps. 2,485,034**

(1) See note 2.4, "convenience translation into U.S. dollars".
(2) See note 2.5 changes in accounting policies.

The accompanying notes and appendices are an integral part of the consolidated financial statements

Grupo Aval Acciones y Valores S.A.
Consolidated Statement of Cash Flows
For the years ended December 31, 2018, 2017 and 2016
(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

	Note	December 31, 2018 US$ (1)	December 31, 2018	December 31, 2017 (2)	December 31, 2016 (2)
Cash flows from investing activities:					
Acquisition of property plant and equipment	15	(168.9)	Ps. (548,984)	Ps. (473,752)	Ps. (814,556)
Acquisition of investment property	15	(16.7)	(54,405)	(75,817)	(56,610)
Additions of biological assets	15	(6.4)	(20,900)	(24,409)	(21,432)
Additions to investments in associates and joint ventures		—	—	—	(16)
Additions of concession arrangement rights		(143.2)	(465,273)	(610,909)	(614,514)
Additions of other intangible assets		(119.7)	(389,151)	(268,757)	(183,662)
Acquisition of FVOCI (2017 and 2016 – available-for sale-financial-assets)		(5,040.7)	(16,380,948)	(14,908,266)	(7,590,827)
Proceeds from sales of FVOCI (2017 and 2016 – available-for sale-financial-assets)		4,442.1	14,435,809	12,676,512	7,739,899
Proceeds from sales of property and equipment	15	17.3	56,346	69,793	241,598
Proceeds from sales of investment properties	15	24.9	80,854	28,431	61,786
Proceeds from sales of biological assets	15	9.9	32,239	19,775	20,670
Proceeds from sales of non-current assets held for sale		20.5	66,657	85,395	151,443
Purchases of amortized cost (2017 and 2016 — held-to-maturity) financial assets		(1,196.3)	(3,887,773)	(3,704,730)	(2,668,018)
Redemptions of amortized cost (2017 and 2016 held-to-maturity) financial assets		1,172.5	3,810,438	3,365,150	2,658,728
Dividends received from investments		63.6	206,549	171,423	125,347
Business combination, net of cash		—	—	40,093	(2,706)
Effect of loss of control of subsidiaries		3.5	11,238	—	—
Net cash (used in) provided by investing activities		**(937.7)**	**Ps. (3,047,304)**	**Ps. (3,610,068)**	**Ps. (952,870)**
Cash flows from financing activities:					
Dividends paid to shareholders		(347.3)	(1,128,535)	(1,307,525)	(1,260,876)
Dividends paid to non-controlling interest	26	(229.5)	(745,932)	(768,769)	(743,909)
Issuance of debt securities		337.2	1,095,892	4,548,108	5,800,085
Payment of outstanding debt securities		(350.8)	(1,139,897)	(3,913,694)	(3,728,199)
Issuance of common shares	26	304.0	988,072	—	—
Acquisition of NCI without a change in control		(20.7)	(67,157)	(4,096)	(238)
Net cash used in financing activities		**(307.0)**	**(997,557)**	**(1,445,976)**	**66,863**
Effect of foreign currency changes on cash and cash equivalents		**424.0**	**1,377,744**	**91,562**	**(1,691,000)**
Increase (decrease) in cash and cash equivalents		**1,866.1**	**6,064,445**	**143,834**	**(91,973)**
Cash and cash equivalents at beginning of year	**7**	**6,873.4**	**Ps. 22,336,838**	**Ps. 22,193,004**	**Ps. 22,284,977**
Cash and cash equivalents at end of year	**7**	**8,739.5**	**Ps. 28,401,283**	**Ps. 22,336,838**	**Ps. 22,193,004**

(1) See note 2.4, "convenience translation into U.S. dollars".
(2) See note 2.5 changes in accounting policies.

The accompanying notes and appendices are an integral part of the consolidated financial statements

NOTE 1 – REPORTING ENTITY

Grupo Aval Acciones y Valores S.A. (hereinafter the "The Group" or "Grupo Aval") was established under Colombian law in January 7, 1994, with its main offices and business address registered in Bogotá, D.C., Colombia. The corporate purpose of Grupo Aval is the purchase and sale of securities issued by financial and commercial entities. Grupo Aval is the majority shareholder of *Banco de Bogotá S.A., Banco de Occidente S.A., Banco Popular S.A.* and *Banco Comercial AV Villas S.A.*, entities whose main purpose is to perform all transactions, operations and services inherent to the banking business, pursuant to applicable laws and regulations. Furthermore, through its direct and indirect investments in *Corporación Financiera Colombiana S.A.* ("Corficolombiana") and in *Sociedad Administradora de Fondos de Pensiones y Cesantías Porvenir S.A.* ("Porvenir"), Grupo Aval engages in investment banking activities, invests in the non-financial sector and manages pensions and severance funds in Colombia.

In performing its activities and pursuant to the corporate bylaws, Grupo Aval may (i) promote the creation of all types of companies relating to its corporate purpose; (ii) represent individuals and companies involved in similar or complementary activities; (iii) grant or receive loans with or without interest; (iv) submit its properties as collateral; (v) issue, endorse, acquire, protest, cancel, or pay bills of exchange, checks, promissory notes or any other type of financial instruments, accept or submit them as payment; (vi) acquire, sell, tax, lease or manage any kind of assets; (vii) subscribe or acquire any kind of investments and sell or otherwise dispose of them; (viii) acquire and sell shares in companies that purse similar or complementary corporate interests ; (ix) render services in areas relating to its activities, experience and knowledge; and (x) carry out or participate, in acts and contracts relating to the aforementioned activities, enabling the exercise of rights and compliance of the obligations of The Group.

The duration of Grupo Aval set forth under the bylaws is until May 24, 2044, but the Company may be dissolved before such term expires, or it may be extended by free decision of the Grupo Aval shareholders meeting.

When preparing its consolidated financial statements, Grupo Aval Acciones y Valores S.A., directly consolidates the following entities:

Banco de Bogotá S.A.

Banco de Bogotá S.A., in which Grupo Aval holds 68.74% of the voting rights and 68.74% of the ownership interest as of December 31, 2018, was established as a bank on November 15, 1870. It was authorized to operate under the terms of the renewal resolution No. 3140 dated September 24, 1993 issued by the Superintendency of Finance. The commercial purpose of Banco de Bogotá is to participate and perform all operations and contracts legally authorized to commercial banking, subject to the limitations and requirements set forth under Colombian laws and regulations.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The following table presents details of Banco de Bogotá's most significant subsidiaries which are indirectly consolidated by Grupo Aval as of December 31, 2018:

Subsidiary	Core business	Location	Total voting rights held by Grupo Aval	Total ownership interest held by Grupo Aval
Main local direct subsidiaries				
Almaviva S.A. and its subsidiaries	Logistics services.	Bogotá, Colombia	95.81 %	65.85 %
Fiduciaria Bogotá S.A.	Management of trust funds.	Bogotá, Colombia	94.99 %	65.29 %
Porvenir S.A. and its subsidiary	Management of pension and severance funds.	Bogotá, Colombia	100 %	75.67 %
Main international direct subsidiaries				
Leasing Bogotá Panamá S.A.	Holding company of BAC Credomatic Inc.	Panamá, Republic of Panamá	100 %	68.74 %
Banco de Bogotá Panamá S.A.	Commercial banking services.	Panamá, Republic of Panamá	100 %	68.74 %
Main indirect subsidiaries				
BAC Credomatic Inc.	Holding company in charge of managing the banking and related subsidiaries in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panamá, among others. (Subsidiary of Leasing Bogotá Panamá S.A.).	Panamá, Republic of Panamá	100 %	68.74 %

Banco de Occidente S.A.

Banco de Occidente S.A., in which Grupo Aval holds 72.27% of the voting rights and 72.27% of the ownership interest as of December 31, 2018, was established as a banking entity on September 8, 1964, It was authorized to operate under the terms of the renewal resolution No. 3140 dated September 24, 1993 issued by the Superintendency of Finance. The commercial purpose of Banco de Occidente is to participate and perform all operations and contracts legally authorized to commercial banks, subject to the limitations and requirements set forth under Colombian laws and regulations.

The following table presents the details of Banco de Occidente's most significant subsidiaries, which are indirectly consolidated by Grupo Aval, as of December 31, 2018:

Subsidiary	Core business	Location	Total voting rights held by Grupo Aval	Total ownership interest held by Grupo Aval
Banco de Occidente (Panamá). S.A.	Commercial banking services.	Panamá, Republic of Panamá	95.00 %	68.66 %
Fiduciaria de Occidente S.A.	Management of trust funds.	Bogotá, Colombia	99.99 %	70.76 %
Occidental Bank Barbados Ltd.	Commercial banking services.	Barbados	100 %	72.27 %

Banco Popular S. A.

Banco Popular S. A., in which Grupo Aval holds 93.74% of the voting rights and 93.74% of the ownership interest as of December 31, 2018, was established as a banking entity on July 5, 1950. It was authorized to operate under the terms of the renewal resolution No. 3140 dated September 24, 1993 issued by the Superintendency of Finance. Its commercial purpose is to participate in and perform all operations and contracts legally authorized to commercial banks, subject to the limitations and requirements set forth under Colombian laws and regulations.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The following table presents the details of Banco Popular's most significant subsidiaries which are indirectly consolidated by Grupo Aval, as of December 31, 2018:

Subsidiary	Core business	Location	Total voting rights held by Grupo Aval	Total ownership interest held by Grupo Aval
Alpopular S.A.	Conservation and custody of documents; transportation of products at national and international levels.	Bogotá, Colombia	71.10 %	66.65 %
Fiduciaria Popular S.A.	Management of trust funds.	Bogotá, Colombia	94.85 %	88.91 %

Banco Comercial AV Villas S. A.

Banco Comercial AV Villas S. A., in which Grupo Aval holds 80.37% of the voting rights and 79.87% of the ownership interest as of December 31, 2018, was incorporated as a banking entity on November 24, 1972. It was authorized to operate under the terms of the renewal resolution No. 3352 dated August 21, 1992 issued by the Superintendency of Finance. The commercial purpose of Banco AV Villas is to participate and perform all operations and contracts legally authorized to commercial banks, subject to the limitations and requirements imposed by Colombian laws and regulations.

The following table presents the details of Banco AV Villas' most significant subsidiary which is indirectly consolidated by Grupo Aval, as of December 31, 2018:

Subsidiary	Core business	Location	Total voting rights held by Grupo Aval	Total ownership interest held by Grupo Aval
A Toda Hora S.A. ATH	ATM network services and maintenance and software development	Bogotá, Colombia	100 %	78.90 %

Corporación Financiera Colombiana S.A. – Corficolombiana S.A.

Corficolombiana S.A., in which Grupo Aval holds 52.96% of voting rights and 38.25% of the ownership interest as of December 31, 2018 is a merchant bank authorized to operate by the Superintendency of Finance by the resolution of October 18, 1961. Corficolombiana´s core business is the active management of an equity portfolio through controlling and non-controlling investments in key strategic sectors, including infrastructure, energy and gas, agriculture and hotels among, others.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The following table presents the details of Corficolombiana´s most significant subsidiaries which are indirectly consolidated by Grupo Aval, at December 31, 2018:

Subsidiary	Core business	Location	Total voting rights held by Grupo Aval	Total ownership interest held by Grupo Aval
Casa de Bolsa S.A.	Brokerage firm	Bogotá, Colombia	97.30 %	61.18 %
Colombiana de Licitaciones y Concesiones S.A.S.	Infrastructure projects.	Bogotá, Colombia	100 %	38.25 %
Concesionaria Nueva Vía Al Mar S.A.S.	Infrastructure projects.	Cali, Colombia	100 %	38.25 %
Concesionaria Vial Del Pacifico S.A.S.	Infrastructure projects.	Sabaneta Antioquia	89.90 %	34.38 %
Estudios y Proyectos del Sol S.A.S. and its subsidiaries	Infrastructure projects.	Bogotá, Colombia	100 %	38.25 %
Estudios, Proyectos e Inversiones de los Andes S.A. and its subsidiaries	Infrastructure projects.	Bogotá, Colombia	99.98 %	38.24 %
Fiduciaria Corficolombiana S.A.	Management of trust funds.	Bogotá, Colombia	100 %	38.25 %
Hoteles Estelar S. A. and its subsidiaries	Construction and operation of hotels, directly or by third parties, in Colombia and abroad.	Bogotá, Colombia	84.96 %	32.49 %
Leasing Corficolombiana S.A.	Financial services	Bogotá, Colombia	100 %	38.25 %
Organización Pajonales S. A. and its subsidiaries	Investment and promotion of agricultural, livestock, forestry and agro industrial companies.	Bogotá, Colombia	99.35 %	38.00 %
Plantaciones Unipalma de los Llanos S.A.	Development, production and sale of African palm products.	Bogotá, Colombia	54.53 %	20.86 %
Promigas S.A. E.S.P. and its subsidiaries	Transportation and distribution of natural gas.	Barranquilla, Colombia	50.88 %	19.46 %
Proyectos de Infraestructura S.A. – PISA and its subsidiaries	Infrastructure projects.	Cali, Colombia	88.25 %	33.75 %

On September 5, 2018, Corficolombiana issued 40,000,000 common shares and 1,529,542 preferred shares without voting rights. The total amount of this issue was Ps. 988,072. Neither Grupo Aval nor its subsidiaries exercised their right of preferential subscription of common shares. As a result, Grupo Aval’s stake in Corficolombiana was diluted as follows:

	Total voting rights held by Grupo Aval	Total ownership interest held by Grupo Aval
Before the issuance	62.42 %	44.79 %
After the issuance	52.96 %	38.25 %

Grupo Aval transferred its preferential subscription rights to all of its shareholders.

Grupo Aval Limited

Grupo Aval Limited is a subsidiary of Grupo Aval in Cayman Islands. It was established on December 29, 2011. Grupo Aval Limited is a limited liability company registered with the Assistant of the Registrar of Companies of Cayman Islands under registry number MC-265169, with its Main Office located in Ugland House, South Church Street, George Town, Grand Cayman KY1-1104. It was constituted as a special purpose vehicle for issuing foreign debt.

Grupo Aval International Limited

Grupo Aval International Limited is a subsidiary of Grupo Aval in Cayman Islands and was established on October 8, 2012. Grupo Aval International Limited is a limited liability company registered with the Assistant of the Registrar of

Companies of Cayman Islands under registry number MC-272253, with its Main Office located in Ugland House, South Church Street, George Town, Grand Cayman KY1-1104.

Other dispositions

Grupo Aval and its Colombian subsidiaries are subject to the following restrictions to transfer profits or perform transactions, in accordance with the legal requirements in Colombia:

- Before distributing any dividends to their shareholders, the companies should assign 10% of their profits to a legal reserve until the reserve equals 50% of paid-in capital.
- The Subsidiaries operating in the financial sector may not grant loans to other companies of Grupo Aval that exceed 10% of their regulatory capital if the loan is unsecured or 25% if it is granted with an acceptable security or third party guarantee, as per Superintendency of Finance rules. There is an exception to this rule that extends the maximum quota up to 25% (without guarantee) when it comes to loans to 4G infrastructure projects.
- Pursuant to article 2.1.2.1.8 of Decree 2555 of 2010, banks in Colombia have a lending limit of 30% of their regulatory capital with respect to loans granted to financial entities.

Foreign subsidiaries of Grupo Aval do not have any restriction to transfer dividends to the parent company, except for the legal reserve mentioned above. Lending operations in general have restrictions similar to those of banks in Colombia, as described above.

Grupo Aval and its subsidiaries do not have significant restrictions on their ability to access or use their assets and settle their liabilities other than those resulting from the supervisory frameworks within which subsidiaries of the financial sector operate. The supervisory frameworks require subsidiaries of the financial sector to keep certain levels of regulatory capital (see note 4.4) and liquid assets (see note 4.3), limit their exposure to other parts of Grupo Aval and its subsidiaries and comply with other ratios.

NOTE 2 – BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Grupo Aval have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on the basis of historical cost, except for financial assets at Fair Value Through Profit or Loss (“FVTPL”), at Fair Value Through Other Comprehensive Income (“FVOCI”) (2017: available-for-sale), derivative financial instruments, investment properties, assets held for sale and biological assets which are measured at fair value. Additionally, non-current assets held for sale are measured at the lower value of their carrying value at the time of transfer and fair value, minus estimated costs of disposal and employee benefits which are measured at the present value of the defined benefit obligation (see note 2.24).

The consolidated financial statements were authorized for issuance by the Audit Committee on April 11, 2019.

The following are the main accounting policies applied in preparing the consolidated financial statements of Grupo Aval as of December 31, 2018, 2017 and, 2016

2.1 Basis of preparation

a) Presentation of Consolidated Financial Statements

The consolidated financial statements are prepared as follows:

- The consolidated statement of financial position presents the company´s assets and liabilities based on liquidity since it provides reliable and more relevant information, than separate current and non-current classifications.

- The consolidated statements of income and other comprehensive income are presented separately. The Consolidated Statement of Income is presented according to their nature, as this method provides reliable and more relevant information.

- The consolidated statement of cash flows is presented using the indirect method. Accordingly, net cash flows from operating activities are determined by reconciling profit before taxes, with the effects of non-cash items, net changes in assets and liabilities from operating activities, and for any other effects that are not classified as investing or financing activities. Revenue and expenses due to interest received and paid are part of operating activities.

b) Consolidated financial statements

Grupo Aval prepares its consolidated financial statements incorporating its controlled entities. Grupo Aval controls an investee if and only if it complies with the following elements:

- Power over the investee entitling Grupo Aval to direct any relevant activities that significantly affect the investee's performance.

- Exposure, or rights to variable returns from its involvement with the investee.

- Ability to affect those returns through its power over the investee.

In order to comply with this requirement, Grupo Aval carries out an annual reassessment of all its contractual relationships. No new entities are required to be consolidated as a result of this process, including no structured entities.

The financial statements of subsidiaries Grupo Aval´s are included in the consolidated financial statements since the date on which Grupo Aval acquires control until the date on which control is lost.

During the consolidation process, Grupo Aval combines the assets, liabilities and profits or losses of those entities under control, previously aligning the accounting policies in all the subsidiaries. Such process includes eliminating intra-group balances and transactions and any unrealized and realized income and expense (except for foreign currency translation gains or losses, taxes are not subject of elimination) arising from intra-group transactions. Unrealized and realized losses are eliminated in the same way as unrealized and realized gains but only to the extent that there is no evidence of impairment. Non-controlling interest is presented in the consolidated statement of financial position of Grupo Aval separately from that attributable to owners of the parent company.

For consolidation purposes, the statements of financial position and income of Grupo Aval´s foreign subsidiaries are translated to Colombian pesos, as follows:

- Assets and liabilities are translated at the closing exchange rate at the reporting date;
- Income, expense and cash flows of foreign operations are translated at monthly average exchange rates since those averages approximate the exchange rates of each specific transaction;
- All resulting exchange differences are recognized in other comprehensive income and accumulated in the foreign currency translation reserve, except to the extent that the translation difference is allocated to non-controlling interests.

c) Investments in associates

Associates are companies in which Grupo Aval has significant influence but not control and are accounted for under the equity method. They are presented in the statement of financial position as "Investments in associates and joint ventures" (additionally see Note 2.1 "d) Joint arrangements"). Grupo Aval exercises significant influence over another entity if it owns, directly or indirectly, 20% or more of the voting power of the investee, unless it is clearly evidenced that such influence does not exist. Under the equity method, investments in associates are initially recognized at cost and subsequently adjusted by Grupo Aval´s share in the associates income and other comprehensive income with credit or charge to Grupo Aval's profit or loss account and other comprehensive income, respectively of the net income, and other comprehensive income of the investee.

Dividends received from associates and joint ventures are recognized as a reduction in the carrying amount of the investment.

Grupo Aval´s share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, Grupo Aval does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between Grupo Aval and its associates are eliminated to the extent of Grupo Aval's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by Grupo Aval.

The carrying amount of associates is tested for impairment.

d) Joint arrangements

A joint arrangement is one in which two or more parties have joint control of the arrangement. Joint arrangements are divided into joint operations, in which the parties having joint control of the agreement have rights to the assets and obligations with respect to the liabilities relating to the agreement, and joint ventures, wherein the parties having joint control are entitled to the net assets of the agreement.

Grupo Aval recognizes joint operations in the consolidated financial statements based on their proportional and contractual participation in each of the assets, liabilities and profit or loss of the contract or entity wherein the agreement is held. Grupo Aval recognizes joint ventures through the equity method, in the same manner as investments in associates.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

2.2 Functional currency

Considering that the majority of the operation, generation and use of cash of Grupo Aval is in Colombian pesos, the Colombian peso is the currency that most accurately represents the economic environment of Grupo Aval's operations, both for the consolidated financial statements and for the parent company. Foreign subsidiaries have functional currencies different from the Colombian peso, which are translated to Colombian pesos for presentation purposes.

2.3 Transactions in foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the prevailing exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies in terms of historical costs are measured using the exchange rate at the transaction date. Financial instruments measured at fair value are converted using the exchange rate at the date the fair value was determined. Profits or losses resulting from the translation process are recognized in profit or loss, except for financial instruments designated as hedging instruments.

As of December 31, 2018, and 2017, the representative market rates as computed and certified by the Superintendency of Finance (for the U.S. $ which is the most representative foreign currency for Grupo Aval´s transactions) were Ps. 3,249.75 and Ps. 2,984.00 per U.S. $1, respectively.

2.4 Convenience translation into U.S. dollars

The presentation currency of Grupo Aval´s consolidated financial statements is the Colombian Peso. The U.S. dollar amounts disclosed in the accompanying consolidated financial statements are presented solely for the convenience of the reader, dividing the Colombian peso amounts by the exchange rate of Ps. 3,249.75 per US$1.00, which is the market exchange rate as of December 31, 2018, as calculated and certified by the Central Bank of Colombia. The use of this methodology in translating Colombian pesos into U.S. dollars is referred to as the "U.S. dollar translation methodology," and should not be construed as a representation that the Colombian peso amounts actually represent or have been, or the amount that could be converted into U.S. dollars at that rate or any other rate.

2.5 Changes in accounting policies

The following table summarizes the impact, net of taxes, of the adoption of IFRS 15 and IFRS 9 in the statement of financial position as of January 1, 2018.

	Reference	Impact of the adoption
IFRS 15 Revenue from contracts with customers	A	Ps. 391,281
IFRS 9 Financial Instruments	B	(784,399)
Net impact at January 1, 2018		**Ps. (393,118)**

A. IFRS 15 "Revenue from contracts with customers"

Grupo Aval has adopted Revenue from Contracts with Customers IFRS 15 using the cumulative effect method, with the effect of initial adoption recognized on January 1, 2018. Accordingly, the information presented for 2017 and 2016, has not been restated – i.e. it is presented, as previously reported, under – IAS 18 Revenue, IAS 11 Construction Contracts, IFRIC 12 "Service Concession Arrangements" and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The following table summarizes the impact net of taxes, of the adoption of IFRS 15 in the statement of financial position as of January 1, 2018.

		Impact of the adoption of IFRS 15 as of January 1, 2018
Operation and construction services (Concessions) (i)		
Commissions related to funding (see note 16)	**Ps.**	12,744
Contract liability (see note 24)		(531,804)
Financial assets (see note 16)		450,878
Intangible assets (see note 16)		619,949
Deferred tax effect		(181,680)
		370,087
Customer loyalty programs (ii)		
Customer loyalty programs		32,232
Deferred tax effect		(11,038)
		21,194
Net impact retained earnings at January 1, 2018	**Ps.**	**391,281**

The main revenue streams impacted by the adoption of IFRS 15, including a description of the accounting policy change, are described below:

i. Operation and construction services (Concessions)

IFRS 15 (see note 2.29 (iii)) incorporates elements related to revenue recognition, such as: a) performance obligations; b) the interest rates of significant financing components; c) the distribution of income among the different performance obligations; and d) the determination of methods for measuring the progress of performance obligations that are met over time.

The impact was mainly done to: a) a change in the discount rates applied in the determination of the significant financing components which; under IFRS 15, are directly associated to the risk characteristics of the counterparty of the concessions agreements (i.e. Government), b) the amounts of revenue allocated to the different performance obligations identified in the concession agreements (mainly construction, and operation and maintenance); and c) changes in the methodologies for measuring the progress of performance obligations.

ii. Customer loyalty programs

Under IAS 18 / IFRIC 13 consideration was allocated to the loyalty program based on the fair value of the loyalty points and the remaining consideration was allocated to the products or services. Under IFRS 15, the transaction price is allocated between the performance obligations based on the relative standalone selling prices of each performance obligation. Therefore, for customer loyalty points a lower level of revenue is deferred according to IFRS 15 than under IAS 18.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

B. IFRS 9 "Financial Instruments"

The following table summarizes the impact, net of tax, of our transition to IFRS 9 on the opening balance of reserves and retained earnings and Other Comprehensive Income ("OCI") as of January 1, 2018 (for a description of the transition method, see (iv) below).

		Impact of adopting IFRS 9 on opening balance of:		
	reference	Reserves and retained earnings	OCI	Total equity
Recognition of changes in measurement due in classification under IFRS 9	i.	Ps. —	Ps. 71,229	Ps. 71,229
Recognition of expected credit losses under IFRS 9	ii.	(1,255,060)	56,198	(1,198,863)
Impact on equity method due to impairment of other accounts receivable from associates	ii	—	(3,691)	(3,691)
Deferred tax effect		366,650	(19,725)	346,926
Impact as of January 1, 2018		**Ps. (888,411)**	**Ps. 104,011**	**Ps. (784,399)**

The details of the significant new accounting policies and the nature and effect of the changes in accounting policies that resulted from the adoption of IFRS 9 were applied retrospectively, as detailed below.

Grupo Aval has followed the exemption of IFRS 9 not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements resulting from the adoption of the new standard. Therefore, differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as of January 1, 2018. Accordingly, the information presented for 2017 does reflect the requirements of IAS 39.

i. Classification and Measurement of Financial Assets and Liabilities

IFRS 9 contains three classification categories for financial assets: measured at amortized cost, Fair Value Through Other Comprehensive Income ("FVOCI") and Fair Value Through Profit or Loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on Grupo Aval's accounting policies related to financial liabilities and derivative financial instruments (for derivatives that are used as hedging instruments, see (iii)).

For an explanation of how Grupo Aval classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 2.6(ii).

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of Grupo Aval's financial assets and financial liabilities as of January 1, 2018.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Financial assets

	Original classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39	Reclassification [(1)]	Remeasurement impact to OCI	Carrying amount under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost	Ps. 22,336,838	Ps. —	Ps. —	Ps. 22,336,838
Debt securities	Held-for-trading	Amortized cost	—		—	—
		FVTPL	2,650,536	—	—	2,650,536
		FVOCI	—	—	—	—
	Available-for-sale	Amortized cost	—	—	—	—
		FVTPL mandatory [(*)]	8,256	—	—	8,256
		FVOCI	17,781,871	—	—	17,781,871
	Held to maturity	Amortized cost	2,899,039	—	—	2,899,039
		FVTPL	—	—	—	—
		FVOCI	—	—	—	—
Equity securities	Held-for-trading	FVTPL	2,149,160	—	—	2,149,160
		FVOCI	—	—	—	—
	Available-for-sale	FVTPL	—	—	—	—
		FVOCI	824,033	41,790	71,229	937,054
Derivatives	Held-for-trading	FVTPL	328,392	—	—	328,392
	Hedging instrument	Hedging instrument	55,261	—	—	55,261
Loans and leases receivables	Loans and receivables	Amortized cost	166,372,776	—	—	166,372,776
		FVTPL	—	—	—	—
Other receivables	Loans and receivables	Amortized cost	3,680,116	—	—	3,680,116
Assets under concession contracts	Loans and receivables	Amortized cost	786,018	—	—	786,018
	Designated as at FVTPL	FVTPL	2,282,611	—	—	2,282,611
Total financial assets			**Ps. 222,154,907**	**Ps. 41,790**	**Ps. 71,229**	**Ps. 222,267,926**

Financial liabilities

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Reclassification	Remeasurement	New carrying amount under IFRS 9
Deposits	Other financial liabilities	Amortized cost	Ps. 154,885,224	Ps. —	Ps. —	Ps.154,885,224
Financial liabilities	Other financial liabilities	Amortized cost	45,276,036	—	—	45,276,036
Derivatives	Held-for-trading	FVTPL	298,665	—	—	298,665
	Hedging instrument	Hedging instrument	13,464	—	—	13,464
Total financial liabilities			**Ps. 200,473,389**	**Ps. —**	**Ps. —**	**Ps.200,473,389**

(*) After the adoption of IFRS 9, certain investment securities were classified as at FVTPL because the contractual cash flows of these securities are not Solely Payments of Principal and Interest ("SPPI") on the principal outstanding. The reclassified assets include certain asset-backed securities whose exposure to credit risk is higher than the exposure to credit risk of the underlying pool of financial assets.

(1) Reclassification from other assets, measured at cost as of December 31, 2017.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

ii. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39 – see Note 2.6(ix).

For assets within the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. Grupo Aval has determined that the application of IFRS 9's impairment requirements as of January 1, 2018 results in an additional impairment allowance recognition as follows:

Loss allowance as of December 31, 2017 under IAS 39	**Ps.**	**(5,875,018)**
Additional impairment recognized as of January 1, 2018 on:		
Loans		(1,163,009)
Credit Commitments		(16,217)
Other accounts receivable		(18,907)
Impact on equity method investees due to impairment of other accounts receivable from associates		(3,691)
Debt securities measured at amortized cost		(672)
Other financial assets		(58)
Loss allowance as of January 1, 2018 under IFRS 9	**Ps.**	**(7,077,572)**

Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI impacts OCI and retained earnings at the same time, therefore the net impact on total equity is zero. The table below shows the impact on retained earnings from impairment:

Impairment loss due to credit risk as of December 31, 2017 under IAS 39	**Ps.**	**(71,708)**
Additional impairment recognized as of January 1, 2018 on:		
Debt securities measured at FVOCI		(56,198)
Loss allowance as of January 1, 2018 under IFRS 9	**Ps.**	**(127,906)**

Additional information about how Grupo Aval measures the allowance for impairment is described in Note 4(4.1).

iii. Hedge Accounting

When initially applying IFRS 9, Grupo Aval may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9. Grupo Aval has elected to continue to apply IAS 39.

iv. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 are generally applied retrospectively, except as described below.

- Grupo Aval applied the exemption allowing not to restate comparative information for prior periods with respect to classification and measurement changes (including impairment).

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 were recognized in retained earnings and reserves as of January 1, 2018. The following assessments were performed on the basis of the facts and circumstances that exist at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If a debt investment security has low credit risk at January 1, 2018, then Grupo Aval determined that the credit risk on the asset has not increased significantly since initial recognition.

2.6 Financial assets and financial liabilities

i. Recognition and initial measurement

Grupo Aval initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date in which Grupo Aval becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value and in addition for instruments at amortized cost or FVOCI, incorporates transaction costs that are directly attributable to its acquisition or issuance.

ii. Classification

Financial assets - Policy applicable starting January 1, 2018

On initial recognition, a financial asset is classified as: amortized cost, Fair Value Through Other Comprehensive Income (“FVOCI”) or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model in which the objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, Grupo Aval may irrevocably elect to present subsequent changes in fair value in Other Comprehensive Income (“OCI”). This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

Business model assessment

Grupo Aval makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- The expected policies and objectives for the portfolio and the actual application of them. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to Grupo Aval's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and its expectations about future sale activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how Grupo Aval's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, Grupo Aval considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, Group Aval considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage covenants;
- Prepayment and extension terms;
- Terms that limit Grupo Aval's claim to cash flows from specified assets; and
- Features that modify consideration of the time value of money.

Interest rates on certain corporate and retail loans originated by Grupo Aval are pegged to standard variable rates (SVRs) generally used in each country where Grupo Aval operates and includes a discretional spread. In Colombia, the SVRs are based on the DTF or IBR rates which are calculated weekly by the Central Bank based on information collected from the Colombian financial system, plus a discretionary spread, and in the case of loans in foreign currency Grupo Aval uses Libor interest rates plus a discretionary spread. In these cases, Grupo Aval will assess whether the discretionary feature is consistent with the SPPI criteria by considering a number of factors, including whether:

- Borrowers are able to prepay the loans without significant penalties,
- Market competition ensures that interest rates are consistent between banks; and

- Any regulatory or customer protection framework is in place that requires banks to treat customers fairly.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, and the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant upon initial recognition.

Financial assets - Policy applicable until December 31, 2017

For accounting purposes, financial assets were classified at initial recognition into four categories:

- Fair value through profit or loss:
  (i) Held for trading financial assets acquired to generate short term profits or that were part of a portfolio of financial instruments managed together for that purpose.
  (ii) Some financial assets under concessions contracts were included in this category in order to obtain more relevant information, either because this eliminated or significantly reduced recognition or measurement inconsistencies (accounting mismatches) that would otherwise arise from measuring assets or recognizing the gains or losses on them on different bases, in accordance with a documented risk management or investment strategy, and information was provided on that basis to Grupo Aval's key management personnel. This classification adequately reflected the present market expectations over future costs comprising the amount of the concession to be negotiated with the different Colombian Government, upon the termination of the concession or its renewal.
- Held-to-maturity Investments: These were debt securities with fixed or determinable payments and a fixed maturity date, which Grupo Aval intended and had the ability to hold to maturity.
- Loans and receivables: These were financial assets of fixed or determinable payments that were not quoted in active markets and were not classified as either trading or available-for-sale.
- Available-for-sale: These were financial assets that were designated initially as available-for-sale and are those not classified as loans and receivables, or as held-to-maturity investments.

Financial liabilities

Grupo Aval classified its financial liabilities, other than derivatives, financial guarantees and loan commitments, as measured at amortized cost.

iii. Reclassifications

Financial asset - Policy applicable starting January 1, 2018

Financial assets are not reclassified subsequent to their initial recognition, except in the period after Grupo Aval's entities changes its business model for managing financial assets.

Financial asset - Policy applicable until December 31, 2017

Subsequent to their initial classification, financial assets shall not be reclassified to other categories, except for special circumstances. In the event of such circumstances, transfers were accounted for as follows:

- From the category "fair value through profit or loss" to other categories: assets were recognized at their fair value.
- From available-for-sale to held-to-maturity investment: the fair value amount recognized immediately before the reclassification to held-to-maturity category became the basis for the amortized cost. In reclassification of an asset with a fixed maturity, any gain or loss previously recognized in other comprehensive income (OCI) and the difference between the newly established amortized cost and the maturity amount were both amortized over the remaining term of the financial asset using the effective interest rate method. However, any gain or loss previously recognized in other comprehensive income were immediately reclassified from equity to profit or loss if the asset is subsequently impaired. For a financial asset with no stated maturity, any gain or loss previously recognized in other comprehensive income were reclassified from equity to profit or loss when the financial asset is disposed of or impaired.
- From held-to-maturity investment to available-for-sale: the difference between the amortized cost and fair value as of the reclassification date were recognized in other comprehensive income.

iv. Derecognition

Financial assets

Grupo Aval derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire (see also (v)), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which Grupo Aval neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

From 1 January 2018 any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities, as explained in (2.11). Any interest in transferred financial assets that qualify for derecognition that is created or retained by Group Aval is recognized as a separate asset or liability.

Grupo Aval enters into transactions whereby it transfers assets recognized on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because Grupo Aval retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which Grupo Aval neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, Grupo Aval continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, Grupo Aval retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

Grupo Aval derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

v. Modifications of financial assets and financial liabilities

Financial assets

Policy applicable starting January 1, 2018

If the terms of a financial asset are modified, then Grupo Aval assesses whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized (see (iv)) and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If Group Aval plans to modify a financial asset in a way that would result in foregoing of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write‐off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then Grupo Aval first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a recovery or impairment through in the Consolidated Statement of Income. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred, and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

Policy applicable until December 31, 2017

Troubled debt restructured loans were those that had collection problems in which Grupo Aval granted the debtor a modification that it would not otherwise consider. These modifications generally involved interest rate reductions, extension of deadlines for payment or reductions in the balance due to a troubled debt loan.

If the terms of a financial asset were renegotiated or modified or an existing financial asset were replaced with a new one due to financial difficulties of the borrower, then an assessment were performed of whether the financial asset should be derecognized. If the cash flows of the renegotiated asset were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognized, and the new financial asset was recognized at fair value. The impairment loss before an expected restructuring was measured as follows.

- If the expected restructuring not resulted in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset were included in the measurement of the existing asset and based on their expected timing and amounts were discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring not resulted in derecognition of the existing asset, then the expected fair value of the new asset was treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount was discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Financial liabilities

Grupo Aval derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in the Consolidated Statement of Income.

If the modification of a financial liability measured at amortized does not result in derecognition of the financial liability, then Grupo Aval first recalculates the gross carrying amount of the financial liability using the original effective interest rate of the liability and recognizes the resulting adjustment as interest expense through in the Consolidated Statement of Income. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred, and fees received as part of the modification adjust the gross carrying amount of the modified financial liability and are amortized over the remaining term of the modified financial liability.

vi. Offsetting

Financial assets and liabilities are offset, and the net amount is recognized in the consolidated statement of financial position, when there is a legally enforceable right to offset recognized amounts and management intends to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in Grupo Aval’s trading activity.

vii. Fair value measurement

‘Fair value’ is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which Grupo Aval has access at that date.

When one is available, Grupo Aval measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then Grupo Aval uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If Grupo Aval determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized the Consolidated Statement of Income on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by Grupo Aval on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

Grupo Aval recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred. See Note 5.

viii. Repurchase agreements and reverse repurchase agreements

Purchases of financial instruments under a non-optional resale agreement are measured at fair value and recognized as financial assets in the consolidated statement of financial position under loans and receivables to credit institutions.

The excess of the purchase prices over the resale prices is recognized as interest income over the contractual term.

Sales of financial instruments under a non-optional repurchase agreement are measured at fair value and recognized as liabilities in the consolidated statement of financial position under Deposits from the Central Bank – Repurchase agreements, Deposits from credit institutions – Repurchase agreements or Customer deposits – Repurchase agreements.

The excess of the sales prices over the repurchase prices is recognized as interest expense over the contractual term.

After January 1, 2018, retained interests (i.e. the assets that collateralize the repurchase agreements) are primarily classified as fair value through OCI and measured at fair value.

Until December 31, 2017, retained interests were primarily classified as available-for-sale investment securities and measured at fair value.

ix. Impairment of financial assets

Policy applicable starting January 1, 2018

Grupo Aval recognizes loss allowances for Expected Credit Losses – "ECL" on the following financial instruments that are not measured at FVTPL:

- Debt instruments;
- Loans and lease receivables;
- Financial guarantee contracts issued;
- Loan commitments issued, and
- Other accounts receivable

No credit impairment loss is recognized on equity investments.

Grupo Aval measures loss allowances at an amount equal to lifetime ECL (Stage 2 and stage 3), except for the following, for which they are measured as 12-month ECL (Stage 1):

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments (other than loans and lease receivables) on which credit risk has not increased significantly – "SICR" from their initial recognition.

A financial asset is classified as a low credit risk asset if the issuer is related to an investment grade credit rating.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

Measurement of ECL is described in Note 4(4.1.5 Amounts arising from ECL).

Modified Financial Assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized (see (iv)) and ECL are measured as follows.

- If the restructuring is not expected to result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4(4.1.1)).
- If the restructuring is expected to result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, Grupo Aval assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by Grupo Aval on terms that Grupo Aval' entities would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days (for mortgage is overdue for 180 days) or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, Grupo Aval considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as "other provisions";
- Where a financial instrument includes both a drawn and an undrawn component, and Grupo Aval cannot identify the ECL on the loan commitment component separately from those on the drawn component: Grupo Aval presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as an "other provision"; and
- Debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized as part of the net movement recognized in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when Grupo Aval determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Recoveries of amounts previously written off are included in "impairment losses (recoveries) on financial assets" in the Consolidated Statement of Income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Grupo Aval's procedures for recovery of amounts due. The contractual amount outstanding on the financial assets that were written off during the reporting period are disclosed in note 4.1.5 Amounts arising from ECL; Loss Allowance reconciliation tables.

Policy applicable until December 31, 2017

Grupo Aval assessed whether there was objective evidence that a financial asset or a group of financial assets were impaired depending on their classification.

For financial assets measured at amortized cost, objective evidence included: significant financial difficulties of the borrower, default or delinquency by a borrower, restructuring of a loan or advance on terms that Grupo Aval would not have considered otherwise, indications that a borrower or issuer would entered bankruptcy, disappearance of an active market for a security or observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in Grupo Aval, or economic conditions that correlated with defaults. If there was objective evidence of impairment, impairment was recognized in profit or loss. The amount of the allowance was determined as follows:

- Grupo Aval performed an individual assessment of significant financial assets classified as held until maturity and loans and receivables, analyzing the debt profile of each debtor, the guarantees granted, and information provided by credit risk agencies. Financial assets were deemed impaired when based on information and current and past events it was likely that Grupo Aval may not collect all the amounts due in the original contract, including interest and fees. If a financial asset had been identified as impaired, the amount of the loss was measured as the difference between the carrying amount of the financial asset and the present value of the future cash flows expected pursuant to the debtor's conditions, discounted at the original effective interest rate, or the present value of the collateral guarantee covering the asset, less the estimated costs of sale when it was determined that the most important source of collection of the loan was such guarantee.
- For those financial assets which were not deemed individually as significant and for individually significant financial asset portfolios which were not determined as impaired after the individual assessment described above, Grupo Aval carried out a collective assessment of impairment. For this purpose, financial assets were grouped together into segments with similar characteristics, using statistical assessment techniques based on an analysis of historical losses to determine an estimated percentage of losses which could have been incurred in such assets as of the date of the reporting, but that had not been identified on an individual basis (See Note 4 for further details regarding the calculation of the collective allowance).
- Once an allowance was recorded for a financial asset or a group of similar financial assets, due to an impairment loss, interest income of the loan continued to be recognized using the same effective interest rate applied to the carrying value of the loan.

Impaired financial assets were written-off from the consolidated statement of financial position when the recovery of any recognized amount was considered to be unlikely. Collections of written-off financial assets were recognized in profit or loss.

For available-for-sale debt securities, Grupo Aval assessed objective evidence for impairment following the same criteria used for loans and receivables, which could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- Indication that a borrower or issuer could have entered bankruptcy or reorganization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For available-for-sale equity instruments, a significant or prolonged decline in the fair value of the security below its cost was an objective evidence of impairment.

When there was objective evidence at the measurement date that excesses of carrying value over fair value was due to an impairment that was other than temporary, cumulative gain or loss previously recognized in equity under "Other Comprehensive Income" was reclassified to profit or loss.

In respect of available-for-sale debt instruments, impairment losses were subsequently reversed through profit or loss if an increase in the fair value of the investment could be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity instruments impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss was recognized in equity under OCI.

Once the impairment losses were estimated, they were charged to profit or loss of the period and credited to an allowance sub-account in the respective financial asset category.

2.7 Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits, and other short-term investments with original maturities of three months or less from the date of their acquisition that are subject to an insignificant risk of changes in their fair value and are used by Grupo Aval in the management of its short-term commitments.

2.8 Trading assets and liabilities

'Trading assets and liabilities' are those assets and liabilities that Grupo Aval acquires or incurs principally for the purpose of selling or repurchasing in the near term or holds as part of a portfolio that is managed together for short-term profit or position taking. Trading assets and liabilities are initially recognized and subsequently measured at fair value in the Statement of Financial Position, with transaction costs recognized in Statement of Income. All changes in fair value are recognized as part of net trading income in Statement of Income.

2.9 Derivatives

a) Derivative financial instruments and hedge accounting

A derivative is a financial instrument in which value changes respond to changes in one or more variables denominated as an "underlying" (a specific interest rate, the price of a financial instrument, a listed commodity, a foreign currency exchange rate, etc.), that has an initial net investment smaller than would be required for other instruments that have a similar response to the mentioned variable and that is settled in a future date.

Grupo Aval trades in financial markets, forward contracts, future contracts, swaps and options that fulfil the definition of a derivative.

Financial assets and liabilities from transactions with derivatives are generally not offset in the consolidated statement of financial position. However, when there is a legal and exercisable right to offset the recognized values and Grupo Aval intends to be settle them on a net basis or to realize the assets and settle the liability simultaneously, derivatives are presented as net values in the consolidated statement of financial position.

Derivative transactions are initially recognized at fair value. Subsequent changes in the fair value are recognized in profit or loss, unless the derivative instrument is designated as a hedging instrument and, in this case, the accounting criteria will depend on the nature of the hedged item, as described below.

At the beginning of the hedging transaction, Grupo Aval formally documents the relationship existing between the hedging instrument and the hedged item, including the risk management objective and strategy in undertaking the hedging relationship. It also documents its assessment, both initially as well as on a recurring basis, of whether the hedging relationship is highly effective in offsetting the changes in fair value or cash flows of the hedged items.

(i) For fair value hedge of assets or liabilities and firm commitments, changes in the fair value of the derivative instrument are recognized in profit or loss, as well as any other change in the fair value of the asset, liability or firm commitment attributable to the hedge risk,

(ii) For cash flow hedge of a particular risk associated with a recognized asset or liability or a projected highly probable transaction, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income. The gain or loss relating to the portion that is not effective for hedging or that does not relate to the hedged risk is immediately recognized in profit or loss.

The values accumulated in other comprehensive income are transferred to profit or loss in the same period in which the hedged item is recognized in profit or loss.

(iii) Hedging of net investments in a foreign operation is recognized similarly to cash flow hedging: the effective portion of changes in fair value of the hedging instrument is recognized in other comprehensive income, and the ineffective portion of the changes in fair value of the derivative is recognized in profit or loss. The hedging instrument's gains or losses accumulated in equity will be recognized in profit or loss when the net investment in foreign operations is sold in whole or proportionally, if partially disposed of.

b) Embedded derivatives

Policy applicable starting January 1, 2018

Derivatives may be embedded in another contractual arrangement (a host contract). Grupo Aval accounts for an embedded derivative separately from the host contract when:

- The host contract is not an asset in the scope of IFRS 9;
- The host contract is not itself carried at FVTPL;
- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognized in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

Policy applicable until December 31, 2017

Derivatives may be embedded in another contractual arrangement (a host contract). Grupo Aval accounted for an embedded derivative separately from the host contract when:

- The host contract was not itself carried at FVTPL;
- The terms of the embedded derivative would have met the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative were not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives were measured at fair value, with all changes in fair value recognized in profit or loss unless they formed part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives were presented in the statement of financial position together with the host contract.

2.10 Loans

Policy applicable starting January 1, 2018

'Loans' captions in the statement of financial position include:

- Loans measured at amortized cost (see 2.5(ii)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- Finance lease receivables.

When Grupo Aval purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan, and the underlying asset is not recognized in the Grupo Aval's financial statements.

Policy applicable until December 31, 2017

'Loans and advances' were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that Grupo Aval did not intend to sell immediately or in the near term.

Loans and advances included:

- Loans and advances to customers, those classified as loans and receivables;
- Loans and advances to banks, those classified as loans and receivables;
- Finance lease receivables.

Loans and receivables were measured at their amortized cost, calculated based on the effective interest rate method, less any impairment.

The effective interest rate method was a method of calculating the amortized cost of a financial asset and allocating the interest income or expense over the relevant period. The effective interest rate was the rate that discounts future cash payments or receipts (without consideration of future credit losses, over the expected life of the financial instrument) to the net carrying amount of the financial asset at initial recognition. In the process of calculating the effective interest rate, Grupo Aval estimated the cash flows considering the contractual terms including prepayment expectations of the financial instrument for portfolios with high prepayment levels, except for future credit losses and considering the initial fair value plus transaction costs and premiums granted, minus commissions and discounts received which form integral part of the effective rate.

2.11 Investment securities

Policy applicable starting January 1, 2018

The 'investment securities' line in the statement of financial position includes:

- Debt investment securities measured at amortized cost (see 2.6(ii)); These are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- Debt and equity investment securities mandatorily measured at FVTPL (see 2.6(ii)); These are at fair value with changes recognized immediately in profit or loss;
- Debt securities measured at FVOCI; and
- Equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- Interest revenue using the effective interest method;
- ECL and reversals; and
- Foreign exchange gains and losses.

When debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity the Consolidated Statement of Income.

Grupo Aval elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI. Cumulative gains and losses recognized in OCI are transferred to retained earnings upon disposal of an investment.

Policy applicable until December 31, 2017

a) Initial measurement

Grupo Aval initially recognized loans and receivables, on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) were recognized on the trade date, which is the date on which Grupo Aval becomes a party to the contractual provisions of the instrument.

Financial assets that were not measured at fair value through profit or loss were initially measured at fair value plus any directly attributable transaction costs.

b) Subsequent measurement

Subsequent to initial recognition, financial assets were measured as follows:

- At fair value through profit or loss: were measured daily at their fair value with changes recognized in profit or loss.
- Held-to-maturity investments: were measured at their amortized cost, calculated based on the effective interest rate method, less any impairment.
- Available-for-sale:
    - Debt instruments were initially recognized at fair value. The effective interest rate method was used in order to calculate the amortized cost of the instrument to determine interest income that were recognized in the Consolidated Statement of Income. Any changes in fair value were recognized in Other Comprehensive Income (OCI). Impairment losses and foreign exchange gains and losses on available-for-sale debt instruments were excluded from the fair value gains and losses recognized in other comprehensive income and were recognized in profit or loss as incurred.
    - Available-for-sale equity instruments were recognized at fair value, with gains or losses recognized in other comprehensive income. Dividends received from such instruments were recognized in profit or loss when Grupo Aval become entitled to receive the payment and impairment losses were recognized in the Consolidated Statement of Income.

When available-for-sale financial assets were sold, the accumulated values in other comprehensive income were reclassified to the Consolidated Statement of Income. When available-for-sale financial assets were sold, the accumulated values in other comprehensive income are reclassified to the Consolidated Statement of Income.

2.12 Financial liabilities

A financial liability is any contractual liability of Grupo Aval to deliver cash or other financial asset to another entity or person, or to exchange financial assets or financial liabilities under potentially unfavorable conditions for Grupo Aval, or a contract which will be terminated or could be settled using equity instruments owned by the entity. Financial liabilities are initially recognized based on their fair value, which is usually equal to the transaction value less directly attributable costs. Subsequently, such financial liabilities are measured at their amortized cost according to the effective interest rate method determined at initial recognition and recognized in profit or loss.

2.13 Financial guarantees

Financial guarantees are those contracts requiring that the issuer carries out specific payments to reimburse the creditor for losses incurred when a specific debtor defaults its payment obligation, in accordance with the original or modified conditions, of a debt instrument; regardless of its legal form.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- Starting January 1, 2018: at the higher of the loss allowance determined in accordance with IFRS 9 (see 2.6 (vii)) and the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15; and

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

- Until December 31, 2017: at the higher of the amount representing the initial fair value amortized over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

Grupo Aval has issued no loan commitments that are measured at FVTPL.

The provisions established over financial guarantee agreements under IFRS 9, are recognized as liabilities under “Provisions – other provisions” and recognized in profit or loss, see note 2.6 ix “Presentation of allowance for ECL in the statement of financial position”.

2.14 Non-current assets held for sale

Foreclosed assets and non-current assets held for sale, which Grupo Aval intends to sell in a period of less than one year, and it is considered highly probable that their value will be recovered primarily through sale rather than through continuing use, are recognized as "non-current assets held for sale". These assets are measured at the lower of their carrying value at the time of transfer and fair value, less estimated disposal costs.

2.15 Property, plant and equipment for own use

Property, plant and equipment include the assets, owned or under financial leases held by Grupo Aval for current or future use and which expects to be used for more than one period.

They are recognized in the consolidated statement of financial position at their acquisition or construction cost, less the corresponding accumulated depreciation and, if applicable, the estimated impairment losses resulting from comparing the carrying amount of each asset with its recoverable value.

Depreciation is calculated by applying the straight-line method over the acquisition cost of the assets, less any residual value; land is not depreciated.

Depreciation is estimated on a straight-line basis during the estimated useful life of the asset. The annual depreciation rates for each item of assets are:

Asset	Useful Life
Own use buildings	According to appraisals without exceeding 70 years
Equipment, furniture and accessories	From 3 to 10 years
Machinery and equipment	From 5 to 25 years
Computer equipment	From 3 to 12 years
Vehicles	From 5 to 10 years
Bearer plants	From 25 to 35 years

Conservation and maintenance expense is recognized when incurred as “Administrative Expense”.

According to the changes in accounting policies discussed below, the biological assets that meet the definition of bearer plants are accounted for as property, plant and equipment.

A bearer plant is a live plant that meets the following requirements:

a) It is used for the manufacturing or supply of agricultural products;
b) It is expected to produce for more than one period; and

c) It has a remote probability of being sold as an agricultural product, except for irregular sales related to thinning and trimming.

Bearer plants that are under the set-up and growing phase are subject to a biological transformation which are reflected through cost accumulation until they reach their maturity level. In the case of the African oil palm maturity is reached in the second year, while for rubber maturity is reached in the seventh year. After reaching their maturity bearer plants are considered developed and the future economic benefits arise from the sale of the fruit produced during the life of the plant.

Bearer plants are measured at their cost less accumulated depreciation and any impairment losses. The useful life is equal to the plants´ production periods. The useful life of the rubber plant is 35 years while the useful life of the African oil palm is 25 years. The depreciation method used is the estimated production units as it accurately reflects the use of the assets. If the bearer plant is sold for timber at the end of the useful life the value received is considered the residual value of the asset.

2.16 Investment properties

Land and buildings, considered in whole or in part, that are held to earn rental income or for capital appreciation, rather than for own use or sale in the ordinary course of business. Investment properties are recognized initially at cost, including all costs associated with the transaction, and subsequently measured at fair value, with changes in fair value recognized in profit or loss.

2.17 Leases – Lessor accounting

Leases are classified as a financial or operating lease. A lease is classified as a financial lease when it substantially transfers all the risks and rewards inherent to the property. A lease is classified as operating if it does not substantially transfer all the risks and rewards inherent to the property. Lease contracts classified as financial leases are included in the consolidated statement of financial position as “Loans” and are recognized in the same way as other loans, as explained in note 2.6 and note 2.10 above. Lease contracts classified as operating lease continue to be classified as property, plant and equipment or investment property in Grupo Aval and are recognized and depreciated in the same manner as property and equipment of its own use. Revenues from payments are recognized in profit or loss of the period using the straight-line accrual method.

2.18 Leases - Lessee accounting

Up on initial recognition, leases are classified as financial or operating leases, in the same way as described above.

Lease agreements classified as financial leases are included in the consolidated statement of financial position as property, plant and equipment or as investment properties, in accordance with the intention of Grupo Aval in relation to the asset and are initially recognized in assets and in liabilities simultaneously for an amount equal to the lesser of the fair value of the leased asset or the present value of the minimum lease payments. The present value of the minimum lease payments is established by using the implicit interest rate in the lease contract, or if such rate is not determinable, the average interest rate of the bonds placed by Grupo Aval in the market. Any initial direct cost of the lessee is added to the recognized asset amount.

After initial recognition, these assets are accounted for in the same manner as other property, plant and equipment or investment properties. The value recognized as a liability is included as a financial liability.

Payments under lease contracts classified as operating are recognized on a straight-line basis in profit or loss over the lease term. Incentives received from leasing are recognized as an integral part of the total lease payments during its term.

On January 1, 2019, Grupo Aval will adopt the IFRS 16 standard that significantly changes the lessee accounting. See note 2.33 for further details.

2.19 Biological assets

Biological assets, including those growing in the bearer plants, are recognized both at the time of their initial recognition and at the end of reporting period at fair value less disposal cost, except for biological assets for which their fair value cannot be measured reliably; in such case they are measured at cost less accumulated depreciation and impairment loss. Gains and losses arising from the initial and subsequent recognition at fair value of the agricultural products are included in the Consolidated Statement of Income. Costs incurred in the agricultural production process are also recognized directly in the Consolidated Statement of Income.

Fair value of biological assets is determined using valuations performed by experienced internal professionals, using discounted cash flow models. The expected cash flows of the crop's total life are determined by using the market price of the agricultural product currently in effect and the estimated productive life of plants, net of maintenance and harvest costs and of any other costs required for plant maintenance during the production period. Productive life of plants is estimated considering the age, location and type of product. Fair value of the biological assets is dependent on current market prices for each product.

2.20 Business combinations and goodwill

Business combinations are accounted for by using the "acquisition method" when control is transferred to the controlling entity. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. If there is non-controlling interests arise during the acquisition of control of the entity, such non-controlling interests is recognized at either fair value or at the proportionate interest in the recognized amount of the identifiable net assets of the acquiree. This election is decided in each transaction.

Goodwill is measured as the excess of the aggregate of consideration transferred, over the amount of any interest previously acquired and the net of identifiable assets and liabilities assumed at acquisition date. Goodwill acquired in a business combination is assigned to each of the groups of cash-generating units from which a benefit is expected as a consequence of the acquisition. Goodwill is not subsequently amortized but is subject to an annual assessment of impairment of the cash-generating unit to which goodwill has been assigned, from which benefits are expected deriving from the synergies of business combinations.

A loss due to impairment recognized on Goodwill cannot be reversed in subsequent periods. In addition, statement of income of the acquiree is included in Grupo Aval´s consolidated financial statements from the acquisition date.

2.21 Other intangibles assets

Other intangible assets mainly comprise software and licenses, which are initially measured at the cost of acquisition or cost of development. Costs incurred during the research phase are expensed as incurred.

Development expenses which are directly attributable to design and performance tests of software and identifiable, unique and controlled by Grupo Aval are recognized as intangible assets, when the following conditions are met:

- Technically, it is possible to complete the intangible asset production, so it can be available for use;
- Management intends to complete the corresponding intangible asset for use;
- Grupo Aval has the capacity of using the intangible asset;
- It is probable that future economic benefits that are attributable to the asset will flow to the entity;

- There is availability of adequate technical or financial resources or other type, for completion and usage of the intangible asset; and
- Costs attributable to intangible asset during its development phase can be estimated and measured in a reliable manner.

Costs that are directly attributable and capitalized as part of intangible assets include personnel expense directly related to developing such programs and an adequate percent of overhead expense.

Expenses that do not satisfy these criteria are recognized as incurred expenses. Disbursements over intangible assets are initially recognized as expenses of the period and they will not be subsequently recognized as intangible assets.

Subsequent to their initial recognition, these assets are measured at cost less amortization, which is carried out during its estimated useful life as follows: software amortization is recognized on a straight-line basis, according to the estimated useful lives. At the end of each fiscal year, Grupo Aval analyzes if there is evidence based on each CGU (Cash Generating Unit), both external and internal, indicating that the intangible asset is impaired. Any loss due to subsequent impairment or reversals are recognized in the Consolidated Statement of Income; such impairment is determined by the excess of carrying amount over recoverable value.

2.22 Concession arrangements rights

Concession contracts, between certain subsidiaries of Grupo Aval and the Colombian Government and other entities for the construction or maintenance of infrastructure during a specific period, in which those entities receive income during the life of the contract, whether through direct payments from the Government or through tolls or fees charged to the users, are recognized as financial assets or intangible assets.

A financial asset is recognized when pursuant to the contractual conditions, the contractor is entitled to an unconditional contractual right of receiving from the grantor entity or from the Colombian Government, cash or other financial assets due to construction services or when the Government guarantees minimum income from tolls or fees charged to the users of the concession work during the term of the concession agreement. An intangible asset is recognized when the Grupo Aval subsidiary in the concession contract does not have an unconditional right to receive cash and it has a right to charge for the use of the concession infrastructure. In some cases, contracts can contain both financial and intangible assets.

Concession arrangements are recognized as follows:

(a) During the construction stage of assets under concession, all estimated income for construction and upgrade services and costs associated to construction are recognized in the Consolidated Statement of Income based on the stage of completion of the work performed. Any additional expected loss is recognized as an expense.

(b) If all or part the concession agreement is classified as a financial asset, it is recognized within other accounts receivable, net line item in the consolidated statement of financial position, initially at fair value and subsequently at amortized cost, with the exception of concession agreements in Promigas' subsidiaries which due to the condition of the contracts, are measured as mandatory FVTPL.

(c) If all or part the concession agreement is classified as an intangible asset, the considerations for providing construction or upgrade services are measured at fair value on initial recognition with reference to the fair value of the services provided. The fair value is the cost of the intangible assets which is subsequently amortized to profit or loss during the term of the contract. Any income received as tolls or fees before completion of the construction stage is deferred and amortized, to profit or loss during the term of the contract, starting on the date in which the asset is placed into use. Income received from tolls or fees upon construction completion and available for public service is recognized as income when effectively received.

2.23 Impairment of non-financial assets

At each reporting date, Grupo Aval reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Goodwill is tested annually for impairment. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or Cash Generating Units (CGU). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Grupo Aval´s corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss of goodwill cannot be reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

2.24 Employee Benefits

Grupo Aval entities provide the following benefits to employees in exchange of services rendered to the Grupo Aval:

a) Short-term employee benefits

   Pursuant to Colombian labor rules, such benefits are comprised of salaries, premiums, vacations, severance payments and payroll tax contributions to the Colombian Government agencies which are paid within 12 months following the end of the period. Such benefits are recognized on an accrual basis and recognized in profit or loss.

b) Post-employment benefits (defined benefit plans)

   These are benefits that Grupo Aval pays to its employees when they retire or upon completion of their employment period, other than indemnities. According to Colombian labor rules, such benefits are retirement pensions which are directly assumed by Grupo Aval's entities, pending severance payments to employees belonging to the labor regime prior to Law 50 1990 and certain extra-legal benefits or agreed in collective labor conventions.

Post-employment benefits liabilities are determined based on present value of estimated future payments, calculated based on actuarial assessments based on the projected unit of credit method, and applying actuarial assumptions about mortality rate, increase of salaries and personnel turnover, and interest rates determined with reference to bond market returns of Colombian Government' bonds or high-quality business liabilities in effect at the reporting date. Under the projected unit of credit method, future benefits to be paid to employees are assigned to each accounting period in which the employee renders the service. Therefore, the corresponding expense due to these benefits recognized in profit or loss of Grupo Aval includes the present service cost assigned in the actuarial calculation plus the financial cost of calculated liabilities. Changes in liabilities due to changes in actuarial assumptions are recognized in Other Comprehensive Income.

Changes in actuarial liabilities due to changes in employment benefits granted to employees that have a retroactive effect are recognized as an expense in the earlier of the following dates:

- When a modification of the granted employment benefits takes place, or
- When provisions for restructuring costs are recognized by a subsidiary or a business of Grupo Aval.

c) Other long-term employee benefits

Long term benefits are different from employee short-term benefits, post-employment benefits and termination. In accordance with the collective conventions and regulations of each company of Grupo Aval, such benefits are mainly related to seniority bonuses.

Long-term liabilities for employee benefits are determined in the same manner as post-employment benefits described in item (b) above; the only difference is that the changes in the actuarial liability due to changes in the actuarial assumptions are recognized in profit or loss.

d) Termination benefits

These benefits are payments carried out by Grupo Aval entities deriving from a unilateral decision of terminating a labor contract or by a decision of the employee to accept benefits offered by an entity in exchange for terminating the employment contract. Pursuant to Colombian law, such payments correspond to compensation and other benefits that entities unilaterally decide to grant to their employees under such circumstances.

Termination benefits are recognized as a liability or in profit or loss at the earlier of the following dates:

- When Grupo Aval formally informs to the employee about its decision of dismissal; or
- When provisions for restructuring costs are recognized by a subsidiary or business of Grupo Aval.

2.25 Income taxes

Income tax expense includes both current and deferred tax. Tax expense is recognized in profit or loss except for items recognized in Other Comprehensive Income or directly in equity.

The current income tax is calculated based on the tax laws in force (enacted or substantively enacted) in Colombia as of the reporting date of the consolidated financial statements or, in the country where subsidiaries of Grupo Aval are located and subject to tax payment. Management of each entity of Grupo Aval periodically assesses tax return positions with respect to situations where the applicable tax regulation is subject to interpretation and establishes provisions, when appropriate, on the basis of amounts expected to be paid to tax authorities.

Deferred taxes are recognized in respect of temporary differences arising between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred taxes are not recognized for: temporary differences on the initial recognition of goodwill; temporary differences on the initial recognition of an asset or liability in a transaction that is not business combination and that affects neither accounting or taxable profit or loss and temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured using the tax rates that are expected to be applied to the temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes assets are only recognized to the extent it is probable that future taxable income is expected to be available to offset temporary differences.

Deferred tax liabilities arise from taxable temporary differences, except for the deferred tax liabilities on investments in subsidiaries, when the opportunity of reversal of temporary differences is controlled by Grupo Aval and it is not reversed in the near future. Generally, Grupo Aval has the ability to control the temporary differences of investments in associates.

Current taxes are offset only when the entity has a legally enforceable right to offset and the entity intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Deferred taxes are offset when the entity has a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities are related to income taxes levied by the same tax authority over the same taxable entity or over different entities but these entities have an intention to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously for each period in which these differences reverse.

In determining the amount of current and deferred taxes, Grupo Aval considers the impact of uncertain tax exposures on current tax liabilities, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes Grupo Aval to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

2.26 Non-Income taxes (levies)

Levies are recognized as liabilities when Grupo Aval has accomplished the activities on which taxes must be paid, according to legislation in effect.

A wealth tax was created by the Colombian Congress in late 2014, which is calculated based on the equity of companies in Colombia, determined under tax rules as of January 1, 2014, for every year from 2015 through 2017 on January 1, and is recognized on an annual basis as a liability when incurred and charged to profit or loss.

2.27 Provisions

Provisions for environmental dismantling and recovery, restructuring costs and legal claims are recognized when Grupo Aval has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic benefits will be required to settle the obligation. Restructuring provisions include penalties due to cancelation of leases and employee dismissal payments.

Provisions are measured at the present value of outflows expected to be necessary to settle the obligation, using a discount rate before taxes, reflecting the assessments of the time value of money of the current market as well as the specific risks of the obligation. The subsequent increase of the provision due to the unwinding of the discount rate is recognized as “other expenses”.

2.28 Non-voting rights of preferred shares

Preferred shares represent partial ownership and do not provide shareholders with any of the voting rights of common shares. Grupo Aval has classified as an equity instrument all the non-voting preferred shares. See note 25 controlling interest equity.

2.29 Revenues

- **Net interest income**

Policy applicable from January 1, 2018

(i) Effective interest rate

Interest income and expense are recognized in the Consolidated Statement of Income using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, Grupo Aval estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

(ii) Amortized cost and gross carrying amount

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance until December 31, 2017).

The 'gross carrying amount' of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

(iii) Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 4(4.1.5 Definition of Default).

(iv) Presentation

Interest income and expense presented in the Consolidated Statement of Income and OCI include:

- Interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis (see (i) above);
- Interest on debt instruments measured at FVOCI calculated on an effective interest basis (see (i) above);

Interest income and expense on all trading assets and liabilities are considered to be incidental to Grupo Aval's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in "net trading income".

Interest income and expense on other financial assets and financial liabilities mandatory at FVTPL are presented in "Net trading income".

Policy applicable until December 31, 2017

Interest income and expense were recognized in profit or loss using the effective interest rate method. The 'effective interest rate' was the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, Grupo Aval estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issuance of a financial asset or financial liability.

Interest income and expense presented in the Consolidated Statement of Income:

(i) Interest on financial assets and financial liabilities measured at amortized cost calculated using the effective interest method;
(ii) Interest on available-for-sale debt securities calculated using the effective interest rate method;

Interest income and expense on all trading assets and liabilities were considered to be incidental to Grupo Aval's trading operations and were presented together with all other changes in the fair value of trading assets and liabilities in net trading income (Note 29).

Fair value changes on other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through profit or loss (FVTPL), were presented in net income from other financial instruments at FVTPL in the statement of profit or loss and OCI.

- **Net trading income**

'Net trading income' comprises net gains or losses related to held for trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

Revenue from contracts with customers (other than interest income) policy applicable from January 1, 2018

IFRS 15 establishes a comprehensive framework to determine how much and when income is recognized, it replaced IAS 18, IAS 11 and other policies related to its interpretations, IFRIC 13, IFRIC 18 and SIC-31.

- **Contract assets**

A contract asset is Grupo Aval's right to consideration in exchange for goods or services that Grupo Aval has transferred to a customer when that right is conditional on something other than the passage of time (for example, invoicing or delivery of other elements of the contracts).

Contract costs eligible for capitalization as incremental costs of obtaining a contract are recognized as a contract asset. Contract costs are capitalized when are incurred if Grupo Aval expects to recover those costs. Contract contracts are amortized on a systematic basis that is consistent with the transfer to the customer of the services when the related revenues are recognized. Contract costs capitalized are impaired if the customer is retired or if the asset's carrying amount exceeds projected discounted cash flows relating to the contract.

- **Contract liabilities**

Contract liabilities comprise Grupo Aval's obligation to transfer goods or services to a customer for which Grupo Aval has received consideration from the end customer or the amount is due. Additionally, it includes deferred income relating to goods or services that will be delivered in the future, which are charged to a customer in advance but not yet due.

- **Steps for revenue recognition**

Grupo Aval recognizes revenue from contracts with customers based on a five step model as set out in IFRS 15:

- Step 1. Identify contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met. Contracts can be written, oral or implied by an entity's customary business practices.
- Step 2. Identify performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
- Step 3. Determine the transaction price: The transaction price is the amount of consideration to which Grupo Aval expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
- Step 4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, Grupo Aval allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which Grupo Aval expects to be entitled in exchange for satisfying each performance obligation.
- Step 5. Recognize revenue when (or as) Grupo Aval satisfies a performance obligation.

Grupo Aval satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

a) Grupo Aval performance does not create an asset with an alternate use to Grupo Aval, and Grupo Aval has as an enforceable right to payment for performance completed to date.
b) Grupo Aval performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
c) The customer simultaneously receives and realizes the benefits provided by Grupo Aval.

For performance obligations where one of the above conditions are not met, revenue is recognized at the point in time at which the performance obligation is satisfied.

When Grupo Aval satisfies a performance obligation by delivering the promised goods or services it creates a contract asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognized this gives rise to a contract liability.

Revenue is measured based on consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Grupo Aval recognizes revenue when it transfers control over a good or service to a customer. Revenue is presented net of value added tax (VAT), rebates and discounts and after eliminating intra-group sales.

Grupo Aval assesses its revenue arrangements to determine if it is acting as principal or agent.

Revenue is recognized to the extent it is probable that the economic benefits will flow to Grupo Aval and the revenue and costs, if applicable, can be measured reliably.

The following is a description of principal activities from which Grupo Aval generates revenue from contracts with customers:

(i) Banking (Financial Services)

Grupo Aval often enter into contracts that cover a number of different services. Such contracts might contain components within, and components outside, the scope of IFRS 15. Therefore, Grupo Aval only applies the guidance in IFRS 15 where it has contracts that are all or partly outside the scope of IFRS 9.

Main revenue streams earned by the banks from contracts with customers are the following:

- *Credit cards: Interchange fees, Annual-quarterly-monthly fees, Loyalty schemes*

There are contracts that create enforceable rights and obligations between the Bank and the cardholders or merchants under which the bank will provide services, sometimes in exchange for annual and other fees. The following are some of the services that might exist in a contract with a cardholder:

- Issuance of loyalty points (which are options to acquire goods/services for free or at a discount in the future), usually based on the monetary volume of card transactions;
- Payment processing service;
- Insurance where the bank is not the insurer;
- Fraud protection; and
- Processing of certain transactions, such as purchases in a foreign currency and cash withdrawals.

The transaction price is allocated to each performance obligation based on the relative stand-alone selling prices of the goods or services being provided to the customer. The allocation of the transaction price to each of the separate performance obligations will not necessarily be required where there is more than one performance obligation but the performance obligations are all satisfied at the same time or evenly over the period.

Performance obligations are fulfilled over time, taking into account that customers receive benefits as time goes on. Because the entity's efforts or resources are expended evenly throughout the performance period, income is recognized on a linear basis during the period defined under the credit card conditions. The costs of plastic or security elements are capitalized as contract signing costs.

In connection with the credit and debit card purchase commissions of the Grupo Aval, customers receive benefits every time they make purchases. In this context, income is recognized periodically (daily or monthly) on the basis of the amounts traded. Income that would be deferred by the valuation of the points granted to the cardholders will be extracted from the total amount of commissions recorded periodically. See section (vi) Customer Loyalty Program below.

- *Commissions*:

Banks receive insurance commissions for introducing new clients to third party insurers, where the bank does not underwrite the insurance policy itself. These commissions are usually paid periodically (for example, monthly) to banks based on the volume of new policies (and/or renewal of existing policies) originating from clients introduced by the bank. The transaction price might include an element of consideration that is variable or contingent on the outcome of future events, such as policy cancellations, which is estimated and included in the transaction price based on the most likely amount and it is included in the transaction price only when it is highly probable that the resolution of the uncertainty will not result in a significant reversal of revenue.

Performance obligations are fulfilled over time, taking into account that customers (insurers) receive benefits as time goes on. Where the commission calculation is made on a monthly basis or in a lower period, the total amount of the commission is recognized in the results when its determination is made. If the settlement of commissions is defined in periods higher than a monthly basis, the expected income to recognize revenues is estimated as time goes on.

Loan commitment fees are within the scope of IFRS 15 where it is unlikely that a specific lending arrangement will be entered into and the loan commitment is not measured at FVTPL. Loan syndication fees received by a bank that arranges a loan and retains no part of the loan package for itself (or retains a part at the same Effective Interest Rate “EIR” for comparable risk as other participants) are within the scope of IFRS 15.

Income from performance obligations to provide such services, which are met at a point in time, are recognized when the particular event defined in the contracts occurs (e.g., approval of the syndicated loan). The obligations met over time are recognized during the period of the commitment; if they are received in advance, they are deferred for their periodic amortization; or if they are received upon expiration, they are estimated periodically.

- *Savings and current accounts: Account and transaction fees*

Savings and current accounts contracts usually allow customers to access a variety of services, which include processing of wire transfers, use of ATMs for cash withdrawals, the issuance of debit cards, and provision of account statements; sometimes, they might also include other benefits. Fees are charged on a periodically basis and give the customer access to banking services and additional benefits.

The performance obligations are fulfilled over time, taking into account that customers receive benefits as time goes on. As a result, the banks recognize the fees from providing services in the accounting period in which the services are rendered.

- *Investment banking: Underwriting fees and Advisory fees*

Advisory contracts with customers are not standardized. These contracts might be with different promises made to the customer, and they often include variable consideration including contingent fees that are only payable on meeting agreed milestones.

Income from performance obligations to provide such services, which are met at a point in time, are recognized when the particular event defined in the contracts occurs. The obligations met over time are recognized considering the method of milestones achieved (as there is usually only one milestone that considers the delivery of results, income is recognized at a single moment when the final delivery is made.)

(ii) Asset management

Asset management revenues consist of base management fees, advisory fees, incentive distributions and performance-based incentive fees and profit-sharing arrangements which arise from the rendering of services.

Revenues from base management fees, advisory fees incentive distributions, performance-based incentive fees and profit-sharing arrangements are recorded based on the amount that would be due under the formulas established by the contracts.

If the amount that the asset manager expects to be entitled to is variable, the variable consideration included in the transaction price is limited to the amount for which it is ‘highly probable that a significant reversal of the amount of cumulative revenue recognized will not occur when the uncertainty is resolved. In making this assessment, Grupo Aval considers both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, (i) the amount of consideration is highly susceptible to factors outside the entity’s influence, (ii) the uncertainty about the amount of consideration is not expected to be resolved for a long period of time, and (iii) the contract has a large number and broad range of possible consideration amounts.

Management fees are often based on net assets under management, while performance fees are usually based on profits generated from the underlying investments held by the funds subject to certain thresholds.

The contractual measurement period for performance fees for traditional fund managers is often the end of the month, the quarter or the year, and in some rare cases longer. In some cases, the performance fees will be constrained until this contractual measurement period is completed. This means that the revenue will generally not be recognized in full in the interim periods. However, management will need to determine if there is a portion (a minimum amount) of the variable consideration that should be recognized prior to the end of the contractual measurement period. The full amount of the fee will likely be recognized as of the end of the contractual measurement period when the asset manager becomes entitled to an amount that is fixed. In certain cases, the full amount of the fee will be recognized upon a redemption because the amount becomes fixed at that time and is no longer subject to reversal.

(iii) Construction and operation services (Concessions)

In Concession agreements, Grupo Aval determines that its performance obligations (Construction, operation and maintenance) are satisfied over time and measure its progress toward completion to determine the timing of revenue recognition using a method that depicts the transfer of the goods or services to the customer. Grupo Aval considers the nature of the product or services provided and the terms of the contract, such as termination rights, the rights to demand or retain payments, and the legal title to work in process in determining the best input or output method for measuring progress toward satisfaction of a performance obligation.

Grupo Aval applies a single method to measure progress for each performance obligation within a contract. The method can be either an input method (cost incurred, labor hours) or output method (units produced, milestones reached).

Estimations of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

(iv) Power and utilities

Contracts between a customer and a utility for the purchase, delivery, and sale of electricity or gas, establish the rates and terms of service. Grupo Aval determined that its obligation to sell electricity or gas represents a single performance obligation that is satisfied over time (that is, the sale of electricity or gas over the term of the agreement represents a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer).

Some contracts include multiple deliverables, such as the installation of connections or repairs, which are accounted as a separate performance obligation. The transaction price is allocated to each performance obligation based on the stand-alone selling price (regulated rates). If contracts include the installation of goods, revenue for the goods is recognized at the point in time when goods are delivered, the ownership has been transferred and the customer has accepted the goods.

(v) Logistic activities

The transport and logistics companies offer multiple products or services to their customers as part of a single agreement. Separate performance obligations are identified in an agreement based on the terms of the contract and Grupo Aval's usual business practices.

Revenue recognition criteria generally apply separately to each performance obligation. In certain circumstances, it may be necessary to separate a transaction into identifiable components to reflect the content of the transaction. It may be necessary to group two or more transactions when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole.

The transaction price is assigned to performance obligations separately in a contract based on the relative independent selling price of each separate performance obligation.

(vi) Customer loyalty program

Financial entities and hotels of Grupo Aval manage several loyalty programs in which the customers accumulate points for their purchases, entitling them to redeem such points for prizes in accordance with the policies and the prize plan in force as of the redemption date. Reward points are recognized as an identifiable component separate from income for the service rendered, at their fair value. Income from loyalty programs is deferred and recognized in profit or loss until the entity has fulfilled its obligations to supply the products under the terms of the program or when it is no longer probable that the points under the program will be redeemed.

Grupo Aval is the principal in a customer loyalty program if it obtains control of the goods or services of another party in advance of transferring control of those goods or services to a customer. Grupo Aval is an agent if its performance obligation is to arrange for another party to provide the goods or services.

(vii) Agricultural produce

Grupo Aval sells agricultural products. Sales are recognized when control of the products has been transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or Grupo Aval has objective evidence that all criteria for acceptance have been satisfied.

Revenue from these sales is recognized based on the price specified in the contract, net of discounts. Accumulated experience is used to estimate and provide for the discounts, using the most likely amount, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as the sales are made with a credit term lower than 3 months, which is consistent with market practice. A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Therefore, a contract liability (refund liability) and a right to the returned goods (included in other assets) are recognized for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

(viii) Hotel Services

Revenue is derived from the following sources:

i) Management fees – earned from hotels managed by Grupo Aval, usually under long-term contracts with the hotel owner. Management fees include a base fee, generally a percentage of hotel revenue, which is recognized when earned in accordance with the terms of the contract and an incentive fee, generally based on the hotel's profitability or cash flows and recognized when the related performance criteria are met under the terms of the contract.
ii) Owned and leased – primarily derived from hotel operations, including the guests accommodation and sales of food and beverage from owned and leased hotels operated under Grupo Aval brand names.

Revenue is recognized at the point when the goods are sold or services are rendered.

(ix) Financing components

Grupo Aval adjusts transaction prices for the time value of money for contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year.

2.30 Earnings per share

Earning per share is calculated as net income for the period attributable to Grupo Aval's shareholders divided by the weighted average number of common and preferred shares outstanding during the period. Diluted earnings per share are determined in the same way, on the basis of net income, but the weighted average number of shares outstanding is adjusted to account for the potential dilutive effect of stock options. Grupo Aval does not have financial instruments with potential dilutive effects. As a consequence, only basic earnings per share are disclosed in these financial statements.

2.31 Operating segments

An operating segment is a component of an entity which:

a) Engages in business activities from which it can earn revenue and incur expenses (including revenue and expenses from transactions with other components of the same entity);
b) Has operating profit or losses which are regularly reviewed by the chief operating decision maker, who decides on the resources allocation to the segment and assesses its performance; and
c) Has discrete financial information is available.

Management evaluates regularly the performance for each segment; Grupo Aval discloses information separately for each identified operating segment, meeting any of the following quantitative thresholds:

a) The segment´s reported revenue from the ordinary activities, including revenue from external customers as well as revenue from intersegment transfers, is equal or greater than 10 per cent of the revenue of combined ordinary activities, internal and external, of all operating segments.
b) The absolute amount of the segment´s reported net income is, in absolute terms, equal or greater than 10 per cent of the amount greater of: (i) the combined reported net income of all the segments not reporting a loss; and (ii) the reported combined loss of all segments of the operations with incurred losses.
c) The segment´s assets are equal to or greater than 10 percent of the combined assets of all segments of the operation.

The information regarding other activities of the business of operating segments that do not have to be reported is combined and disclosed within the category of "Others."

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

2.32 Changes in presentation

For comparative purposes and after the application of IFRS 9, Grupo Aval changed the presentation on financial instruments of consolidated statement of financial position reported as of December 31, 2017. The following table shows the changes:

Original presentation		Presentation as of December 31, 2017	New presentation		As reported in comparative figures
Held-for-trading:					
Debt securities	Ps.	2,650,536	Trading assets		
Equity securities		2,149,160	Trading assets		
		4,799,696	Trading assets		
Derivative instruments		328,392	Trading assets		
Total held-for-trading	**Ps.**	**5,128,088**	Trading assets		
Total trading assets				**Ps.**	**5,128,088**
Available-for-sale financial assets:					
Debt securities	Ps.	17,790,127	Investment securities		
Equity securities		824,033	Investment securities		
Total available-for-sale financial assets	Ps.	**18,614,160**	Investment securities		
Held-to-maturity investments	Ps.	**2,899,039**	Investment securities		
Total investment securities				**Ps.**	**21,513,199**
Loans and receivables:			Loans		
Commercial		99,428,894	Commercial		
Consumer		50,382,895	Consumer		
Mortgages		16,151,299	Mortgages		
Microcredit		409,688	Microcredit		
Allowance for impairment losses		(5,618,481)	Allowance for impairment losses		
		160,754,295	**Total loans**		
Total loans				**Ps.**	**160,754,295**
Other financial assets at fair value through profit or loss		2,282,611	Other accounts receivable, net (1)		
Other accounts receivable, net		4,239,272	Other accounts receivable, net (1)		
Total other accounts receivable, net (1)				**Ps.**	**6,521,883**
Hedging derivatives	**Ps.**	**55,261**	**Hedging derivatives assets**	**Ps.**	**55,261**

Original presentation		Presentation as of December 31, 2017	New presentation		As reported in comparative figures
Financial liabilities held for trading			Trading liabilities		
Derivative instruments	Ps.	298,665	Trading liabilities	Ps.	298,665
Hedging derivatives		13,464	Hedging derivatives liabilities		13,464

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

For comparative purposes Grupo Aval changed the presentation of the revenue from contracts with customers within the consolidated statement of income reported as of December 31, 2017 and 2016, the following table shows the changes:

For the period 2017

	Presentation as of December 31, 2017	Change in presentation	As reported in comparative figures
Income from sales of goods and services	Ps. —	Ps. 5,792,850	Ps. 5,792,850
Costs and expenses of sales goods and services	—	(5,035,827)	(5,035,827)
Net income from sales goods and services	**—**	**757,023**	**757,023**
Other income	**1,908,768**	**(757,023)**	**1,151,745**

For the period 2016

	Presentation as of December 31, 2016	Change in presentation	As reported in comparative figures
Income from sales of goods and services	Ps. —	Ps. 6,654,623	Ps. 6,654,623
Costs and expenses of sales goods and services	—	(5,725,328)	(5,725,328)
Net income from sales goods and services	**—**	**929,295**	**929,295**
Other income	**2,605,401**	**(929,295)**	**1,676,106**

2.33 New and Amended IFRS

Below is a list of the new and amended standards that have been issued by the IASB and are effective for annual periods starting on or after January 1, 2019. Grupo Aval has not early adopted the new standards in preparing these consolidated financial statements. Management is in the process of assessing the potential impact of these pronouncements on Grupo Aval consolidated financial statements as further explained below:

Standards issued but not yet effective

A. IFRS 16 Leases

Grupo Aval is required to adopt IFRS 16 Leases starting January 1, 2019. Grupo Aval estimated the estimated the impact that the initial application of IFRS 16 will have on its consolidated financial statements, as described below, but the actual impact of adopting the standard on January 1, 2019 may change because:

- Grupo Aval has not finalized the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until Grupo Aval presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard; this means that lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Grupo Aval has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of Grupo Aval's lease portfolio, Grupo Aval's assessment of whether it will exercise any lease renewal options and the extent to which Grupo Aval chooses to use practical expedients and recognition exemptions.

Grupo Aval will recognize new assets and liabilities for its operating leases. The nature of expenses related to these leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right of use assets and interest expense on lease liabilities.

Previously, Grupo Aval recognized operating lease expense on a straight-line basis over the term of the lease.

Grupo Aval expects to recognize right-of-use assets of approximately Ps. 2,098,731 as of January 1, 2019; lease liabilities of approximately Ps. 2,138,990; and deferred tax assets of approximately Ps. 644,541 and liabilities of approximately Ps. 633,632. These impacts could generate a decrease in retained earnings as of January 1, 2019 of approximately Ps. 29,350.

No significant impact is expected for Grupo Aval's finance leases. However, some additional disclosures will be required next year.

Grupo Aval plans to apply IFRS 16 on January 1, 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

Grupo Aval plans to apply the practical expedient to the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

B. Other Standards

New or Amended Standard	Title of the Standard	Effective for Annual Periods Beginning on or After
Forthcoming requirements.		
IFRS 16	Leases	January 1, 2019
IFRIC 23	Uncertainty over Tax Treatments	January 1, 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation	January 1, 2019
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	January 1, 2019
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	January 1, 2019
Various standards	Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendment to IFRS 3	Business combinations	January 1, 2019
Conceptual Framework	Amendments to References to Conceptual Framework in IFRS Standards	January 1, 2020
IFRS 17	Insurance Contracts	January 1, 2021
Amendment to IAS 1 and IAS 8	Definition of materiality	January 1, 2021
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Available for optional adoption / effective date deferred indefinitely

Grupo Aval has preliminarily assessed the impacts of the adoption of the new or amended standards detailed above, concluding that they do not have a significant impact on the financial statements of Grupo Aval as of December 31, 2018, except for IFRS 16 as explained above.

NOTE 3 – JUDGEMENTS AND CRITICAL ACCOUNTING ESTIMATES IN APPLYING ACCOUNTING POLICIES

Grupo Aval's management makes estimates and assumptions that affect the amounts recognized in the consolidated financial statements and the carrying value of the assets and liabilities within the fiscal year. The judgments and estimates are continuously evaluated and are based on the experience of management and other factors, including the occurrence of future events that are believed as reasonable under the current circumstances. Management also makes certain judgments besides those which involve estimates during the process of applying accounting policies. The judgments that have the most significant effects on the amounts recognized in the consolidated financial statements and the estimates that may cause an important adjustment to the value in the carrying value of assets and liabilities in the following year include the following:

A. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes.

- Applicable to 2018 only

– Note 2 (2.6) (ii) – classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

- Applicable to 2018 and prior year

– Note 2(2.1) – determination of control over investees.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended is included in the following notes.

- Applicable to 2018 only

– Note 4 (4.1) – impairment of financial instruments: assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

– Note 16 – recognition of concession agreements.

- Applicable to 2018 and prior year

– Note 5 – determination of the fair value of financial instruments with significant unobservable inputs.

– Note 22 – measurement of defined benefit obligations: key actuarial assumptions.

– Note 19 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.

– Note 17 – impairment testing for CGUs containing goodwill: key assumptions underlying recoverable amounts.

– Notes 23 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

– Note 4(4.1) – impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

NOTE 4 – RISK MANAGEMENT

Grupo Aval and its subsidiaries in the financial sector, Banco de Bogotá, Banco de Occidente, Banco AV Villas, Banco Popular and Corficolombiana manage risk pursuant to the applicable regulations in each country where they operate and according to Grupo Aval's internal policies.

The risk framework requires that strong risk management practices are integrated in key strategic, capital and financial planning processes and day-to-day business processes across Grupo Aval, with a goal of ensuring risks are appropriately considered, evaluated and responded to in a timely manner. Grupo Aval employs a risk management process, referred to as identify, measure, monitor and control, as part of the daily activities, among all the risks Grupo Aval manages.

Lines of Defense: In addition to the role of Executive Officers in managing risk, management has had clear ownership and accountability across the three lines of defense: 1) First Line of defense: Business Units, 2) Second Line of defense: mainly concentrated in the Independent Risk Management departments and 3) Third line of defense: Corporate Audit.

- *Business Units:* Include the business lines as well as the Technology and Operations areas which are responsible for appropriately assessing and effectively managing all of the risks associated with their processes.
- *Independent Risk Management Units:* Risk management areas include risk management and compliance departments. Grupo Aval has other control functions that are not part of these areas but are key in the risk mitigation of non-financial risks, including legal, human resources and certain activities within the Financial and Administrative processes.
- *Corporate Audit:* Corporate Audit maintain its independence from the first and second lines of defense by reporting directly to the Audit Committee or the Board. Corporate Audit provides independent assessment and validation through testing of key processes and controls across Grupo Aval.

The following sections outline the key risks that are inherent in business activities of the subsidiaries in the financial sector:

Financial risks

Credit risk: the risk of financial loss if a debtor fails to meet its contractual obligations.

Market risk: the risk of loss arising from potential adverse changes in the value of the subsidiaries in the financial sector assets and liabilities or future results, resulting from changes in market variables such as interest rates, foreign exchange rates, equity prices, commodity prices, implied volatilities or credit spreads; this includes the structural interest rate and foreign exchange risks.

Liquidity risk: the risk of being unable to meet contractual and contingent obligations or that the subsidiaries in the financial sector do not have the appropriate amount, composition and tenor of funding and liquidity to support the assets and liabilities requirements (funding liquidity risk). Also includes the capability to manage its investment portfolio in terms of liquidity, duration and currency (market liquidity risk).

Interest rate risk: It is the current or potential risk to equity and profits of a financial subsidiary that arise from adverse movements in interest rates, which affect the positions of the banking book.

Capital risk: the risk that any of the subsidiaries in the financial sector have an insufficient level and composition of capital to support its business activities and associated risks during both normal economic environments and under stressed conditions. Risk related to the management of capital requirements and adequacy.

Grupo Aval's subsidiaries in the financial sector are making efforts in the implementation of better practices related with ALCO/ALM committees in order to establish risks policies, limits and systems to measure, monitor and control the funds transfer pricing curve, interest rate risk in banking book and liquidity risk management.

Concentration risk: the risk of potential losses due to a single counterparty, sector or country's exposure, which may threaten the ability to maintain the core operations of the entity.

Non-Financial Risks

Operational risk: the risk of loss resulting from inadequate or failed processes or systems, human factors, or due to external events that are neither market nor credit related such as technology related events.

Conduct risk: risk derived from inappropriate practices in the dealings with customers, and the treatment of products offered to each particular customer.

Compliance and regulatory risk: risk arising from non-compliance with the legal framework, internal rules or the requirements of regulators and supervisors.

Reputational risk: risk that an action, transaction, investment or event will reduce trust in Grupo Aval's integrity or competence by its various constituents, including clients, media, public opinion, counterparties, investors, regulators, employees and the broader public.

Moreover, Grupo Aval financial holding will supervise the key risks inherent in the management of financial conglomerates in 2019, as outlined and in compliance with Law 1870 of 2017. The risks which financial conglomerates are exposed to:

Contagion risk: risk corresponding to the probability of affecting the stability of one or more subsidiaries, in consequence of the deterioration of the general conditions of subsidiaries belonging to the holding.

Strategic risk: risks resulting from changes in Grupo Aval's strategy or business plan due to changes in general business conditions associated with strategic decisions, such as investments. Strategic risk also includes the risk of poor implementation of decisions and lack of capacity to respond to changes in the business environment.

Concentration risk: the risk of potential losses due to a single exposure to a counterparty, sector or country, which has the capacity to affect the main operation of the entity.

Objective and General Guidelines of risk management

Grupo Aval's and its subsidiaries of the financial sector objective is to maximize returns for its investors, through proper risk management. The guiding principles of risk management at Grupo Aval are as follows:

a) Make risk management a part of every institutional process;
b) Collective decision making for commercial lending of significant amounts;
c) Extensive and in-depth industry and market knowledge, as a result of the leadership and experienced, stable and seasoned senior management;

d) Clear risk management policies based on a top-down approach with respect to:
   - Compliance with know-your-customer policies;
   - Commercial loans credit structure based on a clear identification of sources of repayment and of cash flow generation capacity of the borrower;
e) Use of common credit analysis tools for analysis and loan pricing tools across Grupo Aval's subsidiaries of financial sector;
f) Diversification of the commercial loan portfolio with respect to industries and economic groups;
g) Specialization in consumer product niches;
h) Extensive use of continuously updated scoring models and credit ratings updated permanently to ensure quality growth of consumer loans with high credit quality;
i) Conservative policies in terms of:
   - Trading portfolio composition with bias towards lower volatility instruments;
   - Proprietary trading positions; and
   - The variable compensation for the trading staff;
j) Control the position-level based on market risk sensitives (such as VaR, DV01, Delta, Rho and Vega) and credit risk exposures by counterparties;
k) Concentration and diversification limits which are based on market liquidity and volatility, operational capacity, valuation and credit quality of counterparties;
l) Control and follow up the funding and liquidity risk with independent oversight. This includes setting limits related with high quality liquid assets and maturity concentration of financial liabilities among others; and
m) Ensuring of compliance with regulatory limits and reviewing how the current and projected strategy can affect those limits.

Main premises for risk management

Grupo Aval´s risk culture is based on the principles indicated in the section above and they are transmitted to all subsidiaries of the financial sector and business units. The strategy related with risk management is supported by the following guidelines:

a) In all of Grupo Aval´s subsidiaries of the financial sector, the risk function is independent of the business units. The segregation of functions between the business areas and the risk areas in charge of risk measurement analysis, control and reporting, provide sufficient independence and autonomy for proper risk control.
b) The decision-making process at the subsidiaries of the financial sector requires that transactions of significant amounts are sent to decision centers such as risk committees. The frequency of meetings of these committees ensures a high degree of agility regarding the resolution of proposals and continuous participation of senior management for administering the different risks.
c) Grupo Aval has corporate policies for the risk to which it is exposed. The business and risk units of Grupo Aval and its subsidiaries of the financial sector hold orientation meetings based on approaches to risk that are consistent with Grupo Aval´s risk culture.
d) Grupo Aval has implemented a risk system that is updated on a regular basis to address new conditions in the markets and the risks to which Grupo Aval is exposed.
e) There are adequate information systems to monitor risk exposure, to ensure compliance and approval policies and, if necessary, to implement proper corrective actions.
f) Key risks are analyzed on a regular basis, not only when risks materialize or when problems occur during the normal course of business but in a continuous process of risk management.
g) Grupo Aval and its subsidiaries of the financial sector have training courses on risk culture for all hierarchy levels in the organization.

h) A risk culture integrated throughout the organization, consisting on a series of attitudes, values, skills and guidelines to action.

Corporate structure of the risk function

Governance of the risk function seeks to ensure that risk decisions are taken appropriately and efficiently and that risks are effectively controlled. The goal is to guarantee that risks are managed in accordance with the guidelines set forth by Grupo Aval. The corporate structure for risk management at the subsidiaries of the financial sector is comprised of the following, top-level risk governance bodies:

- Board of Directors
- Risk Management committees
- Risks Management units
- Administrative process of risk management
- Internal Audit Departments

Responsibility for the control and management of risk and, in particular setting Grupo Aval's risk profile rests ultimately on Grupo Aval's Board of Directors. The Board has the power to delegate the various committees and it is supported by risk management committees at the subsidiaries of the financial sector.

Grupo Aval Board of Directors

The Board of Directors is the body responsible for establishing the risk profile and for the approval of the general scope for risk management.

Corporate Risk Unit

It is the corporate risk unit, led by Grupo Aval's Chief Risk Officer, with functions including the following among others: 1) identification and definition of best practices for corporate risk management; 2) support the board and the financial subsidiaries in the construction of the risk appetite. 3) state and ensure the compliance of policies and guidelines that ensure an adequate risk exposure.

Boards of Directors of the Financial Subsidiaries

The Boards of Directors of Grupo Aval's financial subsidiaries are responsible for adopting the following decisions, among others, with respect to the proper organization of each entity's risk management system:

- Define and approve the general policies and strategies related to the internal control system for risk management;
- Approve the entity's policies in relation to the management of different risks;
- Approve trading and counterparty limits, in accordance with defined attributions;
- Approve exposure limits for different types of risks;
- Approve different procedures and methodologies for risk management;
- Ensure the adequate assignment of the human, physical and technical resources required for effective risk management;
- Set forth the responsibility and attributes assigned to the different positions and areas in charge of risk management;
- Create and define the functions of the committees that are needed to ensure the proper organization, control and monitoring of operations that generate risk exposure and define their functions;

- Approve internal control systems for risk management;
- Require management of Grupo Aval's financial subsidiaries to submit periodic reports on the levels of exposure to several risks;
- Evaluate recommendations and corrective actions proposed for risk management processes;
- Follow-up at regular board meetings, based on periodic risk-management reports submitted by the Audit Committee on measures taken to control or mitigate the more relevant risks; and
- Approve the nature, scope strategic business and markets in which each subsidiary of the financial sector will operate.

Risk Committees

Grupo Aval´s subsidiaries of the financial sector have, among others, risk management committees comprising members of the Board of Directors which periodically discuss, measure, control and analyze the credit risk management system (SARC for its initials in Spanish), market risk management systems (SARM for its initials in Spanish) and operating risk management system and the management of the business continuity plan (SARO-PCN for its initials in Spanish). Additionally, the subsidiaries of the financial sector also have an asset-liability committee (ALCO) which takes decisions regarding asset and liability management and evaluates the effectiveness of the liquidity risk management system (SARL for is initials in Spanish). Compliance of legal risks is monitored by the General Secretaries of each subsidiary of the financial sector. The functions of these committees include, among others, the following:

- Proposing adequate policies for managing the risks concerning each committee and the applicable business processes and methodologies to the Board of Directors of each entity;
- Systematically review the entity's exposure to risks and take any corrective actions when necessary;
- Ensuring that actions taken at each subsidiary of the financial sector in relation to risk management are consistent with previous defined levels of risk appetite; and
- Approve decisions that are within the approval limits established for each committee by each of the financial subsidiaries' Board of Directors

The risk committees of Grupo Aval subsidiaries of the financial sector are detailed below:

I. <u>Risk Management Committees of the financial sector subsidiaries</u>

The objective of these committees is to establish policies, procedures and strategies for comprehensive management with respect to credit, market, liquidity, operational, money laundering and terrorism financing risks. Its main duties involve:

- Measuring the entity's risk profile;
- Designing systems to monitor and follow up on levels of exposure to the different risks the entity faces;
- Reviewing and proposing to the Board of Directors the level of tolerance and degree of exposure to risk the entity is willing to assume in the course of its business. This implies evaluating alternatives to align risk appetite in the various risk management systems;
- Assessing the inherent risks involved in entering new markets, products, segments and countries, among others; and
- Ensuring that risk management and measurement methodologies are appropriate, given the characteristics and activities of the entity.

II. Assets and Liabilities Committee of the financial sector subsidiaries

The objective of these committees is to support senior management by establishing risk policies, limits and systems to monitor and measure the effectiveness of the interest rate risk in the banking book management and the liquidity risk management systems (SARL for its initial in Spanish). The main functions, among others, are:

- Establishing adequate procedures and mechanisms for liquidity management.
- Monitoring liquidity and interest rate risk exposure reports and Fund Transfer Pricing (FTP) process.
- Identify the origin of risk exposure through sensitivity analysis, in order to assess the probability of lower returns for the entity or assess the necessity of new liquidity resources.

III. Audit Committee of Aval and Audit Committees of Subsidiaries of the Financial Sector:

The Audits Committees' principal objective is to evaluate and monitor the Internal Control System.

The following are the description of the functions for these committees:

- Proposing, for approval of the Board of Directors, the structure, procedures and methodologies required for the operation of the Internal Control System.
- Assessing the structure of the internal control of the entity, in order to establish if the procedures are designed reasonably to protect its assets, as well as those of third parties under its administration and custody, and if there are controls to verify that transactions are being properly authorized and registered. For such purpose, the areas in charge of the administration of the various systems of risk, the Statutory Auditor and the Internal Auditor submit the established periodical reports to the Committee as well as other reports that the members of the Committee may require.
- Monitoring risk exposure levels, their potential consequences and establishing risk control or mitigation actions.

Risk Vice-Presidency or its equivalent in the subsidiaries of the financial sector

The Risk Vice-Presidency and its equivalent that figure within the organizational structure of the subsidiaries of the financial sector have, among others, the following functions:

- Oversee adequate compliance of the policies and procedures established by the Board of Directors and the various committees for risk management.
- Designing methodologies and procedures to be followed by the administration for risk management.
- Establishing ongoing monitoring procedures to allow timely identification of any deviation relating to compliance of the policies established for risk management.
- Preparing timely reports for the different risk committees, the Board of Directors of each subsidiaries of the financial sector and for the government entities in charge of control and supervision of the subsidiaries of the financial sector in relation with compliance of risk policies.

Administrative Processes of Risk Management

In accordance with the respective business models, each subsidiary of the financial sector of Grupo Aval has well defined structures and procedures, including manuals on administrative processes that must be followed for managing different risks. The entities use the different technological tools, for the analysis, monitoring and control of the various risks.

Internal Audit

The internal audit units at each subsidiary of financial sector act under independent criteria and, in performance of their functions, carry out periodic independent compliance assessments of risk management policies and procedures followed by the entities for the managing of risks and environment controls. Reports are submitted directly to the audit committees, responsible for monitoring the risk to which they are exposed to and adopt corrective measures, if necessary.

In addition to the Internal Audit Units at the financial sector subsidiaries, there is a corporate control unit which ensures the compliance of our financial sector subsidiaries with corporate policies. The corporate controller participates in the audit committees of the most significant subsidiaries. The corporate control unit performs periodic independent audits of Grupo Aval´s subsidiaries to monitor their compliance with risk management policies. Its reports are presented directly to senior management at each of the subsidiaries and to the corresponding audit committees including the audit committee of the holding company.

Grupo BAC Credomatic

Grupo BAC Credomatic (hereinafter referred to as BAC) has its main operations located in Central America and is consolidated under Banco de Bogotá through its subsidiary Leasing Bogotá Panamá. BAC has its own policies, functions and risk management procedures, subject to approval by Banco de Bogotá.

Risk management and periodic risk surveillance are carried out through the following bodies of corporate governance which were, established both at a regional level as well as in the countries where Grupo BAC operates: Committee of Integral Risk Management, Committee of Assets and Liabilities (ALCO), Committee of Compliance, Credit Committee, Investment Committee and Audit Committee.

Regarding credit risk management, BAC has a centralized structure, led by a Chief Risk Officer (CRO), who reports to the CEO. The Regional Credit Committee, whose members include the CEO, the CRO, and members of the Corporate Risk Unit of Grupo Aval and Banco de Bogotá, is responsible for submitting credit policies and procedures at a regional level for the Board of Directors approval. This committee is responsible for monitoring the loan portfolio. The regional credit committee is also responsible for the final decision on loans exceeding the credit limits delegated to each individual country. While local risk managers report to the local head, observance of regional policies and procedures are reported to the CRO.

Regarding market risk, BAC manages an investment policy and asset and liability policy at a regional level, setting guidelines for establishing country and counterparty risk limits, as well as limits to foreign currency positions and guidelines for liquidity risk management, interest rate and exchange rate risks. The Regional Committee of Assets and Liabilities, which is composed by members of BAC Board of Directors, is responsible for the establishment of regional risk management policies.

Non-financial Subsidiaries

With the objective of strengthening the second line of defense for its risk management and internal control, as well as to expand the scope of its oversight to non-financial subsidiaries the Government, Risk and Compliance (GRC) Vice

Presidency was created in Corficolombiana. During 2018, a diagnosis to measure the status of the GRC's capabilities was carried out. This lead to the initiation of the corporate project that involved the strengthening the team incharge, the design of methodologies, risk management and compliance reports as well as their subsequent implementation in the non-financial subsidiaries throughout 2019. This activity is currently under development and includes subsidiaries in the infrastructure, energy and gas sectors.

The Board of Directors of each subsidiary is given the faculty to establish guidelines in terms of risk policies and risk monitoring processes. For companies falling within the non-finacial sector that are part of Corficolombiana' s equity investment portfolio, each entity will coordinate the implementations of risk management systems in line with those of Corficolombiana, based on the good practices established by law and those found in the Corficolombiana's polices.

Moreover, Corficolombiana must ensure that, controlled non-financial sector subsidiaries follow Grupo Aval's guidelines of Grupo Aval in relation to risk management.

Control Environment

The risk management model of the financial sector subsidiaries promotes a control environment that ensures the appropriate control and integrated view for all individual risks. This control is executed at all the business segments and for each type of risk in order to ensure that the exposures and overall risk profile are within the framework of the mandates established by both the Board of Directors and the regulators. The main elements ensuring effective control are:

- The assignment of responsibilities in risk-generating functions through decision-making and due control of their activity;
- Specialized control of each risk factor;
- The supervision of all risks;
- The assessment of control mechanisms; and
- Independent assessment by internal audit

New Risk Framework by the Colombian Superintendency of Finance (SFC)

From 2019 on, the Colombian Superintendency of Finance (SFC) will supervise the financial holdings in Colombia, including Grupo Aval. The implementation of this supervision will be achieved in stages.

On September 17, 2017, the regulation of financial conglomerates (Law 1870 of 2017) was issued, which, together with Decree 774 of May 6, 2018, established the minimum adequate capital level for Grupo Aval as a financial conglomerate. The level of adequate capital for financial conglomerates cannot be less than the sum of the capital of subordinates in the financial sector. However, there are detailed rules for determining the capital of the financial conglomerate, including the deduction of capital investments in certain subsidiaries. Decree 774 of 2018 established an 18-month transition period, which expires on November 6, 2019 and, therefore, the minimum capital requirement of Grupo Aval will be based on the consolidated financial statements as of December 31, 2019.

Additionally, on August 6, 2018, Decree 1477 was issued, which aligns the capital requirements of Colombian financial institutions with the Basel III standards, specifically, the definitions of level 1 and level 2 of capital and weighted risk assets and incorporating reserves for the conservation of capital for important systemic entities. Decree 1477 includes a transition period of 18 months, which expires on February 6, 2020 and, therefore, the obligation of the financial subordinates of Grupo Aval to comply with the requirements of Decree 1477 will be based on the financial statements at March 31, 2020.

The preliminary calculations, based on the consolidated information of the subsidiaries of Grupo Aval as of September 30, 2018, have been prepared incorporating the requirements established in Decrees 774 and 1477. These calculations indicate that all the subordinates of the financial sector and the Group Aval, like the holding company of the conglomerate, may comply with the mentioned requirements.

Besides this, the SFC is implementing a new risk framework 'SIAR' (comprehensive risk management system for its acronym in Spanish). The objective of this framework is to implement and build a strong risk culture inside the organizations, with the necessary controls in order to operate adequately and clearly define policies and procedures to:

- Identify, measure, control and monitor all the risks of the company as a whole and in each one of its business units;
- Establish clear information and communication policies;
- Establish a continuous training program in risk management at all levels in the company;
- Generate a strong risk culture in which the anticipation of macroeconomic and key financial variables is present.
- Have strong ethic values as well as integrity at every level of the company;
- Clearly defined organizational structure; and
- Establish a risk appetite 'MAR' (Risk Appetite Framework for its acronym in Spanish).

The SIAR will include at least the following risks, to managed by the companies with a comprehensive view:

- Credit;
- Market;
- Liquidity;
- Operational;
- Country; and
- Counterpaty

Financial Risk Review

4.1 Credit Risk

4.1.1 Consolidated Credit Risk Exposure

Grupo Aval´s subsidiaries are exposed to credit risk, consisting of the risk of financial loss as a result of the failure of the debtor to meet its contractual obligations in financial transactions on a timely and complete manner. Exposure to credit risk for Grupo Aval and its subsidiaries is a result of credit activities and transactions with counterparties.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The maximum exposure to credit risk of Grupo Aval, at a consolidated level is reflected in the carrying value of financial assets in the statement of financial position of Grupo Aval as of December 31, 2018 and 2017 as follows:

Account **Assets**		**December 31, 2018**		**December 31, 2017 (1)**
Cash and cash equivalents (**)	Ps.	21,955,901	Ps.	16,531,811
Debt securities held for trading		3,762,978		2,650,536
Debt securities FVTPL		31,256		—
Debt securities FVOCI (2017 – available-for-sale)		18,935,757		17,790,127
Debt securities at amortized cost (2017 – held-to-maturity)		2,972,616		2,899,039
Derivatives instruments		768,686		328,392
Hedging derivatives		30,138		55,261
Loans				
Commercial		102,408,977		99,428,894
Consumer		55,455,064		50,382,895
Mortgage		18,592,103		16,151,299
Microcredit		425,697		409,688
Other accounts receivable FVTPL		2,488,414		2,282,611
Other accounts receivable at amortized cost		7,069,120		4,466,134
Total financial assets with credit risk	**Ps.**	**234,896,707**	**Ps.**	**213,376,687**
Financial instruments with credit risk outside of the statement of financial position at its nominal value				
Financial guarantees and letters of credit		3,446,601		3,495,921
Credit commitments		27,479,080		23,727,317
Total exposure to credit risk outside of the statement of financial position	**Ps.**	**30,925,681**	**Ps.**	**27,223,238**
Total maximum exposure to credit risk	**Ps.**	**265,822,388**	**Ps.**	**240,599,925**

(**) Not including funds in custody by the entity (cash, tellers, vaults), because there is no credit risk regarding Grupo Aval entities.
(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Note 2.5

For guarantees and commitments to extend the credit amounts, the maximum exposure credit risk is the amount of the commitment. Credit risk is mitigated by guarantees and collaterals as described in note 4.1.4 Mitigation of Credit Risk, Collateral and Other Credit Risk Enhancements.

Each of Grupo Aval´s financial subsidiaries assume the credit risk for both the credit activity itself, which includes commercial, consumer, mortgage and microcredit credit lending and treasury activities, including interbank loans, investment portfolio management, derivatives and foreign currency trading activities, among others. Despite being independent businesses, the nature of insolvency risk of the borrower or counterparty is similar and therefore the criteria in which they are evaluated is similar.

Loans are recorded at amortized cost on the statement of financial position and are classified as commercial, consumer, mortgages, and microcredit. Due to the significance of the financial leasing portfolio for Grupo Aval, these amounts are also presented separately in all the tables for disclosure purposes:

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

December 31, 2018

Portfolio segment	Balance in Statement of financial position	Leasing presentation adjustment	Balance according to disclosure
Commercial	Ps. 102,408,977	Ps. (9,858,952)	Ps. 92,550,025
Consumer	55,455,064	(254,483)	55,200,581
Residential mortgage	18,592,103	(1,312,741)	17,279,362
Microcredit	425,697	—	425,697
Financial leasing	—	11,426,176	11,426,176
Total portfolio	**Ps. 176,881,841**	**Ps. —**	**Ps. 176,881,841**

December 31, 2017

Portfolio segment	Balance in Statement of financial position	Leasing presentation adjustment	Balance according to disclosure
Commercial	Ps. 99,428,894	Ps. (9,892,400)	Ps. 89,536,494
Consumer	50,382,895	(226,764)	50,156,131
Residential mortgage	16,151,299	(1,047,766)	15,103,533
Microcredit	409,688	—	409,688
Financial Leasing	—	11,166,930	11,166,930
Total portfolio	**Ps. 166,372,776**	**Ps. —**	**Ps. 166,372,776**

4.1.2 Loan and Counterparty Approval Process for subsidiaries in the financial sector

The principles and rules for credit management and credit risk for each financial subsidiary are contained in the credit manual, both for commercial banking activity and treasury activity. Evaluation criteria to measure credit risk follows the principal instructions set forth by the Treasury and Credit Risk Committees.

The maximum authority regarding lending is the Board of Directors for each bank, which approves the general policy and has the capacity to approve large size transactions. In the normal banking operation, authorizations for approval of loans and lines of credit depend on the amounts, credit quality, tenor and security collateral / guarantees offered by the client. The Board of Directors of each bank has delegated part of its lending authorities to different committees and executives who process the credit requests and are responsible for the analysis and follow-up.

Additionally, for the approval of credits, certain considerations are taken into account including but not limited to, the probability of default and the recovery percentage of guarantees received, tenor and concentration by economic sector.

Regarding the operations for treasury activities, the Board of Directors approves the lines of credit for counterparts. Risk control is essentially carried out through three mechanisms: annual approval of lines of credit, quarterly solvency evaluations for issuers and a report on concentrations for each client or economic group.

Although each financial subsidiary is responsible for its credit decisions and risk management, Grupo Aval as a holding, through the Corporate Risk Unit oversees the implementation of appropriate risk management controls at the financial subsidiaries and has established upward loan reporting processes. The holding's risk management staff meets on a weekly basis to discuss our subsidiaries' loan portfolio, developments in industry, risks and opportunities. Grupo Aval also coordinates loan syndication among our banks to effectively leverage the combined equity of our banks and manage any risk issues.

Each subsidiary of the financial sector has a Credit Risk Management System, which is managed by the credit vice-presidency or its equivalent, and includes, among others, the design, implementation and evaluation of policies and risk mechanisms defined by the Credit and Treasury Risk Committee and the Board of Directors. The operation of the Credit Risk Management System has resulted in the integration of risk measurement tools into the credit approval process in each of the financial subsidiaries.

Each subsidiary of the financial sector has two models for evaluating credit risk for the approval of commercial loans: the financial ratings model, statistical models based on financial information of the client, which are used in the approval process and for the management and follow-up of the portfolio. The second model is based on the client´s financial ratings and its historical payment behavior with the bank, used in the process of client rating. For retail loans (including mortgage loans and auto loans) models are based on sociodemographic variables and the historical payment behavior of the clients.

4.1.3 Credit quality analysis

The Credit-risk Monitoring Process and Credit rating of the loan portfolio

The monitoring process and follow-up of credit risk of each financial subsidiary is carried out in several steps including the follow-up and management of daily collections based on overdue portfolio analysis by vintages, risk level rating, permanent follow-up of high risk clients, restructuring processes of operations and the receipt of foreclosed assets as payment.

The subsidiaries of the financial sector generate a list of past due loans and based on such analysis, different financial subsidiaries personnel carry out collection procedures by telephone calls, emails, or written collection.

On a monthly basis the financial subsidiaries classify each client in one of these categories: Category A-Normal, B-Subnormal, C-Deficient, D-Doubtful recovery and E- Unrecoverable, based on the statistical models that each subsidiary has.

On a quarterly basis each financial subsidiary evaluates the commercial portfolio by economic sectors, where macro-sectors are evaluated with the purpose of monitoring the concentration per economic sector and the risk level of each one.

Every six-months each financial subsidiary carries out an individual analysis of the credit risk based on updated financial information of the client, payment record, collateral security/guarantees received, credit bureau reports and other qualitative information available; based on the information, clients are classified by risk level as mentioned above.

Each of the risk categories is explained as follows:

Category A — "Normal risk": Loans and finance leases in this category are appropriately serviced. The debtor's financial statements or its projected cash flows, as well as all other credit information available to us, reflect adequate paying capacity.

Category B — "Acceptable risk, above normal": Loans and finance leases in this category are adequately serviced and protected. But there are weaknesses which may potentially affect, on a transitory or permanent basis, the debtor's paying capacity or its projected cash flows, to the extent that, if not timely corrected, would affect the collection of the credits as contracted.

Category C — "Appreciable risk": Loans and finance leases in this category have debtors with insufficient paying capacity or relate to projects with insufficient cash flow, which may compromise the normal collection of the obligations.

Category D — "Significant risk": Loans and finance leases in this category have the same deficiencies as loans in category C, but to a larger extent; consequently, the probability of collection is highly doubtful.

Category E — "Risk of non-recoverability": Loans and finance leases in this category are deemed uncollectible.

For mortgage loans and microcredits, the previous classification by risk levels is carried out monthly considering the number of days past due.

In addition, the credit risk exposure is administered through a periodic analysis of the borrowers (or potential borrowers) to determine the repayment capacity of capital and interest. The credit risk exposure is also mitigated partly by obtaining collateral security, corporate and personal guarantees.

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. Based on the foregoing classifications, each financial subsidiary establishes and executes collection strategies directed at maximizing the collection of the loan portfolio.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

As of December 31, 2018, and 2017, the following is a summary of the portfolio credit by risk level rating. Explanation of the terms: Stage 1, Stage 2 and Stage 3 are included in Note 2 (2.6) (ix), and explained in detail in Note 4.1.5 (Measurement of ECL).

	December 31, 2018				December 31, 2017 (1)
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
Commercial					
“A” Normal risk	Ps. 83,532,853	Ps. 195,949	Ps. 183,263	Ps. 83,912,065	Ps. 82,217,135
“B” Acceptable risk	565,266	1,220,838	491,062	2,277,166	2,093,079
“C” Appreciable risk	88,802	227,429	2,680,090	2,996,321	2,735,103
“D” Significant risk	1,290	36,295	1,548,951	1,586,536	1,620,293
“E” Risk of nonrecoverability	3,008	10,350	1,764,579	1,777,937	870,884
Commercial portfolio gross balance	**Ps. 84,191,219**	**Ps. 1,690,861**	**Ps. 6,667,945**	**Ps. 92,550,025**	**Ps. 89,536,494**
Consumer					
“A” Normal risk	47,782,665	1,815,283	19,295	49,617,243	45,794,015
“B” Acceptable risk	799,326	1,004,173	12,805	1,816,304	1,364,520
“C” Appreciable risk	128,850	1,149,796	458,474	1,737,120	1,232,881
“D” Significant risk	23,896	228,509	1,070,538	1,322,943	1,256,089
“E” Risk of nonrecoverability	6,568	37,819	662,584	706,971	508,626
Consumer portfolio gross balance	**Ps. 48,741,305**	**Ps. 4,235,580**	**Ps. 2,223,696**	**Ps. 55,200,581**	**Ps. 50,156,131**
Mortgage					
“A” Normal risk	15,478,116	563,066	20,965	16,062,147	14,208,051
“B” Acceptable risk	72,557	337,093	3,059	412,709	324,925
“C” Appreciable risk	13,547	418,754	35,318	467,619	326,237
“D” Significant risk	151	11,632	101,164	112,947	79,707
“E” Risk of nonrecoverability	1,686	5,196	217,058	223,940	164,613
Mortgage portfolio gross balance	**Ps. 15,566,057**	**Ps. 1,335,741**	**Ps. 377,564**	**Ps. 17,279,362**	**Ps. 15,103,533**
Microcredit					
“A” Normal risk	344,424	2,897	194	347,515	341,194
“B” Acceptable risk	162	10,542	—	10,704	11,871
“C” Appreciable risk	71	7,519	—	7,590	6,742
“D” Significant risk	35	2,980	5,671	8,686	7,342
“E” Risk of nonrecoverability	31	1,436	49,735	51,202	42,539
Microcredit portfolio gross balance	**Ps. 344,723**	**Ps. 25,374**	**Ps. 55,600**	**Ps. 425,697**	**Ps. 409,688**
Financial leasing					
“A” Normal risk	9,818,788	79,008	26,299	9,924,095	9,874,243
“B” Acceptable risk	267,541	183,862	61,275	512,678	489,323
“C” Appreciable risk	45,418	56,561	217,937	319,916	394,534
“D” Significant risk	178	10,403	477,820	488,401	309,726
“E” Risk of nonrecoverability	446	114	180,526	181,086	99,104
Financial leasing portfolio gross balance	**Ps. 10,132,371**	**329,948**	**963,857**	**11,426,176**	**Ps. 11,166,930**
Gross balance of financial assets per credit portfolio	**Ps. 158,975,675**	**Ps. 7,617,504**	**Ps. 10,288,662**	**Ps. 176,881,841**	**Ps. 166,372,776**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Note 2.5 (B)

Credit quality of financial assets (excluding loan portfolio)

The following is the breakdown of the different financial assets excluding loan portfolio, by credit risk level and type of issuer based on the rating issued by the independent credit rating agency. A financial asset is considered investment grade if its credit rating is BBB- or higher by Standard & Poor’s, or Baa3 or higher by Moody’s, or F3 or higher by Fitch Ratings Colombia S.A, or BRC3 or higher by BRC of Colombia. A financial asset is considered speculative or non-investment grade if its credit rating is BB+ or lower by Standard & Poor's, or Ba1 or lower by Moody's, or BB+ or lower by Fitch Ratings Colombia S.A, or BRC4 or lower by BRC of Colombia.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

a) Trading investment in debt securities (a)

		December 31, 2018		December 31, 2017
Investment grade				
Sovereign [*]	Ps.	2,270,642	Ps.	1,231,219
Other public entities [**]		128,546		70,064
Corporate		30,207		68,286
Financial entities		1,101,157		1,007,540
Total investment grade	Ps.	**3,530,552**	**Ps.**	**2,377,109**
Speculative grade				
Sovereign [*]	Ps.	98,155	Ps.	92,931
Central banks		12,914		34,095
Financial entities		117,594		129,985
Total Speculative grade	**Ps.**	**228,663**	**Ps.**	**257,011**
Without grade or not available				
Corporate	Ps.	3,763	Ps.	16,416
Total without grade or not available	**Ps.**	**3,763**	**Ps.**	**16,416**
	Ps.	**3,762,978**	**Ps.**	**2,650,536**

[a] Investments measured at fair value in the Statement of Financial Position, see note 2 (2.8).
[*] A sovereign credit rating considers the risk of Treasury issuer or similar agency (government debt portfolio).
[**] Derived from operations with government entities; including public administrations in general including regional and local governments.

b) Investments in debt securities at FVTPL

		December 31, 2018		December 31, 2017 (1)
Investment grade				
Corporate		31,256		—
Total investment grade	**Ps.**	**31,256**	**Ps.**	**—**

[1] Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Note 2 (2.5).

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

c) Investments in debt securities at FVOCI (2017 - Available-for-sale financial assets (1))

	December 31, 2018				December 31, 2017 [1]
	Stage 1	Stage 2	Stage 3	Total	
Investment grade					
Sovereign [*]	Ps. 11,492,538	Ps. —	Ps. —	Ps. 11,492,538	Ps. 10,157,239
Other public entities [**]	497,634	—	—	497,634	662,702
Corporate	135,985	—	—	135,985	148,738
Financial entities	2,732,127	—	—	2,732,127	2,975,485
Multilaterals	118,657	—	—	118,657	104,885
Total investment grade	**Ps. 14,976,941**	**Ps. —**	**Ps. —**	**Ps. 14,976,941**	**Ps. 14,049,049**
Speculative grade					
Sovereign [*]	Ps. 1,994,205	Ps. 54,587	Ps. —	Ps. 2,048,792	Ps. 1,432,083
Central banks	1,066,822	64,918	—	1,131,740	1,356,874
Corporate	61,485	132,817	—	194,302	274,450
Financial entities	375,352	201,002	—	576,354	642,592
Total speculative grade	**Ps. 3,497,864**	**Ps. 453,324**	**Ps. —**	**Ps. 3,951,188**	**Ps. 3,705,999**
Default					
Corporate	Ps. —	Ps. —	Ps. 7,628	Ps. 7,628	Ps. 34,516
Total default	**Ps. —**	**Ps. —**	**Ps. 7,628**	**Ps. 7,628**	**Ps. 34,516**
Without grade or not available					
Corporate	Ps. —	Ps. —	Ps. —	Ps. —	Ps. 563
Total without grade or not available	**Ps. —**	**Ps. —**	**Ps. —**	**Ps. —**	**Ps. 563**
	Ps. 18,474,805	**Ps. 453,324**	**Ps. 7,628**	**Ps. 18,935,757**	**Ps. 17,790,127**

(*) Sovereign credit rating is considered as the risk of the Treasury issuer or a similar agency (government debt portfolio).
(**) Derived from operations with government entities; including public administrations in general (includes regional and local governments).
(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Note 2 (2.5).

d) Investments in debt securities at amortized cost (2017 - Held-to-maturity investments [1])

	December 31, 2018				December 31, 2017 [1]
	Stage 1	Stage 2	Stage 3	Total	
Investment grade					
Sovereign [*]	Ps. 32,321	Ps. —	Ps. —	Ps. 32,321	Ps. 27,288
Other public entities [**]	2,931,172	—	—	2,931,172	2,839,286
Financial entities	9,123	—	—	9,123	8,635
Total investment grade	**Ps. 2,972,616**	**Ps. —**	**Ps. —**	**Ps. 2,972,616**	**Ps. 2,875,209**
Without grade or not available					
Financial entities	—	—	—	—	23,830
Total without grade or not available	**Ps. —**	**Ps. —**	**Ps. —**	**Ps. —**	**Ps. 23,830**
	Ps. 2,972,616	**Ps. —**	**Ps. —**	**Ps. 2,972,616**	**Ps. 2,899,039**

(*) Sovereign credit rating is considered as the risk of the Treasury issuer or a similar agency (government debt portfolio).
(**) Derived from operations with government entities; including public administrations in general (includes regional and local governments).

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Note 2 (2.5).

e) Other accounts receivable at FVTPL

	December 31, 2018	December 31, 2017
Investment grade		
Sovereign (*)	Ps. 2,488,414	Ps. 2,282,611
Total investment grade	**Ps. 2,488,414**	**Ps. 2,282,611**

(*) Sovereign credit rating is considered as the risk of the Treasury issuer or a similar agency (government debt portfolio).

f) Other accounts receivable at amortized cost (1)

Evaluated using general approach

The following table provides information about the exposure to credit risk and ECLs for other accounts receivable and contract assets for corporate customers as of December 31, 2018. The credit quality of these financial assets follows the methodology of the probability of default of Debt securities and other liquid financial assets (See note 4.1.5).

	December 31, 2018				December 31, 2017
	Stage 1	Stage 2	Stage 3	Total	
Investment grade					
Sovereign (*)	Ps. 2,631,235	Ps. —	Ps. —	Ps. 2,631,235	Ps. 786,018
Financial entities	340,265	—	—	340,265	314,848
Total investment grade	**Ps. 2,971,500**	**Ps. —**	**Ps. —**	**Ps. 2,971,500**	**Ps. 1,100,886**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Note 2 (2.5).
(*) Sovereign credit rating is considered as the risk of the Treasury issuer or a similar agency (government debt portfolio).

The following table provides information about the exposure to credit risk and ECLs by segment for accounts receivable related to gas and energy services, the methodology to estimate the ECLs is the same as in Loan and Receivable (See note 4.1.5):

	December 31, 2018				December 31, 2017
	Stage 1	Stage 2	Stage 3	Total	
Segmentation					
Contributions	Ps. 71,903	Ps. —	Ps. —	Ps. 71,903	Ps. 130,552
Gas	232,445	134,519	77,693	444,657	375,914
Energy	37,455	3,563	98,154	139,172	99,841
Other accounts receivable	54,046	—	—	54,046	126,253
Total segmentation	**Ps. 395,849**	**Ps. 138,082**	**Ps. 175,847**	**Ps. 709,778**	**Ps. 732,560**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Note 2 (2.5).

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Evaluated using simplified approach

Grupo Aval uses probability matrix to measure the ECL for other receivables from individual customers, which have small balances.

The weighted-average loss rate is calculated using a "rolling rate" method base on the probability that a receivable will progress through successive stages of default until write off. The rolling rate is calculated for exposures in different segments and separately accordance with the following common features of credit risk.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers as of December 31, 2018.

December 31, 2018	Weighted-average loss rate	Gross carrying amount	Loss allowance	Credit-impaired
0–30 days past due	1.15 %	2,846,086	32,622	—
31–60 days past due	6.70 %	111,636	7,485	—
61–90 days past due	9.39 %	31,625	2,970	—
More than 90 days past due	47.32 %	398,495	188,583	398,495
		Ps. 3,387,842	**Ps. 231,660**	

The loss rates are based on the experience of real credit loss in the last seven years. These rates are multiplied by factors to reflect the differences between the economic conditions during the period in which the historical data were collected, the current conditions and the opinion of the entities of Grupo Aval about the economic conditions during the expected lives of the accounts receivable.

g) Derivative instruments

The details of credit rating determined by independent credit rating agents of counterparties in trading derivative and hedge derivatives are as follows.

Credit worthiness	December 31, 2018	December 31, 2017
Investment grade	Ps. 755,218	Ps. 312,426
Speculative	9,926	503
Without grade or not available	33,680	70,724
Total	**Ps. 798,824**	**Ps. 383,653**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The following table shows an analysis of counterparty credit exposures arising from derivative transactions:

Trading derivatives

	Total		Central counterparties	
	Notional amount	Fair value	Notional amount	Fair value
2018				
Derivative assets	34,950,958	768,686	5,997,311	—
Derivative liabilities	31,237,110	811,305	1,977,284	32
2017				
Derivative assets	31,835,928	328,392	4,558,472	—
Derivative liabilities	29,015,306	298,665	5,324,037	—

Hedge derivatives

	Total		Central counterparties	
	Notional amount	Fair value	Notional amount	Fair value
2018				
Derivative assets	2,493,849	30,138	1,280,402	—
Derivative liabilities	8,722,602	195,539	4,601,646	—
2017				
Derivative assets	4,233,151	55,261	1,632,248	—
Derivative liabilities	3,377,903	13,464	1,541,236	—

Derivative transactions of Grupo Aval are collateralized by cash of Ps. 214,379 as of December 31, 2018, and of Ps. 12,205 as of December 31, 2017, see note 4.1.10 "Offset of financial assets and financial liabilities".

h) Cash and cash equivalents

The Group held cash and cash equivalents of Ps. 28,401,283 as of December 31, 2018 (2017: Ps. 22,336,838). The cash and cash equivalents are held with central banks and financial institution counterparties that are rated at least AA- to AA+, based on Standard & Poor's ratings. The following table shows an analysis of counterparty credit exposures:

	December 31, 2018	December 31, 2017
Investment grade	**Ps. 13,988,666**	**Ps. 9,391,266**
Central bank	3,794,411	3,820,538
Financial entities	10,194,255	5,570,728
Speculative grade	**7,707,990**	**6,679,084**
Central bank	7,264,128	5,993,380
Financial entities	443,862	685,704
Without grade or not available	**259,245**	**461,461**
Central bank	2,338	1,469
Financial entities	256,907	459,909
Others	—	83
Cash and cash equivalent with third parties	**Ps. 21,955,901**	**Ps. 16,531,811**
Cash held by entity (**)	6,445,382	5,805,027
Total	**Ps. 28,401,283**	**Ps. 22,336,838**

(**) Cash held by each Grupo Aval's bank in custody in vaults, ATMs and cash.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

4.1.4 Mitigation of Credit Risk, Collateral and Other Credit Risk Enhancements

The exposure to credit risk for each of Grupo Aval´s financial subsidiaries is reduced by collateral and other credit enhancements. The existence of collateral security / guarantees can be a necessary measure but not a determinant for the approval of a credit. Credit risk policies of Grupo Aval require an evaluation of the debtor's payment capacity based on the debtor´s ability to generate the resources needed for the timely and complete payment of its obligations.

Credit risk management includes the following activities:

- Analysis of credit risk: For commercial lending, tools are used for the individual evaluation of credits based on payment capacity supported on cash generation, credit rating models with inputs from historical and projected financial condition, and on the payment history of the debtor with the financial sector. For consumer lending (including mortgages and auto financing), scoring models are based on socio-demographic variables and payment history.
- Evaluation of collateral security / guarantees with appropriate debt coverage in accordance with the credit policies of each financial subsidiary. Collateral security includes mortgages on real estate, pledge on assets, cash deposits and investments.
- Evaluation of the liquidity of the collateral security / guarantees received.

The methods used for the evaluation of collateral security / guarantees are aligned with the market practices and include the use of independent real estate appraisers or the market value of securities. All collateral security / guarantees must be legally evaluated and drafted following the parameters of applicable legal regulations.

Residential mortgage lending

The following tables stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals.

	December 31, 2018		December 31, 2017	
LTV ratio				
Less than 50%	Ps.	6,414,097	Ps.	5,243,564
51 – 70%		6,678,883		5,912,568
71 – 90%		4,890,501		4,412,544
91 – 100%		426,810		419,521
More than 100%		181,812		163,102
Total	**Ps.**	**18,592,103**	**Ps.**	**16,151,299**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Credit-impaired mortgage loans

	December 31, 2018	December 31, 2017
LTV ratio		
Less than 50%	Ps. 99,462	Ps. 74,258
51 – 70%	146,568	108,222
More than 70%	177,821	131,990
Total	**Ps. 423,851**	**Ps. 314,469**

As of December 31, 2018, and 2017, the following chart shows the detail of the credit portfolio per type of guarantees received as support of credits granted by Grupo Aval at a consolidated level:

December 31, 2018	Commercial	Consumer	Mortgages	Microcredit	Finance Leases [1]	Total
Unsecured credits	Ps. 49,721,150	Ps. 47,305,167	Ps. 3,572	Ps. 289,518	Ps. 44,221	Ps. 97,363,628
Loans secured by other banks	362,128	7,378	—	—	6,102	375,608
Collateralized credits:						
Mortgages	506,687	68,191	17,200,445	4,040	4,644	17,784,007
Other real estate	15,943,414	1,428,950	4,432	542	116,884	17,494,222
Investments in equity instruments	502,408	553	—	—	—	502,961
Deposits in cash or cash equivalents	1,147,457	156,229	—	—	—	1,303,686
Leased machineries and vehicles	—	—	—	—	9,221,950	9,221,950
Fiduciary agreements, standby letters and guarantee funds	9,316,479	38,516	70,174	97,946	361,515	9,884,630
Pledged income	3,262,967	303	—	—	10,397	3,273,667
Pledges	3,316,543	5,773,201	477	668	6,379	9,097,268
Other assets	8,470,792	422,093	262	32,983	1,654,084	10,580,214
Total gross loan portfolio	**Ps. 92,550,025**	**Ps. 55,200,581**	**Ps. 17,279,362**	**Ps. 425,697**	**Ps. 11,426,176**	**Ps. 176,881,841**

December 31, 2017	Commercial	Consumer	Mortgages	Microcredit	Finance Leases [1]	Total
Unsecured credits	Ps. 51,074,506	Ps. 42,566,151	Ps. 6,859	Ps. 275,701	Ps. 52,179	Ps. 93,975,396
Loans secured by other banks	350,562	4,284	—	—	4,803	359,649
Collateralized credits:						
Mortgages	865,857	62,174	15,025,672	4,811	6,127	15,964,641
Other real estate	13,126,277	1,248,808	4,290	1,168	120,909	14,501,452
Investments in equity instruments	433,041	1,077	—	—	—	434,118
Deposits in cash or cash equivalents	2,172,911	141,891	—	101	—	2,314,903
Leased machineries and vehicles	—	—	—	—	9,151,139	9,151,139
Fiduciary agreements, standby letters and guarantee funds	8,129,469	36,204	64,250	102,698	364,938	8,697,559
Pledged income	3,032,277	266	22	—	11,478	3,044,043
Pledges	3,859,626	5,728,752	1,597	1,290	20,452	9,611,717
Other assets	6,491,968	366,524	843	23,919	1,434,905	8,318,159
Total gross loan portfolio	**Ps. 89,536,494**	**Ps. 50,156,131**	**Ps. 15,103,533**	**Ps. 409,688**	**Ps. 11,166,930**	**Ps. 166,372,776**

(1) See Note 4.1.1

4.1.5 Amounts arising from Expected Credit Loss (ECL)

Definition of Default

Grupo Aval considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to Grupo Aval in full. Without prejudice, Grupo Aval takes actions such as realizing collateral (if any is held);
- The borrower is more than 90 days past due on any material credit obligation other than mortgages to Grupo Aval. Overdrafts are considered past due once the customer has breached the allowed tenor or been advised of the reduction of the limit;
- For mortgages when the borrower is more than 180 days past due;
- The borrower has filed for bankruptcy proceedings, such as Law 1116; or
- In the case of fixed income financial securities, the following concepts among others apply:
    - External rating of the issuer or instrument in rating D under Standard & Poor's and Fitch Ratings scale or rating C under Moody's scale;
    - Contractual payments are not made on the due date;
    - There is a very high probability of suspension of payments;
    - The issuer likely to go bankrupt or file for bankruptcy or similar action; or
    - The financial asset no longer has an active market given its financial difficulties.

In assessing whether a borrower is in default, Grupo Aval considers indicators the following:

- Qualitative: e.g. breaches of non-financial covenants;
- Quantitative: e.g. breaches of financial covenants, overdue status and non-payment of another obligation of the same issuer to Grupo Aval; and
- Based on internally historical or developed data and obtained from external sources.

Inputs used in the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Inputs, assumptions and techniques used to estimate expected credit loss allowance

Credit risk models measures the exposure for individual counterparties, on the basis of the following parameters: Probability of default (PD), loss given default (LGD) and exposure at default (EAD). For a specific credit facility (Loans, debt securities, other liquid financial assets, other accounts receivable, loan commitments and financial guarantee contracts) the product of these three parameters results in the expected credit loss. See accounting policy in Note 2 (2.6 ix).

Measurement of ECL

The key inputs for the measurement of ECLs are usually the term structures of the following variables:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

The estimation of these parameters depends on the credit facility. Loans methodology uses information derived from internally developed statistical models, comprising both quantitative and qualitative factors, and other historical data. On the other hand, debt securities methodology incorporates relevant external market information or international credit ratings.

Grupo Aval estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models considers the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured/ guaranteed by real estate, loan-to-value (LTV) ratios will be a key parameter in determining LGD. Estimates are calibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices.

EAD represents the expected exposure in the event of default. Grupo Aval derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortization and prepayments. The EAD of a financial asset is the gross carrying amount at default. For lending commitments and financial guarantees, the EAD considers the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which are estimated based on historical observations and forward-looking forecasts.

Subject to using the Lifetime PD for financial assets for which credit risk has significantly increased, Grupo Aval measures ECLs considering the risk of default over the maximum contractual period (including any borrower’s extension options) over which there is exposure to credit risk, even if for risk management purposes, Grupo Aval considers a longer period. The maximum contractual period extends to the date at which Grupo Aval has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For retail overdrafts, credit cards, and certain corporate revolving facilities that include both a loan and an undrawn commitment component, Grupo Aval measures ECLs over a period longer than the maximum contractual period if Grupo Aval’s contractual ability to demand repayment and cancel the undrawn commitment does not limit Grupo Aval’s exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. Grupo Aval can cancel them with immediate effect, but the contractual right is not enforced in the normal day-to-day management, but rather when Grupo Aval becomes aware of an increase in credit risk of a particular facility. This longer period is estimated considering the credit risk management actions that Grupo Aval expects to mitigate ECLs. In order to estimate the expected lifetime of ECL's credit card facilities, Grupo Aval has analyzed the origination policies/procedures and credit risk management actions, and the observed period of time which credit card facilities remains in the portfolio once it has been in Stage 2.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped based on shared risk characteristics that include:

- Instrument type;
- Credit risk ratings;
- Collateral type;
- Date of initial recognition;
- Remaining term to maturity; and
- Industry.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Credit Risk Model: Loans

I. Transitions between stages

Significant Increase in Credit Risk

When determining whether the credit risk (i.e. risk of default) of a financial instrument has increased significantly since initial recognition, Grupo Aval considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on Grupo Aval's historical experience, expert credit assessment and forward-looking information.

The following criteria are used to determine if a significant increase in credit risk has occurred:

- Comparison of the remaining lifetime probability of default (PD) at the reporting date with the lifetime PD at initial recognition of the exposure.
- Qualitative aspects such as the rebuttable presumption of the norm (30 days) and restructuring agreements are also considered.
- Qualitative criteria from analysts is also considered based on expert and supportable information.

Grupo Aval has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk of a particular financial instrument has increased significantly since initial recognition. The framework is aligned with Grupo Aval's internal credit risk management process.

The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

In certain instances, using its expert credit judgement and, where possible relevant historical experience, Grupo Aval may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, Grupo Aval will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

Grupo Aval will monitor the effectiveness of the criteria used in identifying significant increases in credit risk through regular reviews to confirm that:

- The criteria are useful in identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes over 30 days past due;
- The average time between the identification of a significant increase in credit risk and default appears reasonable;
- Exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

II. PD – Probability of Default

Term structure of PD

Credit risk grades are the primary input in the determination of the term structure of PD for exposures. Grupo Aval collects performance and default information about its credit risk exposures analyzed by jurisdiction or region, by type of product and borrower, and by credit risk grade. For some portfolios, information purchased from external credit reference agencies may also be used.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Grupo Aval employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of the relation between changes in default rates and changes in key macro-economic factors, as well as an in-depth analysis of the impact of certain other factors on the risk of default. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/ or real estate prices.

For stage 1 the PD estimates the probability that the credit will default in the next 12 months, while the PD in stage 2 is the result of the probabilities for the remaining life of the credit. The probability in Stage 3 is defined as 100%.

Grupo Aval's approach to incorporating forward-looking information into this assessment is discussed below.

Forward-Looking Information

Grupo Aval incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. Grupo Aval formulates a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on forecasts provided by economic experts and considering a forecast of multiple variables. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

The base case represents a most-likely outcome. It is aligned with information used by Grupo Aval for other purposes, such as strategic planning and budgeting. The other scenarios for Colombia represent more optimistic and more pessimistic outcomes. For the countries in Central America the other scenarios represent possible outcomes which are less probable than the "base case".

Grupo Aval has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The economic scenarios used as of December 31, 2018 include the following key indicators (among others) for Colombia for the years ending 31 December 2018 and 2019.

	2018			2019		
	Scenario A	**Scenario B**	**Scenario C**	**Scenario A**	**Scenario B**	**Scenario C**
Inflation	3.02 %	3.26 %	3.54 %	3.27 %	3.68 %	4.14 %
Interest rates	4.25 %	4.25 %	4.25 %	3.75 %	5.00 %	5.25 %
GDP growth	2.35 %	2.66 %	2.84 %	2.79 %	3.21 %	4.24 %
House prices	(1.45)%	1.70 %	4.93 %	(3.47)%	2.81 %	7.37 %
Unemployment rate	10.13 %	9.73 %	9.28 %	10.67 %	9.55 %	8.48 %

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The economic scenarios used at 31 December 2018 included the following variations of key indicators (among others) for Guatemala.

	2019		
	Scenario A	Scenario B	Scenario C
Inflation	3.23 %	5.16 %	6.67 %
Interest rates	0.30 %	(0.15)%	0.47 %
GDP growth	2.76 %	3.54 %	2.33 %
Exchange rate	1.12 %	0.32 %	1.43 %

The economic scenarios used at 31 December 2018 included the following variations of key indicators (among others) for Honduras.

	2019		
	Scenario A	Scenario B	Scenario C
Inflation	4.69 %	4.22 %	5.02 %
Interest rates	0.30 %	(1.49)%	0.20 %
GDP growth	3.46 %	4.41 %	3.17 %
Exchange rate	4.15 %	3.92 %	4.35 %

The economic scenarios used at 31 December 2018 included the following variations of key indicators (among others) for El Salvador.

	2019		
	Scenario A	Scenario B	Scenario C
Inflation	1.40 %	5.94 %	1.40 %
Interest rates	0.11 %	0.21 %	0.24 %
GDP growth	2.50 %	4.64 %	1.34 %

The economic scenarios used at 31 December 2018 included the following variations of key indicators (among others) for Nicaragua.

	2019		
	Scenario A	Scenario B	Scenario C
Inflation	2.68 %	6.62 %	9.08 %
Interest rates	0.63 %	1.69 %	1.04 %
GDP growth	1.32 %	(3.64)%	(6.78)%
Exchange rate	5.68 %	7.00 %	6.26 %

The economic scenarios used at 31 December 2018 included the following variations of key indicators (among others) for Costa Rica.

	2019		
	Scenario A	Scenario B	Scenario C
Inflation	2.20 %	3.62 %	11.41 %
Interest rates	0.20 %	7.72 %	9.63 %
GDP growth	3.30 %	2.11 %	(0.95)%
Exchange rate	1.71 %	6.43 %	18.35 %

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The economic scenarios used at 31 December 2018 included the following variations of key indicators (among others) for Panamá.

	2019		
	Scenario A	**Scenario B**	**Scenario C**
Inflation	1.79 %	2.00 %	3.68 %
Interest rates	0.44 %	0.11 %	0.45 %
GDP growth	2.16 %	4.60 %	4.85 %

Credit Risk Rating

Grupo Aval allocates each exposure to a credit risk grade based on a variety of data intended to be predictive of the probability of default and applying experienced credit judgment. Grupo Aval uses these grades with the purpose identifying significant increases in credit risk. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Loan Portfolio

Commercial	Consumer	Mortgage	Microcredit
-Information from the audited financial statements obtained during periodic reviews.	-Information collected internally about the behavior of customers.	-Information collected internally about the behavior of customers.	-Information collected internally about the behavior of customers.
-Data from credit reference agencies.	- Data from credit reference agencies.	- Data from credit reference agencies.	- Data from credit reference agencies.
-Information collected internally about the behavior of customers.			
-Information of the different sectors.			

III. LGD – Loss Given Default

LGD is a measure of the potential loss in the event of a default. To estimate LGD, Grupo Aval uses information of the collateral security / guarantee which covers each individual credit, when available. In any case, Grupo Aval uses historical and forward-looking information (the same information described above in II. PD – Probability of Default - Forward-Looking Information) to estimate the expected potential recovery in case of a default. The LGD is estimated in groups by type of credit, collateral security / guarantee or maturity.

IV. EAD – Exposure at Default

EAD represents the amount owed from a counterparty at the time of a possible default. For stage 2 Grupo Aval incorporates in the analysis of the exposure at default the probability of payments and increase in exposure during the lifetime of the credit.

These probabilities are estimated using the historical information collected by the financial subsidiaries and are grouped by type of product. The probabilities are constantly reviewed in order to accurately estimate them and calibrate them.

Credit Risk Model: Debt securities

This model estimates the impairment of credit risk in debt securities. In a general manner, at the moment of inception, all financial assets originate ECLs for the next 12 months. If credit risk increases significantly and there is enough objective evidence of increase of probability of default, then the reserve is adjusted for the remaining life of the financial asset.

I. Transition between stages

A financial asset is classified as a low credit risk asset if the issuer is related to an investment grade credit rating.

Financial assets different than low credit risk must be evaluated individually. The first step in the methodology consist in evaluating a *significant increase in credit risk* by comparing the current status against the status at initial recognition of the security.

External elements related to a significant increase in credit risk are detailed below:

- Negative changes in external credit ratings.
- Changes in external market variables such as credit spreads, prices of issuer's CDS and other prices of debt instruments and equities.
- Changes in business, economic, financial, regulatory or technological environment which can affect the payment capacity of the issuer.
- Changes in operational results that can compromise the payment capacity of the issuer.

If the financial asset loses its low credit risk condition or if changes in external environment results in a review of the condition, then this probably shows a significant increase in credit risk. Consequently, the financial asset will be analyzed to determine if there is a significant increase of credit risk (stage 2) or if the asset should be classified as stage 3.

II. PD – Probability of default

PD depends of the external credit rating of the issuance, issuer or counterparty. Credit rating information is published by international credit rating corporations, such as Standard & Poor's, Moody's and Fitch Ratings, or national credit rating corporations, such as Fitch Ratings Colombia S.A. or BRC. In any case, international ratings have priority over national ratings.

Credit ratings from S&P have priority over other rating corporations. If the issuance, issuer or counterparty is not rated by S&P, credit ratings from Moody's or Fitch Ratings can be used but they must be translated to the S&P rating scale. The order of priority in credit rating corporations is as follows: S&P in first place, Moody's in second place and Fitch Ratings in the third one. The reason for choosing this hierarchy is to avoid discretion at the time of assigning a rating. National credit rating corporations can be used only if international credit ratings are not available, and the translation condition to the S&P rating scale must be followed as well.

For financial assets classified as stage 1, PD correspond to the probability of default for the next 12 months established in accordance to "Cumulative Default Rates by Rating Modifiers" for both sovereign and corporate issuers, expressed at an annual basis. In order to avoid an empty value of impairment as a consequence of a PD equal to zero, methodology allows PD increase from 0% to 0.01%. If the remaining life of the assets is less than 12 months, the resulting PD will correspond to the weighted 12 months-PD with the remaining life of the financial asset.

For financial assets classified as stage 2, lifetime PD must be used and computed using the "Cumulative Default Rates by Rating Modifiers" for both sovereign and corporate issuers, expressed at an annual basis and according to the term of each flow.

For financial assets classified as stage 3, lifetime PD will equal 100% for any issuance, issuer or counterparty.

PD value tables are available in S&P Global Ratings: "*2017 Annual Sovereign Default Study and Rating Transitions*" and "*2017 Annual Global Corporate Default Study and Rating Transitions*".

Forward-Looking Information

Grupo Aval incorporates forward-looking information into its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL. This information will directly affect the PD and the stage classification.

When rating the sovereign and corporate issuers, credit ratings agencies incorporate prospective information, as well as forecasting of macroeconomic variables and the influence of these factors over the business conditions. Grupo Aval's methodology includes external credit ratings which, under the previous argument, have already considered prospective information.

Furthermore, credit ratings are also subject to rating outlooks which can modify the current credit ratings. Details are provided below. Rating outlooks are published by credit rating corporations and reflect the perspective of the potential long-term credit rating over the next 6 to 24 months.

- If the Rating Outlook is categorized as "STABLE", no adjustments in credit ratings are needed.
- If the Rating Outlook is "POSITIVE", PD will be adjusted as the average between the current PD and the applicable PD in the case credit rating improves one notch. However, this would only take place if the resulting PD is lower than the current PD.
- If the Rating Outlook is "NEGATIVE", PD will be adjusted as the average between the current PD and the applicable PD in the case credit rating deteriorates one notch. However, this would only take place if the resulting PD is higher than the current PD.

III. LGD – Loss given default

LGD is a measure of the potential loss if a default scenario occurs. To establish the LGD, Grupo Aval's methodology uses information published by Moody's credit rating corporation. LGD is based on relevant external default data, such as the historical recovery rates, which is defined as the complement of LGD calculation.

Moody's computes Recovery Rates as the ratio between market prices after 30 days of the default or the debt swap price at the closing date, and the market price of the issuance at the beginning of the default. In the case of unavailable market prices, recovery rates will be the resulting ratio between present value of expected cash flows of the new instruments received with the debt swap and the present value of the initial instruments.

As a result of the above, for 2018 Grupo Aval's methodology assigns the following weights for recovery rates: 55% for Sovereigns and 47.9% for corporates.

Further information is available and published annually by Moody's in the "Sovereign default and recovery rates 1983-2017" and "Annual Default Study: Corporate Default and Recovery Rates" reports.

IV. EAD – Exposure at default

EAD represents the amount owed from a counterparty at the time of a possible default and only for securities classified at amortized cost or FVOCI. See accounting policy in Note 2 (2.6 ix).

For stage 1 and stage 3 financial assets, EAD will correspond to the full valuation of the assets at amortized cost.

For stage 2 financial assets, EAD will consider the financial asset amortized scheme assuming no default in the previous years.

In the case that financial assets present a guarantees or security collateral, these could reduce total EAD. This is a typical case of collateralized interbank loans.

Credit Risk Model: Other accounts receivable

Grupo Aval uses two approaches to estimate ECL of financial assets classified as other accounts receivables.

The first one is the simplified approach where Grupo Aval uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small amounts.

Loss rates are calculated using a ‘roll rate’ method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics like type of product purchased.

Loss rates are based on actual credit loss experience over the past seven years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and Grupo Aval entities’ view of economic conditions over the expected lives of the receivables.

The second approach considers the methodologies explained above for loans and debt securities. For non-financial companies in the oil and gas sector, the loans methodology is considered, while the debt securities methodology is considered for government and other government related entities.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Loss allowance

The table below shows the loss allowance balances as of December 31, 2018 and 2017.

	December 31, 2018					
	Stage 1	Stage 2	Stage 3			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Simplified approach	Total	December 31, 2017 [1]
Loan portfolio						
Loan commercial portfolio	Ps. 695,728	Ps. 190,633	Ps. 3,051,088	Ps. —	Ps. 3,937,449	Ps. 2,659,322
Loan consumer portfolio	998,390	890,556	1,553,365	—	3,442,311	2,456,791
Loan mortgage portfolio	35,187	73,461	148,595	—	257,243	130,882
Loan microcredit portfolio	23,348	11,962	52,867	—	88,177	74,167
Loan financial leasing portfolio	72,221	30,434	368,352	—	471,007	297,319
Total loan portfolio	**Ps. 1,824,874**	**Ps. 1,197,046**	**Ps. 5,174,267**	**Ps. —**	**Ps. 8,196,187**	**Ps. 5,618,481**
Investments in debt securities at amortized cost	71	—	—	—	71	—
Other accounts receivable	19,700	11,561	66,327	159,303	256,891	226,862
Total loss allowance financial assets at amortized cost	**Ps. 1,844,645**	**Ps. 1,208,607**	**Ps. 5,240,594**	**Ps. 159,303**	**Ps. 8,453,149**	**Ps. 5,845,343**
Investments in debt securities at FVOCI	20,757	31,980	46,280	—	99,017	71,708
Loan commitments and financial guarantee contracts	40,715	14,358	4,355	—	59,428	29,675
Total loss allowance	**Ps. 1,906,117**	**Ps. 1,254,945**	**Ps. 5,291,229**	**Ps. 159,303**	**Ps. 8,611,594**	**Ps. 5,946,726**

[1] Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.5) (B).

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The table below shows for loans stage 3 individually assessed for ECL the gross amount and loss allowance balances as of December 31, 2018.

	December 31, 2018					
	Gross Amount Registered		Collateral Guarantees		Allowance Recognized	
Without recognized provision						
Commercial	Ps.	85,531	Ps.	126,642	Ps.	—
Financial leasing		115,881		320,797		—
Subtotal	**Ps.**	**201,412**	**Ps.**	**447,439**	**Ps.**	**—**
With recognized provision						
Commercial	Ps.	5,788,368	Ps.	511,605	Ps.	2,195,263
Consumer		2,604		560		1,813
Financial leasing		659,499		243,023		231,056
Subtotal	**Ps.**	**6,450,471**	**Ps.**	**755,188**	**Ps.**	**2,428,132**
Totals						
Commercial		5,873,899		638,247		2,195,263
Consumer		2,604		560		1,813
Financial leasing		775,380		563,820		231,056
Total	**Ps.**	**6,651,883**	**Ps.**	**1,202,627**	**Ps.**	**2,428,132**

The difference between the value of the loan and the guarantees disclosed on the table above correspond to unsecured loans valued with the discounted cash flow method. When using this method, it is implied that it is possible for the customer to make future payments.

The loss allowance recognized in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact of the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for asset denominated in foreign currencies and other movements; and
- Financial assets derecognized during the period and write-offs of allowances related to assets than were written off during the period.

The following tables show the reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent allowance balance for credit losses and reflect measurement basis under IAS 39.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Loan portfolio

	December 31, 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Loss allowance balance as of December 31, 2017- IAS 39	**Ps. 1,227,363**	**Ps. 583,584**	**Ps. 3,807,534**	**Ps. 5,618,481**
IFRS 9 adoption [1]	490,117	596,737	76,155	1,163,009
Loss allowance as of January 1, 2018 – IFRS 9	**Ps. 1,717,480**	**Ps. 1,180,321**	**Ps. 3,883,689**	**Ps. 6,781,490**
Transfers:				
Transfer from stage 1 to stage 2	(255,031)	255,031	—	—
Transfer from stage 1 to stage 3	(214,542)	—	214,542	—
Transfer from stage 2 to stage 3	—	(631,932)	631,932	—
Transfer from stage 3 to stage 2	—	107,331	(107,331)	—
Transfer from stage 2 to stage 1	314,668	(314,668)	—	—
Transfer from stage 3 to stage 1	183,733	—	(183,733)	—
Net remeasurement of loss allowance [3]	(90,021)	746,773	3,194,573	3,851,325
New financial assets originated or purchased	1,011,984	156,320	153,761	1,322,065
Financial assets that have been derecognized	(568,424)	(177,729)	(323,552)	(1,069,705)
Unwind of discount [2]	32,674	(3,809)	353,118	381,983
FX and other movements	4,703	—	71,009	75,712
Entity deconsolidation	—	—	2,307	2,307
Write-offs	(312,350)	(120,592)	(2,716,048)	(3,148,990)
Loss allowance as of December 31, 2018	**Ps. 1,824,874**	**Ps. 1,197,046**	**Ps. 5,174,267**	**Ps. 8,196,187**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.5) (B).

(2) The unwind of discount on Stage 3 financial assets is reported within "interest income" so that interest income is recognized on the amortized cost (after deducting the ECL allowance)

(3) This amount includes impact of the measurement of ECL due to changes made in PDs/LGDs/EADs and changes made to model assumptions and methodologies from the opening to the closing balance, the following table shows impact by stage:

December 31, 2018			
Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Ps. (8,520)	Ps. 1,997	Ps. 123	Ps. (6,400)

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Loan commercial portfolio

	December 31, 2018			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Loss allowance balance as of December 31, 2017-IAS 39	Ps. 492,561	Ps. 91,930	Ps. 2,074,831	Ps. 2,659,322
IFRS 9 adoption [(1)]	122,996	100,438	33,639	257,073
Loss allowance as of January 1, 2018 – IFRS 9	**Ps. 615,557**	**Ps. 192,368**	**Ps. 2,108,470**	**Ps. 2,916,395**
Transfers:				
Transfer from stage 1 to stage 2	(26,155)	26,155	—	—
Transfer from stage 1 to stage 3	(57,241)	—	57,241	—
Transfer from stage 2 to stage 3	—	(141,368)	141,368	—
Transfer from stage 3 to stage 2	—	17,836	(17,836)	—
Transfer from stage 2 to stage 1	65,954	(65,954)	—	—
Transfer from stage 3 to stage 1	30,590	—	(30,590)	—
Net remeasurement of loss allowance [(3)]	(150,806)	153,621	1,013,822	1,016,637
New financial assets originated or purchased	419,719	37,317	68,127	525,163
Financial assets that have been derecognized	(221,935)	(24,707)	(123,509)	(370,151)
Unwind of discount [(2)]	31,974	(2,615)	239,515	268,874
FX and other movements	4,707	—	13,098	17,805
Write-offs	(16,636)	(2,020)	(418,618)	(437,274)
Loss allowance as of December 31, 2018	**Ps. 695,728**	**Ps. 190,633**	**Ps. 3,051,088**	**Ps. 3,937,449**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.5) (B).

(2) The unwind of discount on Stage 3 financial assets is reported within "interest income" so that interest income is recognized on the amortized cost (after deducting the ECL allowance)

(3) This amount includes impact of the measurement of ECL due to changes made in PDs/LGDs/EADs and changes made to model assumptions and methodologies from the opening to the closing balance, the following table shows impact by stage:

December 31, 2018			
Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Ps. 34,411	Ps. (8,050)	Ps. 16,362	Ps. 42,723

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Loan consumer portfolio

	December 31, 2018			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Loss allowance balance as of December 31, 2017- IAS 39	**Ps. 656,042**	**Ps. 446,698**	**Ps. 1,354,051**	**Ps. 2,456,791**
IFRS 9 adoption [1]	336,656	426,136	32,986	795,778
Loss allowance as of January 1, 2018 – IFRS 9	**Ps. 992,698**	**Ps. 872,834**	**Ps. 1,387,037**	**Ps. 3,252,569**
Transfers:				
Transfer from stage 1 to stage 2	(209,235)	209,235	—	—
Transfer from stage 1 to stage 3	(149,571)	—	149,571	—
Transfer from stage 2 to stage 3	—	(432,509)	432,509	—
Transfer from stage 3 to stage 2	—	77,046	(77,046)	—
Transfer from stage 2 to stage 1	209,168	(209,168)	—	—
Transfer from stage 3 to stage 1	137,887	-	(137,887)	—
Net remeasurement of loss allowance [3]	78,253	518,410	1,855,935	2,452,598
New financial assets originated or purchased	543,690	113,235	75,181	732,106
Financial assets that have been derecognized	(315,442)	(139,703)	(145,775)	(600,920)
Unwind of discount [2]	474	(514)	80,214	80,174
FX and other movements	(7)	—	52,807	52,800
Write-offs	(289,525)	(118,310)	(2,119,181)	(2,527,016)
Loss allowance as of December 31, 2018	**Ps. 998,390**	**Ps. 890,556**	**Ps. 1,553,365**	**Ps. 3,442,311**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.5) (B).

(2) The unwind of discount on Stage 3 financial assets is reported within "interest income" so that interest income is recognized on the amortized cost (after deducting the ECL allowance)

(3) This amount includes impact of the measurement of ECL due to changes made in PDs/LGDs/EADs and changes made to model assumptions and methodologies from the opening to the closing balance, the following table shows impact by stage:

December 31, 2018			
Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Ps. (51,642)	Ps. 20,671	Ps. (7,473)	Ps. (38,444)

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Loan mortgage portfolio

	December 31, 2018			
	Stage 1 2-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Loss allowance balance as of December 31, 2017- IAS 39	**Ps. 14,501**	**Ps. 20,032**	**Ps. 96,349**	**Ps. 130,882**
IFRS 9 adoption (1)	6,227	41,690	8,279	56,196
Loss allowance as of January 1, 2018 – IFRS 9	**Ps. 20,728**	**Ps. 61,722**	**Ps. 104,628**	**Ps. 187,078**
Transfers:				
Transfer from stage 1 to stage 2	(7,711)	7,711	—	—
Transfer from stage 1 to stage 3	(1,558)	—	1,558	—
Transfer from stage 2 to stage 3	—	(21,022)	21,022	—
Transfer from stage 3 to stage 2	—	6,872	(6,872)	—
Transfer from stage 2 to stage 1	20,072	(20,072)	—	—
Transfer from stage 3 to stage 1	2,749	—	(2,749)	—
Net remeasurement of loss allowance (3)	(3,510)	45,162	73,385	115,037
New financial assets originated or purchased	8,999	2,047	47	11,093
Financial assets that have been derecognized	(4,131)	(8,742)	(6,386)	(19,259)
Unwind of discount (2)	110	(143)	4,581	4,548
FX and other movements	—	—	4,946	4,946
Write-offs	(561)	(74)	(45,565)	(46,200)
Loss allowance as of December 31, 2018	**Ps. 35,187**	**Ps. 73,461**	**Ps. 148,595**	**Ps. 257,243**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.5) (B).

(2) The unwind of discount on Stage 3 financial assets is reported within "interest income" so that interest income is recognized on the amortized cost (after deducting the ECL allowance)

(3) This amount includes impact of the measurement of ECL due to changes made in PDs/LGDs/EADs and changes made to model assumptions and methodologies from the opening to the closing balance, the following table shows impact by stage:

December 31, 2018			
Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Ps. 2,543	Ps. (4,263)	Ps. (8,823)	Ps. (10,543)

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Loan microcredit portfolio

	December 31, 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Loss allowance balance as of December 31, 2017- IAS 39	**Ps. 21,421**	**Ps. 7,477**	**Ps. 45,269**	**Ps. 74,167**
IFRS 9 adoption (1)	525	10,591	2	11,118
Loss allowance as of January 1, 2018 – IFRS 9	**Ps. 21,946**	**Ps. 18,068**	**Ps. 45,271**	**Ps. 85,285**
Transfers:				
Transfer from stage 1 to stage 2	(8,298)	8,298	—	—
Transfer from stage 1 to stage 3	(2,599)	—	2,599	—
Transfer from stage 2 to stage 3	—	(30,052)	30,052	—
Transfer from stage 3 to stage 2	—	1,961	(1,961)	—
Transfer from stage 2 to stage 1	6,305	(6,305)	—	—
Transfer from stage 3 to stage 1	6,062	—	(6,062)	—
Net remeasurement of loss allowance (3)	(8,285)	20,392	9,625	21,732
New financial assets originated or purchased	16,095	626	—	16,721
Financial assets that have been derecognized	(2,397)	(600)	(861)	(3,858)
Unwind of discount (2)	103	(381)	8,266	7,988
Write-offs	(5,584)	(45)	(34,062)	(39,691)
Loss allowance as of December 31, 2018	**Ps. 23,348**	**Ps. 11,962**	**Ps. 52,867**	**Ps. 88,177**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.5) (B).

(2) The unwind of discount on Stage 3 financial assets is reported within "interest income" so that interest income is recognized on the amortized cost (after deducting the ECL allowance)

(3) This amount includes impact of the measurement of ECL due to changes made in PDs/LGDs/EADs and changes made to model assumptions and methodologies from the opening to the closing balance, the following tables show impact by stage:

December 31, 2018			
Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Ps. 541	Ps. (5,338)	Ps. 47	Ps. (4,750)

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Loan financial leasing portfolio

	December 31, 2018			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Loss allowance balance as of December 31, 2017 - IAS 39	**Ps. 42,838**	**Ps. 17,447**	**Ps. 237,034**	**Ps. 297,319**
IFRS 9 adoption [(1)]	23,713	17,882	1,249	42,844
Loss allowance as of January 1, 2018 – IFRS 9	**Ps. 66,551**	**Ps. 35,329**	**Ps. 238,283**	**Ps. 340,163**
Transfers:				
Transfer from stage 1 to stage 2	(3,632)	3,632	—	—
Transfer from stage 1 to stage 3	(3,573)	—	3,573	—
Transfer from stage 2 to stage 3	—	(6,981)	6,981	—
Transfer from stage 3 to stage 2	—	3,616	(3,616)	—
Transfer from stage 2 to stage 1	13,169	(13,169)	—	—
Transfer from stage 3 to stage 1	6,445	—	(6,445)	—
Net remeasurement of loss allowance [(3)]	(5,673)	9,188	241,806	245,321
New financial assets originated or purchased	23,481	3,095	10,406	36,982
Financial assets that have been derecognized	(24,519)	(3,977)	(47,021)	(75,517)
Unwind of discount [(2)]	13	(156)	20,542	20,399
FX and other movements	3	—	158	161
Entity deconsolidation	—	—	2,307	2,307
Write-offs	(44)	(143)	(98,622)	(98,809)
Loss allowance as of December 31, 2018	**Ps. 72,221**	**Ps. 30,434**	**Ps. 368,352**	**Ps. 471,007**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.5) (B).

(2) The unwind of discount on Stage 3 financial assets is reported within "interest income" so that interest income is recognized on the amortized cost (after deducting the ECL allowance)

(3) This amount includes impact of the measurement of ECL due to changes made in PDs/LGDs/EADs and changes made to model assumptions and methodologies from the opening to the closing balance, the following table shows impact by stage:

December 31, 2018			
Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Ps. 5,627	Ps. (1,023)	Ps. 10	Ps. 4,614

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Investments in debt securities at FVOCI

	December 31, 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Loss allowance balance as of December 31, 2017- IAS 39	Ps. —	Ps. **—**	Ps. **71,708**	Ps. **71,708**
IFRS 9 adoption [1]	18,665	31,714	5,819	56,198
Loss allowance as of January 1, 2018 – IFRS 9	**Ps. 18,665**	**Ps. 31,714**	**Ps. 77,527**	**Ps. 127,906**
Transfers:				
Transfer from stage 1 to stage 2	(272)	272	—	—
Net remeasurement of loss allowance [3]	(2,361)	(28)	18,158	15,769
New financial assets originated or purchased	12,018	450	—	12,468
Financial assets that have been derecognized	(7,937)	(2,688)	(49,421)	(60,046)
Unwind of discount [2]	—	—	—	—
FX and other movements	644	2,260	16	2,920
Write-offs	—	—	—	—
Loss allowance as of December 31, 2018	**Ps. 20,757**	**Ps. 31,980**	**Ps. 46,280**	**Ps. 99,017**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.5) (B).

(2) The unwind of discount on Stage 3 financial assets is reported within "interest income" so that interest income is recognized on the amortized cost (after deducting the ECL allowance)

(3) This amount includes impact of the measurement of ECL due to changes made in PDs/LGDs/EADs and changes made to model assumptions and methodologies from the opening to the closing balance, the following table shows impact by stage:

December 31, 2018			
Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Ps. 198	Ps. —	Ps. —	Ps. 198

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Investments in debt securities at amortized cost

	December 31, 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Loss allowance balance as of December 31, 2017 - IAS 39	Ps. —	Ps. **—**	Ps. **—**	Ps. **—**
IFRS 9 adoption [(1)]	672	**—**	**—**	**672**
Loss allowance as of January 1, 2018 – IFRS 9	**Ps. 672**	**Ps. —**	**Ps. —**	**Ps. 672**
Net remeasurement of loss allowance [(3)]	(90)	—	—	(90)
New financial assets originated or purchased	59	—	—	59
Financial assets that have been derecognized	(667)	—	—	(667)
Unwind of discount [(2)]	—	—	—	—
FX and other movements	97	—	—	97
Write-offs	—	—	—	—
Loss allowance as of December 31, 2018	**Ps. 71**	**Ps. —**	**Ps. —**	**Ps. 71**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.5) (B).

(2) The unwind of discount on Stage 3 financial assets is reported within "interest income" so that interest income is recognized on the amortized cost (after deducting the ECL allowance)

(3) This amount includes impact of the measurement of ECL due to changes made in PDs/LGDs/EADs and changes made to model assumptions and methodologies from the opening to the closing balance, the following table shows impact by stage:

December 31, 2018			
Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Ps. 3	Ps. —	Ps. —	Ps. 3

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Other accounts receivable

General approach

	December 31, 2018			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Loss allowance balance as of December 31, 2017 - IAS 39	**Ps. 12,911**	**Ps. 5,909**	**Ps. 70,611**	**Ps. 89,431**
IFRS 9 adoption (1)	4,021	3,751	1,797	9,569
Loss allowance as of January 1, 2018 – IFRS 9	**Ps. 16,932**	**Ps. 9,660**	**Ps. 72,408**	**Ps. 99,000**
Transfers stages	—	—	—	—
Net remeasurement of loss allowance	19,439	1,901	(6,081)	15,259
New financial assets originated or purchased	—	—	—	—
Financial assets that have been derecognized	—	—	—	—
Unwind of discount [2]	—	—	—	—
FX and other movements	(2)	—	—	(2)
Write-offs	(16,669)	—	—	(16,669)
Loss allowance as of December 31, 2018	**Ps. 19,700**	**Ps. 11,561**	**Ps. 66,327**	**Ps. 97,588**

[1] Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.5) (B).
[2] The unwind of discount on Stage 3 financial assets is reported within "interest income" so that interest income is recognized on the amortized cost (after deducting the ECL allowance)

Simplified approach

	December 31, 2018
Balance as of December 31, 2017- IAS 39	Ps. **137,431**
IFRS 9 adoption [1]	9,338
Loss allowance as of January 1, 2018 – IFRS 9	**Ps. 146,769**
Entity deconsolidation	6,731
Provision charged to profit or loss	65,230
Recovery for partial payments from the clients	(12,373)
Write-offs	(47,309)
Exchange gains (losses) in foreign currency	255
Loss allowance as of December 31, 2018	**Ps. 159,303**

[1] Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.5) (B)

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Loan commitments and financial guarantee contracts

	December 31, 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Loss allowance balance as of December 31, 2017- IAS 39	**Ps. 23,922**	**Ps. 1,719**	**Ps. 4,034**	**Ps. 29,675**
IFRS 9 adoption [(1)]	13,381	3,085	(249)	16,217
Loss allowance as of January 1, 2018 – IFRS 9	**Ps. 37,303**	**Ps. 4,804**	**Ps. 3,785**	**Ps. 45,892**
Transfers:				
Transfer from stage 1 to stage 2	(2,350)	2,350	—	—
Transfer from stage 1 to stage 3	(2,167)	—	2,167	—
Transfer from stage 2 to stage 3	—	(156)	156	—
Transfer from stage 3 to stage 2	—	13	(13)	—
Transfer from stage 2 to stage 1	1,816	(1,816)	—	—
Transfer from stage 3 to stage 1	26	—	(26)	—
Net remeasurement of loss allowance	2,732	11,071	(5,009)	8,794
New loan commitments and financial guarantees issued	3,186	(1,909)	3,295	4,572
FX and other movements	169	1	—	170
Loss allowance as of December 31, 2018	**Ps. 40,715**	**Ps. 14,358**	**Ps. 4,355**	**Ps. 59,428**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.5) (B).

Impaired financial assets – Comparative information under IAS 39

Loan portfolio

The movement of the impairment provision of the financial assets of the credit portfolio during the years ended December 31, 2017 and 2016 follows

	Commercial	Consumer	Mortgage	Microcredit	Financial Leasing	Total
Balance as of December 31, 2015	**Ps. 1,679,229**	**Ps. 1,679,147**	**Ps. 95,102**	**Ps. 49,206**	**Ps. 215,640**	**Ps. 3,718,324**
Allowance of the period charged to profit or loss	1,522,077	3,088,950	75,059	72,917	225,498	4,984,501
Recovery of provisions with partial payment to profit or loss	(857,465)	(976,258)	(37,863)	(18,119)	(162,033)	(2,051,738)
Charge-offs of the year	(495,326)	(1,759,896)	(15,828)	(28,703)	(55,234)	(2,354,987)
Exchange differences	(33,571)	(9,118)	7,630	(12,164)	12,567	(34,656)
Balance as of December 31, 2016	**Ps. 1,814,944**	**Ps. 2,022,825**	**Ps. 124,100**	**Ps. 63,137**	**Ps. 236,438**	**Ps. 4,261,444**
Allowance of the period charged to profit or loss	1,825,905	3,403,092	81,189	64,627	222,043	5,596,856
Recovery of provisions with partial payment to profit or loss	(584,091)	(780,874)	(28,051)	(29,237)	(112,671)	(1,534,924)
Charge-offs of the year	(400,653)	(2,165,857)	(45,918)	(24,360)	(46,754)	(2,683,542)
Sale of portfolio	—	(24,503)	—	—	—	(24,503)
Exchange differences	3,217	2,108	(438)	—	(1,737)	3,150
Balance as of December 31, 2017	**Ps. 2,659,322**	**Ps. 2,456,791**	**Ps. 130,882**	**Ps. 74,167**	**Ps. 297,319**	**Ps. 5,618,481**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Credit Portfolio Assessed Collectively and Individually

The detailed information of credit risk impairment provisions accrued as of December 31, 2017, taking into account how they were determined individually for loans above of Ps. 2,000 and collectively for other credits. Loans individually assessed for impairment lower than Ps. 2,000 are considered in the allowances for each type of credit.

December 31, 2017

Gross balance of financial assets for credit portfolio:	Commercial	Consumer	Mortgage	Microcredit	Financial Leasing	Total
Loans assessed individually [1]	Ps. 49,846,935	Ps. 51,768	Ps. 14,934	Ps. —	Ps. 5,444,122	Ps. 55,357,759
Loans assessed collectively	39,689,559	50,104,363	15,088,599	409,688	5,722,808	111,015,017
Total gross value of portfolio	**Ps. 89,536,494**	**Ps. 50,156,131**	**Ps. 15,103,533**	**Ps. 409,688**	**Ps. 11,166,930**	**Ps. 166,372,776**

Impairment provision:	Commercial	Consumer	Mortgage	Microcredit	Financial Leasing	Total
Loans assessed individually	Ps. 1,363,315	Ps. 70	Ps. 781	Ps. —	Ps. 126,867	Ps. 1,491,033
Loans assessed collectively	1,296,007	2,456,721	130,101	74,167	170,452	4,127,448
Total impairment provision	**Ps. 2,659,322**	**Ps. 2,456,791**	**Ps. 130,882**	**Ps. 74,167**	**Ps. 297,319**	**Ps. 5,618,481**

(1) Loans individually evaluated for impairment that are not considered impaired, additionally are evaluated collectively for impairment according to historical losses experience adjusted to reflect current economic conditions.

Portfolio of impaired loans assessed individually for impairment

The detailed information as of December 31, 2017 as follows:

	December 31, 2017		
	Gross Amount Registered	Collateral Guarantees	Allowance Recognized
Without recognized provision			
Commercial	Ps. 180,527	Ps. 242,366	Ps. —
Financial leasing	186,725	564,540	—
Subtotal	**Ps. 367,252**	**Ps. 806,906**	**Ps. —**
With recognized provision			
Commercial	Ps. 3,972,638	Ps. 228,667	Ps. 1,363,315
Consumer	233	—	70
Residential mortgage	1,907	—	781
Financial leasing	599,747	161,309	126,867
Subtotal	**Ps. 4,574,525**	**Ps. 389,976**	**Ps. 1,491,033**
Totals			
Commercial	4,153,165	471,033	1,363,315
Consumer	233	—	70
Residential mortgage	1,907	—	781
Financial leasing	786,472	725,849	126,867
Total	**Ps. 4,941,777**	**Ps. 1,196,882**	**Ps. 1,491,033**

The difference between the value of the loan and the guarantees disclosed on the table above correspond to unsecured loans valued with the discounted cash flow method. When using this method, it is implied that it is possible for the customer to make future payments.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Other accounts receivable

Roll-forward on the allowance to accounts receivable for the years ended December 31, 2017 and 2016 is as follows:

	December 31, 2017		December 31, 2016	
Balance at the beginning of the year	**Ps.**	**195,078**	**Ps.**	**194,450**
Provision charged to profit or loss		98,024		105,942
Recovery for partial payments from the clients		(18,383)		(32,514)
Charge-offs		(48,171)		(72,120)
Exchange gains (losses) in foreign currency		314		(680)
Balance at the end of the year	**Ps.**	**226,862**	**Ps.**	**195,078**

4.1.6 Concentrations of credit risk

Loan portfolio

Policies to prevent excessive credit-risk concentration

In order to prevent excessive concentrations of credit risk at an individual, economic group, country or economic sectors level, each financial subsidiary of Grupo Aval maintains updated indices to limit concentration. The exposure limit by a financial subsidiary of Grupo Aval to an individual client or economic group depends on the risk profile of the client (or economic group), the nature of the risk of the debtor and the experience of each financial subsidiary in a specific market or sector.

Concentration risk control is key to the risk management process. Grupo Aval´s financial subsidiaries continually monitor the degree of credit risk concentration by sector and customer group.

In order to avoid credit risk concentration at Grupo Aval level, management relies on the financial subsidiaries Credit Risk Vice-Presidency or its equivalent, which consolidates, and monitors the credit risk exposures of all financial subsidiaries, to determine the maximum levels of concentration.

Pursuant to Colombian regulations, financial subsidiaries in Colombia cannot grant unsecured loans to borrowers, which on a combined basis exceed 10% of the financial subsidiary´s regulatory capital calculated according to the regulations of the Superintendency of Finance. Loans maybe more than 10% of the regulatory capital of the financial subsidiary when they are secured by acceptable collateral and/or certain guarantees.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Concentration by sector

Below is the credit portfolio distribution of Grupo Aval by economic sector as of December 31, 2018 and 2017:

Sector	December 31, 2018	%	December 31, 2017	%
Consumer services	Ps. 78,976,887	45 %	Ps. 70,947,936	43 %
Commercial services	41,160,951	23 %	38,788,363	23 %
Construction	11,093,895	6 %	10,313,655	7 %
Food, beverage and tobacco	8,128,767	5 %	8,165,975	5 %
Transportation and communications	7,117,087	4 %	7,566,374	5 %
Public services	6,123,390	4 %	5,421,328	3 %
Chemical production	5,614,918	3 %	5,672,310	3 %
Other industrial and manufacturing products	4,859,538	3 %	4,469,427	3 %
Agricultural	4,201,518	2 %	3,940,981	2 %
Government	3,868,987	2 %	3,579,838	2 %
Trade and tourism	2,353,139	1 %	2,182,437	1 %
Other	2,288,046	1 %	2,946,964	2 %
Mining products and oil	1,094,718	1 %	2,377,188	1 %
Total of each economic sector	**Ps. 176,881,841**	**100 %**	**Ps. 166,372,776**	**100 %**

Concentration by location

The detail of credit risk at the level of Grupo Aval in the different geographic areas determined according to the domicile of the debtor, without taking into consideration loan loss provisions as of December 31, 2018 and 2017 is as follows.

December 31, 2018	Commercial	Consumer	Mortgages	Microcredit	Finance leases [1]	Total
Colombia	Ps. 63,694,588	Ps. 35,912,585	Ps. 6,672,612	Ps. 425,697	Ps. 10,466,569	Ps. 117,172,051
Costa Rica	4,860,338	5,190,354	4,343,247	—	802,601	15,196,540
Panamá	5,464,198	5,618,362	2,381,741	—	109,927	13,574,228
Guatemala	5,536,851	2,593,606	1,617,341	—	31,786	9,779,584
Honduras	3,528,929	2,085,005	857,799	—	3,247	6,474,980
El Salvador	2,214,411	2,636,766	969,731	—	6,630	5,827,538
United States	4,549,526	742	—	—	—	4,550,268
Nicaragua	1,947,643	1,163,054	436,891	—	5,416	3,553,004
Other countries	753,541	107	—	—	—	753,648
Total gross loan portfolio	**Ps. 92,550,025**	**Ps. 55,200,581**	**Ps. 17,279,362**	**Ps. 425,697**	**Ps. 11,426,176**	**Ps. 176,881,841**

(1) See Note 4.1.1

December 31, 2017	Commercial	Consumer	Mortgages	Microcredit	Finance leases [1]	Total
Colombia	Ps. 61,960,497	Ps. 32,878,650	Ps. 5,674,640	Ps. 409,688	Ps. 10,289,156	Ps. 111,212,631
Costa Rica	3,833,906	4,848,689	3,868,474	—	712,686	13,263,755
Panamá	4,877,646	4,852,539	2,154,504	—	121,838	12,006,527
Guatemala	4,807,329	2,264,791	1,365,197	—	24,200	8,461,517
United States	6,433,333	736	10	—	—	6,434,079
Honduras	2,794,260	1,736,449	740,113	—	3,251	5,274,073
El Salvador	1,746,193	2,267,152	897,404	—	9,747	4,920,496
Nicaragua	2,228,138	1,307,042	403,191	—	6,052	3,944,423
Other countries	855,192	83	—	—	—	855,275
Total gross loan portfolio	**Ps. 89,536,494**	**Ps. 50,156,131**	**Ps. 15,103,533**	**Ps. 409,688**	**Ps. 11,166,930**	**Ps. 166,372,776**

(1) See Note 4.1.1

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Concentration by currency

The classification of loan portfolio by type of currency is as follows:

December 31, 2018	**Colombian Pesos**	**Foreign currency**	**Total**
Commercial	Ps. 57,651,220	Ps. 34,898,805	Ps. 92,550,025
Consumer	35,848,422	19,352,159	55,200,581
Residential mortgage	6,672,423	10,606,939	17,279,362
Microcredit	425,697	—	425,697
Financial leasing [(1)]	9,260,989	2,165,187	11,426,176
Total gross loan portfolio	**Ps. 109,858,751**	**Ps. 67,023,090**	**Ps. 176,881,841**

December 31, 2017	**Colombian Pesos**	**Foreign currency**	**Total**
Commercial	Ps. 56,516,054	Ps. 33,020,440	Ps. 89,536,494
Consumer	32,822,355	17,333,776	50,156,131
Residential mortgage	5,674,639	9,428,894	15,103,533
Microcredit	409,688	—	409,688
Financial leasing [(1)]	9,132,401	2,034,529	11,166,930
Total gross loan portfolio	**Ps. 104,555,137**	**Ps. 61,817,639**	**Ps. 166,372,776**

(1) See Note 4.1.1

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Investment debt securities

Grupo Aval entities monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from investment securities is shown below.

Concentration by sector

Trading debt securities (see note 8.1)

The balance of financial assets in investments in trading debt securities includes the following as of December 31 2018 and 2017

	December 31, 2018	December 31, 2017 [1]
In Colombian Pesos		
Securities issued or secured by Colombian Government	Ps. 2,210,108	Ps. 1,229,606
Securities issued or secured by other Colombian Government entities	108,072	48,355
Securities issued or secured by other financial entities	972,789	833,860
Securities issued or secured by non-financial sector entities	29,122	17,869
Others	1,086	50,417
	Ps. 3,321,177	**Ps. 2,180,107**
In foreign currency		
Securities issued or secured by Colombian Government	60,534	1,613
Securities issued or secured by other Colombian Government entities	20,473	21,709
Securities issued or secured by foreign Governments	98,155	92,931
Securities issued or secured by central banks	12,914	34,095
Securities issued or secured by other financial entities	245,962	303,665
Others	3,763	16,416
	Ps. 441,801	**Ps. 470,929**
Total trading debt securities	**Ps. 3,762,978**	**Ps. 2,650,536**

[1] Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2.5

Investments in debt securities at FVTPL (see note 9.1)

The balance of financial assets in investments in debt securities at FVTPL includes the following as of December 31 2018 and 2017

	December 31, 2018	December 31, 2017 [1]
In Colombian Pesos		
Others	31,256	—
Total debt securities mandatorily at FVTPL	**Ps. 31,256**	**Ps. —**

[1] Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2.5

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Investments in debt securities at FVOCI (2017 available-for-sale)

The balance of financial assets in investments in debt securities at FVOCI includes the following as of December 31 2018 and 2017

	December 31, 2018	December 31, 2017 (1)
In Colombian Pesos		
Securities issued or secured by Colombian Government	Ps. 9,256,358	Ps. 7,892,554
Securities issued or secured by other Colombian Government entities	194,933	92,008
Securities issued or secured by other financial entities	388,019	263,633
Securities issued or secured by non-financial sector entities	27,708	2,326
Others	—	7,190
	Ps. 9,867,018	**Ps. 8,257,711**
In foreign currency		
Securities issued or secured by Colombian Government	1,269,416	1,592,371
Securities issued or secured by other Colombian Government entities	302,701	570,694
Securities issued or secured by foreign Governments	3,015,556	2,104,397
Securities issued or secured by central banks	1,131,740	1,356,874
Securities issued or secured by other financial entities	2,920,462	3,354,444
Securities issued or secured by non-financial sector entities	182,232	322,143
Others	246,632	231,493
	Ps. 9,068,739	**Ps. 9,532,416**
Total debt securities at FVOCI (2017 available-for-sale)	**Ps. 18,935,757**	**Ps. 17,790,127**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Note 2 (2.5).

Investments in debt securities at amortized cost (2017 – held-to-maturity)

	December 31, 2018	December 31, 2017 (1)
In Colombian Pesos		
Securities issued or secured by Colombian Government	Ps. —	Ps. 424
Securities issued or secured by other Colombian Government entities	2,931,172	2,839,286
Securities issued or secured by other financial entities	9,123	8,635
	Ps. 2,940,295	**Ps. 2,848,345**
In foreign currency		
Securities issued or secured by foreign Governments	32,321	26,864
Securities issued or secured by other financial entities	—	23,830
Others	—	—
	Ps. 32,321	**Ps. 50,694**
Total investments in debt securities at amortized cost (2017 held-to-maturity)	**Ps. 2,972,616**	**Ps. 2,899,039**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Note 2 (2.5).

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Concentration by location

	As of December 31,	
	2018	**2017**
Colombia	Ps. 18,047,109	Ps. 15,887,882
United States of America	2,412,555	1,801,922
Costa Rica	1,674,052	1,401,805
Guatemala	999,544	964,201
Panama	813,711	1,052,712
Honduras	586,275	531,227
Brazil	424,339	698,573
Peru	352,795	331,874
Chile	150,239	223,648
Multilateral – Bladex (Foreign Trade Bank of Latin America)	87,500	73,088
Nicaragua	64,918	148,784
El Salvador	40,890	79,850
Multilateral – Andean Development Corporation (Corporacion Andina de Fomento)	31,156	31,798
Mexico	13,761	24,695
BAC San Jose Liquid Fund (BAC San Jose Fondo Liquido – Riesgo Pais Mixto)	3,763	15,494
Netherlands	—	31,760
Puerto Rico	—	23,830
Switzerland	—	16,558
Total investments	**Ps. 25,702,607**	**Ps. 23,339,701**

Concentration by Sovereign Risk

As a general rule, Grupo Aval considers sovereign risk to be the risk assumed in deposits with Central Banks (including the mandatory deposits), investments in debt issues of the Colombian Government and the risk arising from transactions with public sector entities that have the following features: their funds are obtained only from fiscal income; they are legally recognized as entities directly included in the government sector; and their activities are of a non-commercial nature.

Sovereign risk exposure arises mainly from Grupo Aval's banking subsidiaries obligations to maintain certain mandatory deposits in Central Banks and from the fixed-income portfolios held as part of the on-balance-sheet structural interest rate risk management strategy and in the trading books of the treasury department. The majority of these exposures are denominated in pesos and are financed through peso denominated repurchase agreements or customer deposits.

As of December 31, 2018, and 2017, the investment portfolio of financial assets in debt instruments is comprised mainly of securities issued and guaranteed by entities of the Republic of Colombia, which represent 63.63% and 61.26%, respectively of the total portfolio.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Below is the detail of Grupo Aval's sovereign debt portfolio issued by Central Governments per country:

	December 31, 2018		December 31, 2017	
		%		%
Investment grade [(1)]				
Colombia	Ps. 12,796,415	80.27 %	Ps. 10,716,568	82.81 %
Panama	550,674	3.45 %	617,126	4.78 %
USA	415,412	2.61 %	57,120	0.44 %
Chile	32,999	0.20 %	24,932	0.19 %
	Ps. 13,795,500	**86.53 %**	**Ps. 11,415,746**	**88.22 %**
Speculative [(2)]				
Costa Rica	1,437,850	9.02 %	1,018,737	7.87 %
Honduras	402,275	2.52 %	372,237	2.88 %
Guatemala	265,932	1.67 %	56,808	0.44 %
El Salvador	40,890	0.26 %	76,682	0.59 %
Nicaragua	—	0.00 %	550	0.00 %
	Ps. 2,146,947	**13.47 %**	**Ps. 1,525,014**	**11.78 %**
	Ps. 15,942,447	**100.00 %**	**Ps. 12,940,760**	**100.00 %**

Below is the detail of Grupo Aval's debt portfolio issued by Central Banks:

	December 31, 2018		December 31, 2017	
		%		%
Investment Grade [(1)]	Ps. —	0 %	Ps. —	0 %
Speculative [(2)]				
Guatemala	Ps. 686,970	60.02 %	876,271	63.00 %
Costa Rica	208,766	18.24 %	Ps. 207,474	14.92 %
Honduras	184,000	16.07 %	158,990	11.43 %
Nicaragua	64,918	5.67 %	148,234	10.66 %
	Ps. 1,144,654	**100.00 %**	**Ps. 1,390,969**	**100.00 %**
Total sovereign risk	**Ps. 17,087,101**		**Ps. 14,331,729**	

(1) Investment grade includes the risk rating of Fitch Ratings Colombia S.A o F1+ to F3, BRC of Colombia from BRC 1+ to BRC 3 and Standard & Poor's from A1 to A3.

(2) Speculative or non-investment grade level includes the risk rating of Fitch Ratings Colombia S.A. from B to E, BRC de Colombia from BRC 4 to BRC 6 and Standard & Poor's from B1 to D.

4.1.7 Modified Financial Assets - troubled debt restructuring business process.

Each financial subsidiary of Grupo Aval periodically carries out, at the request of the client, restructurings of obligations which have become troubled. Such restructurings generally consist of extensions of tenors, decrease of interest rates, partial write-off of indebtedness or payment with assets of the debtor or guarantor.

Our banking subsidiaries follow highly rigorous definitions and policies in this management process, so that it is performed in accordance with the best practices and in strict compliance with regulatory requirements. In connection to this, Grupo Aval´s banking subsidiaries have a detailed policy with regard to the aforementioned transactions.

The objective of granting such restructurings is to provide the client with a viable alternative to meet its obligations to the bank and to adapt to changing conditions.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

When a loan is restructured due to a debtor´s financial difficulties, the debt is flagged within the records of each bank as a restructured credit in accordance with the regulations of the Superintendency of Finance. The restructuring process has a negative impact on the debtor's rating, which can only be improved when the client has complied during a prudent period with the terms of the restructurings, its financial condition has improved or when sufficient additional guarantees have been obtained.

Restructured loans are included for impairment evaluation and determination of provisions. However, the marking of a credit as restructured does not necessarily imply its rating is impaired, because in some cases new guarantees are obtained supporting the obligation.

The following is the balance of restructured loans as of December 31, 2018 and 2017:

Restructured loans	December 31, 2018		December 31, 2017	
Local	Ps.	2,693,018	Ps.	2,674,637
Foreign		1,275,565		643,756
Total restructured	**Ps.**	**3,968,583**	**Ps.**	**3,318,393**

4.1.8 Foreclosed assets business process

When persuasive collection processes or credit restructurings are not effective, a legal proceeding is carried out or an agreement is reached with the client for the receipt of assets as payment. Each subsidiary of the financial sector has clearly established policies for receiving assets and has a separate department specialized in the management of these cases the receipt of assets and eventual sale.

During the years ended December 31, 2018 and 2017, the following is the total of foreclosed assets received and sold during such periods:

	December 31, 2018		December 31, 2017	
Foreclosed assets received	Ps.	188,245	Ps.	106,030
Foreclosed assets sold		52,785		64,038

4.1.9 Loan commitments and financial guarantee contracts

As part of our operations, Grupo Aval grants guarantees and letters of credit to its customers wherein Grupo Aval financial subsidiaries are irrevocably committed to make payments to third parties when customers do not comply with their obligations with such third parties. These products have the same policies for approval of disbursements of loans regarding client's credit risk and guarantees required according to the circumstances of each client.

The commitments for credit extension represent unused portions of authorizations to grant loans, use of credit cards, overdraft quotas and letters of credit. With respect to credit risk over commitments to extend credit lines, Grupo Aval is potentially exposed to losses in an amount equal to the total amount of unused commitments, if the unused amount were to be withdrawn in whole. However, the amount of the loss is less that the total amount of commitments unused, since most commitments to extend credits are contingent once the customer maintains the specific of credit risk standards.

Grupo Aval monitors maturity terms of commitments regarding credit quotas, because long-term commitments have a higher credit risk than short-term commitments.

Pending unused credit lines and guarantees do not necessarily represent future cash out flows, because such quotas may expire and not be used whole or in part.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Following is the detail of the guarantees, letters of credit and credit commitments on non-used credit lines as of December 31, 2018 and 2017.

Loan commitments and financial guarantee contracts

	December 31, 2018		December 31, 2017	
	Notional amount		Notional amount	
Guarantees	Ps.	3,446,601	Ps.	3,495,921
Unused letters of credit		1,186,691		1,177,697
Unused limits of overdrafts		306,740		75,225
Unused credit card limits		20,816,061		18,025,620
Other		5,169,588		4,448,775
Total	**Ps.**	**30,925,681**	**Ps.**	**27,223,238**

Following is the detail of the credit commitments by type of currency:

	December 31, 2018		December 31, 2017	
Colombian Pesos	Ps.	14,918,915	Ps.	10,271,676
U.S. dollars		12,885,921		16,589,399
Euro		2,892,670		85,887
Other		228,175		276,276
Total	**Ps.**	**30,925,681**	**Ps.**	**27,223,238**

4.1.10 Offset of financial assets and financial liabilities

The disclosures set out in the following tables include financial assets and financial liabilities that:

- Are offset in the Group's statement of financial position; or
- Are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The 'similar agreements' include derivative clearing agreements; global master repurchase agreements and global master securities lending agreements. Similar financial instruments include derivatives, sale-and-repurchase agreements, reverse sale-and-repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the following tables unless they are offset in the statement of financial position.

The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of Grupo Aval or the counterparties or following other predetermined events. In addition, Grupo Aval and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Grupo Aval receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:

- Derivatives; and
- Sale-and-repurchase, and reverse sale-and-repurchase agreements.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

This collateral is subject to standard industry terms including, when appropriate, an ISDA credit support annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

The gross amounts of financial assets and financial liabilities and their net amounts disclosed in the above tables have been measured in the statement of financial position on the following bases:

- Derivative assets and liabilities – fair value;
- Assets and liabilities resulting from sale-and-repurchase agreements, reverse sale-and repurchase agreements and securities lending and borrowing – amortized cost;

Following is a detail of the financial instruments subject to offset contractually required as of December 31, 2018 and 2017:

December 31, 2018

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Cash collateral Received	Net Exposure
Offsetting assets						
Derivatives	Ps. 798,824	Ps. —	Ps. 798,824	Ps. (199,773)	Ps. (265,361)	Ps. 333,690
Repurchase agreements	4,607,862	—	4,607,862	(4,348,344)	(50,515)	209,003
Total	**Ps. 5,406,686**	**Ps. —**	**Ps. 5,406,686**	**Ps. (4,548,117)**	**Ps. (315,876)**	**Ps. 542,693**

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Cash collateral Received	Net Exposure
Offsetting liabilities						
Derivatives	Ps. 1,006,844	Ps. —	Ps. 1,006,844	Ps. (10,116)	Ps. (50,982)	Ps. 945,746
Repurchase agreements	5,068,481	—	5,068,481	(5,169,598)	—	(101,117)
Total	**Ps. 6,075,325**	**Ps. —**	**Ps. 6,075,325**	**Ps. (5,179,714)**	**Ps. (50,982)**	**Ps. 844,629**

December 31, 2017

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Cash collateral Received	Net Exposure
Offsetting assets						
Derivatives	Ps. 526,148	Ps. (142,495)	Ps. 383,653	Ps. (2,756)	Ps. (45,387)	Ps. 335,510
Repurchase agreements	2,544,676	—	2,544,676	(2,544,676)	—	—
Total	**Ps. 3,070,824**	**Ps. (142,495)**	**Ps. 2,928,329**	**Ps. (2,547,432)**	**Ps. (45,387)**	**Ps. 335,510**

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Cash collateral Received	Net Exposure
Offsetting liabilities						
Derivatives	Ps. 446,526	Ps. (134,397)	Ps. 312,129	Ps. (2,831)	Ps. (33,182)	Ps. 276,116
Repurchase agreements	3,531,531	—	3,531,531	(3,721,846)	—	(190,315)

Total	**Ps. 3,978,057**	**Ps. (134,397)**	**Ps. 3,843,660**	**Ps. (3,724,677)**	**Ps. (33,182)**	**Ps. 85,801**

4.2 Market Risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses in a position or in the portfolio.

Grupo Aval´s financial subsidiaries (namely Banco de Bogotá, Banco de Occidente, Banco Popular, Banco AV Villas, Corficolombiana, AFP Porvenir and the trust companies (Fiduciarias) of the financial subsidiaries) actively participate in money markets, foreign exchange markets and capital markets, for both of their books (for balance sheet risk management and trading) and to provide financial services to their customers. This is done subject to established policies and risk levels. In that regard, they manage different financial asset portfolios within the allowed limits and risk levels.

Market risk arises from open positions of Grupo Aval´s financial subsidiaries in debt security investment portfolios, derivatives and equity instruments. These risks are created by changes in factors such as interest rates, inflation, foreign currency exchange rates, share prices, credit margins of instruments and their volatility, as well as the liquidity in the markets where Grupo Aval operates.

The various business units and trading desks are responsible for ensuring that market risk exposures are well-managed and prudent. The risk management groups and the management help ensure that these risks are measured and closely monitored. A variety of limits and controls are designed to control price and liquidity risk. Market risk is monitored through various measures: statistically (using Value-at-Risk models and related analytical measures); by measures of position sensitivity; and through routine stress testing conducted in collaboration with the business units by the Market Risk Department. The material risks identified by these processes are summarized in reports produced by the Market Risk Department that are circulated to, and discussed with, senior management.

For purposes of our analysis, market risk has been segmented into two categories; trading book risk due to changes in interest rates and exchange rates, and the price risks of investments in equity securities and mutual funds.

4.2.1 Trading Book Risk

Grupo Aval´s financial subsidiaries trade financial instruments for various reasons. The following are the main ones.

- To offer products tailored to specific customer needs. Some of these products are designed to hedge the financial risks of customers.
- To take advantage of arbitrage among different yield curves, assets and markets, and to obtain returns with an adequate use of capital.
- To hedge asset and liability risk positions on proprietary positions, to act on behalf of customers or to take advantage of arbitrage opportunities mainly in foreign exchange and interest rates in both local and foreign markets.

In carrying out these operations, Grupo Aval´s financial subsidiaries take risks, within a set of predetermined limits. These risks are mitigated with the use of derivative products and other financial instruments but mainly with the accomplishment of stablished limits that are permanently monitored by control areas.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The following is a breakdown of Grupo Aval's financial assets and liabilities exposed to trading risk held at December 31, 2018 and 2017.

Account		**December 31, 2018**		**December 31, 2017 (1)**
Financial assets				
Debt financial assets				
Trading	Ps.	3,762,978	Ps.	2,650,536
Investments in debt securities at FVTPL		31,256		—
Investments in debt securities at FVOCI (at 2017 Available for sale [(1)])		18,935,757		17,790,127
Total debt securities	Ps.	**22,729,991**	Ps.	**20,440,663**
Derivative instruments	Ps.	768,686	Ps.	328,392
Hedging derivatives		30,138		55,261
		798,824		**383,653**
Total financial assets	**Ps.**	**23,528,815**	**Ps.**	**20,824,316**
Liabilities				
Derivative instruments		811,305		298,665
Hedging derivatives		195,539		13,464
Total financial liabilities		**1,006,844**		**312,129**
Net position	**Ps.**	**22,521,971**	**Ps.**	**20,512,187**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2.5

4.2.2 Description of Objectives, Policies and Processes to Manage Trading Risk

The financial subsidiaries of Grupo Aval participate in money markets, foreign exchange markets and capital markets to meet their needs and those of their customers, pursuant to established policies and risk levels. In this respect, they manage different portfolios of financial assets within the limits and risk levels allowed.

The risks assumed by Grupo Aval´s financial subsidiaries in transactions related to the trading or treasury book are consistent with the overall business strategy and its risk appetite; which is based on the market depth for each instrument, its impact on risk-weighted assets and regulatory capital, the profit budget established for each business unit, and the balance sheet structure.

Business strategies are established on the basis of approved limits, in an effort to balance the risk / return relationship. Moreover, there is a structure of limits consistent with Grupo Aval's general philosophy and is based on capital levels, earnings performance and risk tolerance.

The Market Risk Management System (SARM in Spanish) allows Grupo Aval´s financial subsidiaries to identify, measure, control and monitor the market risk they are exposed to in carrying out their operations.

There are several scenarios in which Grupo Aval´s financial subsidiaries are exposed to trading risks.

- Interest Rate Risk

  Grupo Aval's financial subsidiaries are exposed to interest rate risk as a result of its market-making activities and proprietary trading in interest rate sensitive financial instruments (e.g., risk arising from changes in the level or implied volatility of interest rates, the timing of mortgage prepayments, the shape of the yield curve and credit spreads for credit sensitive instruments).

- Foreign Exchange Risk

Grupo Aval's financial subsidiary's portfolios are exposed to foreign exchange rate and implied volatility risk as a result of market making negotiation in foreign currencies and from maintaining foreign exchange positions.

- Equity Price Risk and Mutual Fund Risk

Grupo Aval´s financial subsidiaries are exposed to equity price risk in specific investments and are exposed to mutual fund risk in short term investments in money market or mutual funds.

4.2.2.1 Risk Management

Grupo Aval financial subsidiaries manage their trading positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging through the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (e.g., futures, forwards, swaps and options). The financial subsidiaries manage their market risk associated with its trading activities on a decentralized basis, even though the Holding supervises the amount of risk taken in order to ensure that it accomplishes the global appetite.

Senior management and the boards of directors of the banking and financial subsidiaries and its financial subsidiaries play an active role in managing and controlling risk. They do so by analyzing a protocol of established reports and presiding over a number of committees that comprehensively monitor - both technically and fundamentally - the different variables that influence domestic and foreign markets. This process is intended to support strategic decisions.

Analyzing and monitoring the risks that Grupo Aval´s financial subsidiaries take in their operations is essential for decision making and to assess potential effects on its profit or loss. An ongoing analysis of macroeconomic conditions is necessary in order to achieve an ideal combination of risk, return and liquidity.

The risks assumed in financial operations are reflected in a limit structure that includes different types of instruments, specific trading strategies, the market depth in which Grupo Aval´s financial subsidiaries operate, the impact on risk-weighted assets and regulatory capital, as well as the balance sheet structure, according to its risk appetite framework. These limits are monitored daily and reported weekly to the Board of Directors of Grupo Aval´s financial subsidiaries.

In order to minimize interest rate and exchange rate risks in specific positions and transactions, Grupo Aval´s financial subsidiaries manage hedging strategies by taking positions in derivative instruments such as non-deliverable forwards (NDF) related to securities, money market transactions and foreign exchange forwards.

4.2.2.2 Methods Used to Measure Trading Risk

The Market Risk Department independently reviews the Company's trading portfolios on a regular basis from a market risk perspective utilizing VaR (internal models and standard) and other quantitative and qualitative risk measures and analyses. Each trading business and the market risk departments also use, as appropriate, measures such as sensitivity to changes in interest rates, prices, implied volatilities and time decay to monitor and report market risk exposures. Stress testing, which measures the impact on the value of existing portfolios of specified changes in market factors for certain products, is performed periodically and is reviewed by trading division risk managers, desk risk managers and the market risk department. Reports summarizing material risk exposures are produced by the market risk departments and are disseminated to senior management.

The Boards of Directors and the Risk Committees of Grupo Aval´s financial subsidiaries approve a framework of limits based on the value-at-risk related to the annual budget.

Regulatory VaR (standard calculation)

The Regulatory VaR calculation is primarily used for the Superintendency of Finance's solvency ratio calculations. Each bank has internal models approved for capital purposes; however, they also maintain internal models in order to manage their day to day risk and profit decisions.

The Superintendency of Finance methodology is based on the Basel II model. This model applies only to the financial subsidiaries' investment portfolio and excludes investments classified as "held to maturity" and other specific non-trading positions. Total market risk is calculated on a daily basis by aggregating the VaR for each risk exposure category on a ten-day horizon using risk factors calculated in extreme market stress scenarios. VaR at month-end comprises part of the capital adequacy ratio calculation (as set forth in Decree 2555 of 2010). The Superintendency of Finance's rules require our financial subsidiaries to calculate VaR for the following risk factors: interest rate risk, foreign exchange rate risk, variations in stock price risk and fund risk; correlations between risk factors are not considered. The fluctuations in the portfolio's VaR depend on sensitivity factors determined by the Superintendency of Finance, modified duration and changes in balances outstanding. The ten-day horizon is defined as the average time in which an entity could sell a trading position in the market.

The VaR calculation for each subsidiary of the financial sector is the aggregate of the VaR of the entity and its subsidiaries.

Grupo Aval´s financial subsidiaries also have parametric and non-parametric models based on the value-at-risk (VaR) method designed for internal management. These models enhance market-risk management by identifying and analyzing variations in risk factors (interest rates, exchange rates and price indexes) with respect to the value of the different instruments that constitute the portfolios. JP Morgan Risk Metrics and the historical simulation method are two examples of such models.

With the use of these methods profit and capital at risk projections have improved resource allocation among the different business units. The methods also allow comparisons of activities in different markets and identification of the riskiest positions in treasury activities. These tools are also used to determine limits on traders' positions and to review positions and strategies rapidly in response to changes in market conditions.

VaR models have inherent limitations, partially because they rely on historical data, which may not be an indicative of future market conditions. VaR models could overestimate or underestimate the value at risk if market conditions vary significantly and they do not calculate the greatest possible loss. That's why each company uses additional measurement tools in order to compensate for the VaR limitations; therefore, Expected Shortfall analysis, stress test and back tests are part of the risk measurement tools in the financial subsidiaries.

The methods used to measure VaR are assessed regularly and back-tested to check their efficiency. In addition, Grupo Aval´s financial subsidiaries have tools to carry out portfolio stress and/or sensitivity tests, using extreme scenario simulations. Additionally, there are limits according to the "risk type" associated with each of the instruments comprising the different portfolios. These limits are related to sensitivity or impact on the value of the portfolio as a result of fluctuations of specific risk factors such as: interest rate (Rho), exchange rate (Delta) and volatility (Vega).

Grupo Aval´s financial subsidiaries have counterparty and trading limits for each trader for the different trading platforms in the markets where they operate. These limits are controlled daily by the back and middle offices of each entity. Trading limits for individual traders are assigned based upon the individual´s level in the organization, market and trading experience and product and portfolio management knowledge.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

There is also a process to monitor the prices of fixed-income bonds issued abroad published by Precia, the local investment price provider. We monitor daily if there are any significant differences in prices provided by Precia and those observed on other sources of information such as the Bloomberg platform.

In addition, fixed income bonds are subject to a qualitative liquidity analysis to determine the market depth for these type of instruments.

Finally, the daily transaction monitoring process includes controlling different aspects of trading, such as terms of negotiation, non-conventional or off-market transactions, and related party transactions.

According to the standard model, the market value-at-risk (VaR) for Grupo Aval´s financial subsidiaries consolidated at their level of December 31, 2018 and 2017 was as follows:

	December 31, 2018		December 31, 2017	
Bank	**Value**	**Basis points of regulatory capital**	**Value**	**Basis points of regulatory capital**
Banco Bogotá	924,767	116	829,846	109
Banco de Occidente	189,871	75	184,223	56
Banco Popular	162,888	93	125,265	79
Banco AV Villas	37,942	41	18,394	20
Corficolombiana	219,656	12	159,214	9

The following tables show the VaR calculation relating to each of the risk factors described above and based on the Superintendency of Finance Methodology (Regulatory VaR) for the years ended December 31, 2018 and 2017, for a ten-day horizon for each of our Colombian banking subsidiaries (including Corficolombiana). The averages, minimums and maximums are determined based on end-of-the-month calculations.

Banco de Bogotá S.A

Maximum, Minimum and Average VaR Values
December 31, 2018

	Minimum	Average	Maximum	Period end
Interest rate	352,595	387,828	420,474	352,595
Exchange rate	234,509	263,363	298,257	298,257
Shares	6,647	7,605	8,335	8,231
Mutual funds	200,510	226,030	266,906	265,684
VaR portfolio	828,688	884,826	969,931	924,767

Maximum, Minimum and Average VaR Values
December 31, 2017

	Minimum	Average	Maximum	Period end
Interest rate	309,368	342,043	400,828	321,121
Exchange rate	12,424	52,925	304,429	304,429
Shares	7,234	7,068	8,099	8,099
Mutual funds	187,698	184,582	196,197	196,197
VaR portfolio	523,306	586,619	829,846	829,846

Banco de Bogota´s market risk weighted assets remained on average 7.9% of the total risk-weighted assets during the year ended December 31, 2018 and 7.5% on the year ended December 31, 2017.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Banco de Occidente S.A

Maximum, Minimum and Average VaR Values
December 31, 2018

	Minimum	Average	Maximum	Period end
Interest rate	184,106	199,399	218,732	184,106
Exchange rate	595	1,697	3,817	1,479
Shares	—	—	—	—
Mutual funds	2,820	3,849	4,526	4,286
VaR portfolio	187,521	204,945	227,074	189,871

Maximum, Minimum and Average VaR Values
December 31, 2017

	Minimum	Average	Maximum	Period end
Interest rate	140,044	162,463	184,209	174,379
Exchange rate	1,424	3,119	7,034	7,034
Shares	—	—	—	—
Mutual funds	2,580	2,702	2,811	2,811
VaR portfolio	145,108	168,284	190,502	184,224

Banco de Occidente´s market risk weighted assets remained on average 5.6% of the total risk-weighted assets during the year ended December 31, 2018 and 5.9% for the year ended December 31, 2017.

Banco Popular S.A

Maximum, Minimum and Average VaR Values
December 31, 2018

	Minimum	Average	Maximum	Period end
Interest rate	115,829	136,338	154,233	148,343
Exchange rate	2,125	3,867	6,135	3,325
Shares	929	949	963	946
Mutual funds	6,583	6,971	10,420	10,274
VaR portfolio	126,533	148,125	168,310	162,888

Maximum, Minimum and Average VaR Values
December 31, 2017

	Minimum	Average	Maximum	Period end
Interest rate	103,535	115,033	122,910	119,856
Exchange rate	4	662	3,329	3,329
Shares	945	965	967	946
Mutual funds	1,019	1,085	1,203	1,134
VaR portfolio	105,635	117,745	126,486	125,265

Banco Popular´s market risk weighted assets remained on average 8.4% of the total risk-weighted assets during the year ended December 31, 2018 and 7.5% on the year ended December 31, 2017.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Banco Comercial AV Villas S.A

Maximum, Minimum and Average VaR Values
December 31, 2018

	Minimum	Average	Maximum	Period end
Interest rate	12,884	35,893	48,978	37,115
Exchange rate	0	985	2,738	30
Shares	—	—	—	—
Mutual funds	177	1,441	4,455	797
VaR portfolio	15,844	38,319	52,166	37,942

Maximum, Minimum and Average VaR Values
December 31, 2017

	Minimum	Average	Maximum	Period end
Interest rate	12,563	37,998	89,381	14,206
Exchange rate	—	670	1,572	1,448
Shares	—	—	—	—
Mutual funds	481	1,394	6,373	2,741
VaR portfolio	15,198	40,061	89,960	18,394

Banco AV Villas' market risk weighted assets remained on average 3.8% of the total risk-weighted assets during the year ended December 31, 2018 and 2.2% on the year ended December 31, 2017.

Corficolombiana S.A

Maximum, Minimum and Average VaR Values
December 31, 2018

	Minimum	Average	Maximum	Period end
Interest rate	187,983	201,515	211,039	208,375
Exchange rate	436	4,490	7,707	436
Shares	10,125	10,370	10,954	10,125
Mutual funds	699	856	1,020	720
VaR portfolio	205,505	217,231	226,727	219,656

Maximum, Minimum and Average VaR Values
December 31, 2017

	Minimum	Average	Maximum	Period end
Interest rate	81,334	104,098	144,232	144,232
Exchange rate	656	2,332	4,041	4,041
Shares	9,691	10,601	11,072	10,800
Mutual funds	116	891	2,669	140
VaR portfolio	95,312	117,460	159,214	159,214

Corficolombiana's market risk weighted assets remained on average 23.8% of the total risk-weighted assets during the year ended December 31, 2018 and 32.3% on the year ended December 31, 2017. As Corficolombiana does not have a relevant number of loans or other significant risk weighted assets, the weight of the market risk weighted assets is higher than in the banks.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Investment Price Risk in Equity Instruments

Equity Investments

As stated above, variations in equity price risk measured based on the regulatory VaR methodology include both equity securities held for trading through profit or losses and non-strategic holdings. In addition, it does not discriminate between listed and unlisted equity investments or between those which consolidate and those which do not. It focuses on investments in non-financial institutions.

Holding periods for many of Corficolombiana's equity investments exceed ten years. Its largest investments have remained in the portfolio for several years and are intended to remain as permanent investments. At December 31, 2018 and at December 31, 2017, the investments subject to regulatory VaR were holdings in Mineros S.A.

The following table breaks down our investments subject to regulatory VaR by time since initial investments at December 31, 2018 and 2017.

	At December 31,					
	2018			2017		
	Investment subject to Regulatory VaR	Regulatory VaR	Percentage of portfolio	Investment subject to Regulatory VaR	Regulatory VaR	Percentage of portfolio
More than 36 months	45,706	6,719	100 %	67,538	9,928	100 %
Total	**45,706**	**6,719**	**100 %**	**67,538**	**9,928**	**100 %**

4.2.3 Structural foreign exchange risk

Grupo Aval´s financial subsidiaries have agencies and subsidiaries offshore and have assets and liabilities in foreign currencies and thus are exposed to changes in the exchange rates, primarily the United States Dollar. Foreign exchange risk is present when there are assets and liabilities denominated in foreign currency, when investments are made in subsidiaries and branches abroad and when there are loan portfolios, and obligations in foreign currency. There is also foreign exchange risk in foreign currency off balance sheet transactions.

Subsidiaries of the financial sector in Colombia are authorized by the country's central bank (Banco de la República) to trade currencies and to maintain balances in foreign currency in accounts abroad. Colombia law allows for banks to maintain a net daily asset or liability position in foreign currency, determined as the difference in foreign currency denominated rights and foreign currency denominated obligations including both on and off-balance sheet positions. On a separate basis, the average of this difference over three business days cannot exceed twenty percent (20%), or thirty percent (30%) in the case of entities obliged to consolidate financial statements, of the entity's regulatory capital. On a consolidated basis, the average of this difference over three business days (positive or negative) cannot exceed forty percent (40%) of the consolidated entity´s regulatory capital.

The maximum and minimum total foreign currency position and the spot foreign currency position are determined according to each entity's regulatory capital. The regulatory capital that is used is that of the last business day of the prior month at the average of the exchange rate set by the Superintendency of Finance at the end of the previous month or last calculation on a consolidated basis.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

A substantial amount of Grupo Aval's foreign currency assets and liabilities are in U.S. dollars. Details on the assets and liabilities in foreign currency held by Grupo Aval at December 31, 2018 and 2017 are shown below:

December 31, 2018

Account	U.S. dollars (Millions)	Other currencies converted to U.S. dollars (Millions)	Total in Colombian pesos (Millions)
Financial assets			
Cash and cash equivalents	4,859	1,075	19,297,896
Investments in debt securities at fair value through profit or loss	121	15	441,801
Investments in debt securities at fair value through OCI	2,201	589	9,068,739
Investments in debt securities at amortized cost	10	—	32,321
Loan portfolio financial assets at amortized cost	15,923	4,706	67,023,090
Trading derivatives	222	1	725,433
Hedge derivatives	9	—	30,138
Other accounts receivable	246	176	1,370,820
Total financial assets	**23,591**	**6,562**	**97,990,238**

Account	U.S. dollars (Millions)	Other currencies converted to U.S. dollars (Millions)	Total in Colombian pesos (Millions)
Financial liabilities			
Trading derivatives	236	3	776,162
Hedge derivatives	60	—	195,539
Customer deposits	14,914	5,077	64,971,825
Financial obligations	9,457	666	32,899,230
Accounts payable	442	—	1,437,447
Total financial liabilities	**25,109**	**5,746**	**100,280,203**
Net financial asset (liability) position	**(1,518)**	**816**	**(2,289,965)**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

December 31, 2017

Account	U.S. dollars (Millions)	Other currencies converted to U.S. dollars (Millions)	Total in Colombian pesos (Millions)
Financial assets			
Cash and cash equivalents	3,541	1,052	13,706,552
Investments in debt securities held for trading	134	24	470,430
Investments in securities available-for-sale	2,564	631	9,532,417
Investments in debt securities held-to-maturity	17	—	50,695
Loan portfolio financial assets at amortized cost	16,217	4,500	61,817,662
Trading derivatives	91	1	274,691
Hedge derivatives	19	—	55,261
Other accounts receivable	161	202	1,083,678
Total financial assets	**22,744**	**6,410**	**86,991,386**

Account	U.S. dollars (Millions)	Other currencies converted to U.S. dollars (Millions)	Total in Colombian pesos (Millions)
Financial liabilities			
Trading derivatives	85	1	256,865
Hedge derivatives	5	—	13,464
Customer deposits	14,572	4,909	58,087,999
Financial obligations	8,624	690	27,808,291
Accounts payable	437	—	1,304,929
Total financial liabilities	**23,723**	**5,600**	**87,471,548**
Net financial asset (liability) position	**(979)**	**810**	**(480,162)**

Grupo Aval's financial subsidiaries hedge their foreign exchange exposure using derivatives, especially forwards. The net foreign currency position of each subsidiary is monitored on a daily basis.

Grupo Aval has a number of investments in foreign subsidiaries and branches whose net assets are exposed to foreign exchange risk because of the translation of gains or losses for the purpose of consolidating their financial statements. The exposure arising from net assets in foreign operations is hedged primarily with financial obligations, bonds issued to the market and foreign exchange derivative instruments.

The following table includes a sensitivity analysis of the foreign exchange effect on Grupo Aval's equity and the foreign exchange effect on profit before taxes if the peso value of the U.S. dollar increases or decrease by Ps. 100 Colombian Peso per U.S. dollar:

December 31, 2018

	Increase Ps.100 per U.S. dollar	Decrease Ps.100 per U.S. dollar
Equity	Ps. (33,579)	Ps. 33,579
Foreign exchange effect on profit before taxes	(53,300)	53,300

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

December 31, 2017

	Increase Ps.100 per U.S. dollar		Decrease Ps.100 per U.S. dollar	
Equity	Ps.	9,205	Ps.	(9,205)
Foreign exchange effect on profit before taxes		15,342		(15,342)

4.2.4 Structural Interest Rate Risk

Non-trading instruments consist primarily of loans and deposits. Our financial subsidiaries' primary market risk exposure in their non-trading instruments is interest rate risk, which arises from the possibility of changes in market interest rates. Such changes in market interest rates affect our financial subsidiaries' net interest income due to timing differences on the repricing of their assets and liabilities. Our financial subsidiaries are also affected by gaps in maturity dates and interest rates in the different asset and liability accounts.

Grupo Aval´s financial subsidiaries are exposed to fluctuations in market interest rates that impact their financial positions and cash flows. They monitor their interest rate risk on a daily basis and set limits to the asset and liability mismatches when they are repriced.

Grupo Aval´s financial subsidiaries analyze their interest rate exposure in a dynamic way. Scenario modelling considers renewal of existing positions, financing alternatives and hedges. Considering these scenarios, the financial subsidiaries calculate the profit and loss impact for a given change in interest rates.

The following table shows interest rates exposure for assets and liabilities at December 31, 2018 and 2017. In this table, fixed rate instruments are classified according to the maturity date and floating rate instruments are classified according to the re-pricing date. The following analysis includes all the global interest rate exposure in each bucket for our financial subsidiaries:

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

December 31, 2018

Assets	Less than one month	From one to six months	From six to twelve months	More than a year	Non-interest	Total
Cash and cash equivalents	Ps. 3,110,667	Ps. —	Ps. —	Ps. —	Ps. 25,290,616	Ps. 28,401,283
Investments in debt securities at FVTPL	25,077	376,999	1,216,834	2,175,324	—	3,794,234
Investments in debt securities at FVOCI	131,497	2,056,389	1,163,367	15,584,504	—	18,935,757
Investments in debt securities at amortized cost	671,047	951,850	1,348,691	1,028	—	2,972,616
Service concession arrangements	—	—	—	2,488,414	—	2,488,414
Commercial loans and leases	28,546,532	29,463,725	9,612,217	34,786,503	—	102,408,977
Consumer loans and leases	10,538,797	7,975,944	2,566,425	34,373,898	—	55,455,064
Mortgages and housing leases	7,649,242	1,771,712	419,518	8,751,631	—	18,592,103
Microcredit loans and leases	31,729	17,956	38,304	337,708	—	425,697
Other accounts receivable	—	—	—	3,043,403	4,025,717	7,069,120
Total Assets	**Ps. 50,704,588**	**Ps. 42,614,575**	**Ps. 16,365,356**	**Ps.101,542,413**	**Ps. 29,316,333**	**Ps. 240,543,265**

Liabilities	Less than one month	From one to six months	From six to twelve months	More than a year	Non-interest	Total
Checking accounts	Ps. 22,377,653	Ps. —	Ps. —	Ps. —	Ps. 17,325,225	Ps. 39,702,878
Time deposits	9,741,623	28,546,101	15,447,825	13,117,463	—	66,853,012
Saving deposits	36,523,899	20,697,540	—	—	. —	57,221,439
Other deposits	—	—	—	—	582,122	582,122
Interbank and overnight funds	6,099,084	714,994	—	—	—	6,814,078
Borrowing from banks and other	1,566,524	11,497,277	1,164,075	6,382,890	—	20,610,766
Long-term debt	73,565	3,369,988	656,291	16,040,506	—	20,140,350
Borrowing from development entities	563,370	259,194	1,607,273	1,216,959	—	3,646,796
Total Liabilities	**Ps. 76,945,718**	**Ps. 65,085,094**	**Ps. 18,875,464**	**Ps. 36,757,818**	**Ps. 17,907,347**	**Ps. 215,571,441**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

December 31, 2017

Assets	Less than one month	From one to six months	From six to twelve months	More than a year	Non-interest	Total
Cash and cash equivalents	Ps. 2,378,528	Ps. —	Ps. —	Ps. —	Ps. 19,958,310	Ps. 22,336,838
Debt securities held for trading	169,328	497,031	580,030	1,404,147	—	2,650,536
Debt securities available-for-sale	495,315	1,537,630	1,300,390	14,456,792	—	17,790,127
Debt securities held-to-maturity	722,026	832,703	1,338,712	5,598	—	2,899,039
Service concession arrangements	—	—	—	2,282,611	—	2,282,611
Commercial loans and leases	21,760,032	43,162,885	7,089,736	27,416,241	—	99,428,894
Consumer loans and leases	10,003,247	8,953,299	1,731,816	29,694,533	—	50,382,895
Mortgages and housing leases	3,539,706	5,354,545	404,417	6,852,631	—	16,151,299
Microcredit loans and leases	26,553	18,028	38,197	326,910	—	409,688
Other accounts receivable	—	—	—	890,896	3,575,238	4,466,134
Total Assets	**Ps. 39,094,735**	**Ps. 60,356,121**	**Ps. 12,483,298**	**Ps. 83,330,359**	**Ps. 23,533,548**	**Ps. 218,798,061**

Liabilities	Less than one month	From one to six months	From six to twelve months	More than a year	Non-interest	Total
Checking accounts	Ps. 20,597,270	Ps. —	Ps. —	Ps. —	Ps. 15,420,332	Ps. 36,017,602
Time deposits	12,733,132	24,212,202	13,456,116	12,214,713	—	62,616,163
Saving deposits	55,778,677	—	—	—	—	55,778,677
Other deposits	—	—	—	—	472,782	472,782
Interbank and overnight funds	4,836,246	134,184	—	—	—	4,970,430
Borrowing from banks and other	3,249,799	5,801,906	2,200,184	6,953,431	—	18,205,320
Long-term debt	123,261	6,500,197	416,407	12,062,331	—	19,102,196
Borrowing from development entities	523,786	1,353,790	93,154	1,027,360	—	2,998,090
Total Liabilities	**Ps. 97,842,171**	**Ps. 38,002,279**	**Ps. 16,165,861**	**Ps. 32,257,835**	**Ps. 15,893,114**	**Ps. 200,161,260**

As part of their management of interest rate risk, to complement the gap analysis, our financial subsidiaries analyze the interest rate mismatches in terms of duration, between their interest-earning assets and their interest-earning liabilities. Different shocks to risk factors (for example Colombian interest rate) allow each bank to review the performance of the gap analysis and the financial margin to movements on the market variables. As of December 31, 2018, if interest rates had been 50 basis points higher with all other variables held constant, Grupo Aval's income from interest-bearing financial assets would have increased by Ps. 965,789 and the expense of financial liabilities with interest would have increased by Ps. 1,039,332. An increase of 100 basis points in interest rates would have increased the income of financial assets Ps. 1,931,579 and expenses for liabilities Ps. 2,078,664. A reduction of 50 or 100 basis points in interest rates would have reduced income and expenses in the same amounts.

For the year ended on December 31, 2017, a 50 basis points increase in interest rates, with all the other variables constant, Grupo Aval´s revenue from interest earning financial assets would have increased by Ps. 893,925 and the expense from interest bearing financial liabilities would have increased by Ps. 973,911. A 100 basis points increase in interest rates would have increased revenues from by Ps. 1,787,849 and expenses by Ps. 1,947,823. A 50 or 100 basis point reduction in interest rates would have decreased income and expenses by the same amounts.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The following is a breakdown of interest bearing assets and liabilities, by interest rate type and by maturity, at December 31, 2018 and 2017.

December 31, 2018

	Under one year		Over one year		Non-	
Assets	**Variable**	**Fixed**	**Variable**	**Fixed**	**interest**	**Total**
Cash due from banks and Central Bank	Ps. 2,014,270	Ps. 1,096,397	Ps. —	Ps. —	Ps. 25,290,616	Ps. 28,401,283
Investments in debt securities at FVTPL	159,486	1,459,424	231,620	1,943,704	—	3,794,234
Investments in debt securities at FVOCI	13,532	3,337,721	872,882	14,711,622	—	18,935,757
Investments in debt securities at amortized cost	1,349,722	725,704	896,162	1,028	—	2,972,616
Service concession arrangements	—	—	2,488,414	—	—	2,488,414
Commercial loans and leases	44,094,950	4,259,106	51,184,839	2,870,082	—	102,408,977
Consumer loans and leases	1,099,251	14,713,486	10,482,629	29,159,698	—	55,455,064
Mortgages and housing leases	53,296	330,277	10,924,349	7,284,181	—	18,592,103
Microcredit loans and leases	2,698	223,954	3,582	195,463	—	425,697
Other account receivables	397	—	2,989,292	53,714	4,025,717	7,069,120
Total Assets	**Ps. 48,787,602**	**Ps. 26,146,069**	**Ps. 80,073,769**	**Ps. 56,219,492**	**Ps. 29,316,333**	**Ps. 240,543,265**

	Under one year		Over one year		Non-	
Liabilities	**Variable**	**Fixed**	**Variable**	**Fixed**	**interest**	**Total**
Checking accounts	Ps. —	Ps. 22,377,653	Ps. —	Ps. —	Ps. 17,325,225	Ps. 39,702,878
Time deposits	11,332,638	33,720,396	6,801,559	14,998,419	-	66,853,012
Saving deposits	16,485,565	40,735,874	—	—	. -	57,221,439
Other deposits	—	—	—	—	582,122	582,122
Interbank and overnight funds	3,492,343	3,321,735	—	—	—	6,814,078
Borrowing from banks and other	3,406,673	9,984,328	2,899,475	4,320,290	—	20,610,766
Long-term debt	749,442	804,281	6,650,249	11,936,378	—	20,140,350
Borrowing from development entities	638,286	149,508	2,852,178	6,824	—	3,646,796
Total Liabilities	**Ps. 36,104,947**	**Ps. 111,093,775**	**Ps. 19,203,461**	**Ps. 31,261,911**	**Ps. 17,907,347**	**Ps. 215,571,441**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

December 31, 2017

	Under one year		Over one year		Non-	
Assets	**Variable**	**Fixed**	**Variable**	**Fixed**	**interest**	**Total**
Cash due from banks and Central Bank	Ps. —	Ps. 2,378,528	Ps. —	Ps. —	Ps. 19,958,310	Ps. 22,336,838
Debt securities held for trading	140,796	1,153,157	331,589	1,024,994	—	2,650,536
Debt securities available-for-sale	44,213	3,289,129	2,128,817	12,327,968	—	17,790,127
Debt securities held-to-maturity	2,841,714	51,727	—	5,598	—	2,899,039
Service concession arrangements	—	—	2,282,611	—	—	2,282,611
Commercial loans and leases	37,026,675	10,240,136	49,061,715	3,100,368	—	99,428,894
Consumer loans and leases	942,057	15,282,475	9,725,059	24,433,304	—	50,382,895
Mortgages and housing leases	74,604	477,646	9,695,527	5,903,522	—	16,151,299
Microcredit loans and leases	2,266	207,099	4,550	195,773	—	409,688
Other account receivables	—	—	842,173	48,723	3,575,238	4,466,134
Total Assets	**Ps. 41,072,325**	**Ps. 33,079,897**	**Ps. 74,072,041**	**Ps. 47,040,250**	**Ps. 23,533,548**	**Ps. 218,798,061**

	Under one year		Over one year		Non-	
Liabilities	**Variable**	**Fixed**	**Variable**	**Fixed**	**interest**	**Total**
Checking accounts	Ps. —	Ps. 20,597,270	Ps. —	Ps. —	Ps. 15,420,332	Ps. 36,017,602
Time deposits	10,785,649	33,777,955	7,605,647	10,446,912	—	62,616,163
Saving deposits	9,156,432	46,622,245	—	—	—	55,778,677
Other deposits	—	—	—	—	472,782	472,782
Interbank and overnight funds	106,495	4,863,935	—	—	—	4,970,430
Borrowing from banks and other	4,327,736	5,026,923	3,900,072	4,950,589	—	18,205,320
Long-term debt	534,852	851,809	6,772,587	10,942,948	—	19,102,196
Borrowing from development entities	373,707	11,399	2,608,953	4,031	—	2,998,090
Total Liabilities	**Ps. 25,284,871**	**Ps. 111,751,536**	**Ps. 20,887,259**	**Ps. 26,344,480**	**Ps. 15,893,114**	**Ps. 200,161,260**

4.3 Liquidity Risk

Liquidity risk management has always been a basic element of Grupo Aval’s business strategy and a fundamental cornerstone, together with capital, on which the strength of its balance sheet rests. Liquidity risk is related to the inability of Grupo Aval´s financial subsidiaries to fulfill their obligations with customers, financial market counterparties, lenders, suppliers, authorities or other stakeholders at any given moment, in any currency and in any location.

Structural liquidity management aims to finance the activity’s recurring nature of each company under optimal terms of time and cost, avoiding taking unwanted liquidity risks. In Grupo Aval, the financing and liquidity model is decentralized and based on autonomous subsidiaries that are responsible for covering their own liquidity needs. Therefore, each entity reviews its available resources on a daily basis in order to control its liquidity risk.

Grupo Aval financial subsidiaries are responsible for covering the liquidity needs arising from its current and future activity. In consequence, they will either take deposits from its customers in its area of influence, or by resorting to the wholesale markets where it operates. As a result, Grupo Aval financial subsidiaries have a considerable capacity to attract stable deposits, as well as a significant liquidity to raise funds in the wholesale markets.

The policies with respect to liquidity risk at Grupo Aval and our financial subsidiaries are directed at complying with the guidelines established by the Superintendency of Finance (which, in turn, follow some of the main guidelines of Basel II Accord of 2004). These guidelines require that Colombian financial subsidiaries establish a system for the administration of liquidity risks (Sistema de Administración de Riesgo de Liquidez) which includes the identification, measurement, control and monitoring functions required to ensure the management of day to day liquidity requirements, adjust to minimum requirements in terms of liquidity buffers and establish liquidity contingency plans to deal with any unexpected situation.

The methodology for the assessment and measurement of liquidity risk at BAC has also strong standards and includes:

a) Generation of liquidity GAP analysis by currency for the short and long term, including normal and stressed scenarios. b) Coverage indicators by currency for sight and 30 days, in normal and stressed scenarios c) Prudential regulation indicators of maturity by currency for 1 and 3 months d) Indicator of liquidity coverage by currency according to regulatory provisions. e) Internal measurements to qualify liquidity risk by currency (global liquidity indicator).

Therefore, financial subsidiaries controlled by Grupo Aval are required to maintain adequate liquidity positions based on the Superintendency of Finance's liquidity parameters, using a short-term liquidity index (Indicador de Riesgo de Liquidez), or "IRL," that measures liquidity for different time horizons from 1 to 90 days. This index is defined as the difference between adjusted liquid assets and net liquidity requirements. Liquid assets include total debt securities adjusted by market liquidity and exchange rate, excluding investments classified as "held to maturity" different from mandatory investments, Central Bank deposits and available cash. Net liquidity requirements are the difference between expected contractual asset and contractual and non-contractual liability cash flows. Cash flows from past due loans are not included in this calculation.

Grupo Aval´s financial subsidiaries assess the volatility of deposits, debt levels, the asset and liability structure, the liquidity of different asset types, the availability of lines of credit and the effectiveness of asset and liability management. The objective is to have adequate liquidity to manage possible stress scenarios.

The quantification of money market funding is an integral part of the liquidity measurement carried out by each entity. Based on statistical analysis, primary and secondary sources of liquidity are identified in order to ensure funding stability and diversification, and to minimize concentration.

Resource availability is monitored on a daily basis, not only to meet reserve requirements, but also to forecast and/or anticipate potential changes in the entities´ liquidity risk profile and make the appropriate changes in strategy. The financial subsidiaries have liquidity warning indicators to analyze the current situation and to implement the adequate strategy. These indicators include the IRL (Indice de Riesgo de Liquidez), deposit concentration levels and use of the Central Bank's discount window.

Senior management of Grupo Aval´s financial subsidiaries monitor the institutions' liquidity situation and make the necessary decisions in the Asset and Liability Committees. These committees analyze the quality of the liquid assets that must be maintained, the tolerance in terms of liquidity management and minimum liquidity levels. Through the ALCO the senior management also approves policies regarding placement of excess liquidity, strategies for diversification of funding sources to prevent deposit concentration, hedging strategies and changes in the balance sheet structure.

Financial subsidiaries in Colombia and other countries must maintain cash on hand and in Central Bank deposits in order to comply with reserve requirements. The reserve requirement calculation is based upon the daily average of the different types of deposits on a biweekly basis. As of December 31, 2018, and 2017, all of Grupo Aval´s financial subsidiaries comply with reserve requirements. Details on the requested percentage in each country are shown below:

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Requested Percentage		
Country	**Details**	**%**
Colombia	Checking account and Savings accounts	11%
	Time deposits < 18 months	4.5%
Guatemala	Deposits and Capital raising	11.6%
El Salvador	1st Demand deposits (1)	25%
	2nd Demand deposits (2)	25%
	3rd Debt securities	50%
Honduras	Demand deposits	12%
	Mandatory investment in local currency	5%
	Mandatory investment in foreign currency	12%
Nicaragua	Daily, Liabilities in local and foreign currency	12%
	Biweekly, Liabilities in local and foreign currency	14%
Costa Rica	Deposits in local and foreign currency	15%
	Capital raising in local and foreign currency	15%

(1) This refer to demand deposits in Central Bank or overseas banks.
(2) This refer to demand deposits in Central Bank, overseas banks or debt securities issue by the Central Bank.

There are no reserve requirements for our subsidiaries located in Panamá because there is no Central Bank to regulate such requirements.

The following is a breakdown by different time of the Liquid Assets and the LRI – Liquidity Risk Indicator for the specified time bucket, as per the separate figures of each of our financial subsidiaries at December 31, 2018 and 2017.

December 31, 2018

Bank	Liquid assets available at the end of the year (1)	From 1 to 7 days (2)	From 1 to 30 days (2)	From 31 to 90 days (2)
Banco de Bogotá	10,936,886	10,370,295	8,892,523	321,897
Banco Occidente	5,913,723	5,244,524	4,185,759	1,631,575
Banco Popular	3,622,232	3,305,221	2,505,573	164,075
Banco AV Villas	2,035,362	1,724,944	1,304,447	(37,659)
Corficolombiana	1,131,464	585,045	386,081	(159,983)

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

December 31, 2017

Bank	Liquid assets available at the end of the year [(1)]	From 1 to 7 days [(2)]	From 1 to 30 days [(2)]	From 31 to 90 days [(2)]
Banco de Bogotá	9,883,150	9,446,780	7,161,523	1,082,066
Banco Occidente	5,685,570	5,470,184	4,552,769	1,346,442
Banco Popular	2,905,827	2,629,285	1,726,392	(256,330)
Banco AV Villas	1,776,252	1,701,634	1,506,404	478,347
Corficolombiana	1,603,609	1,059,878	649,166	361,394

(1) Liquid assets are the sum of the assets that are readily convertible to cash. These assets include cash on hand and bank deposits including Central Bank deposits, securities or in money market transactions and have not been used in borrowing operations in the money market. It also includes investments coupons that have been transferred to the entity in debt securities recorded at fair value, investments in mutual funds with no withdrawal restrictions, and debt securities carried at amortized cost, provided they are legally required or "mandatory" investments, subscribed in the primary market and that can be used for money market operations. The value of the liquid assets mentioned above, is calculated at the fair value market price on the date of the assessment.

(2) This amount is the remaining value of the liquid assets in the specified time period, or the LRI, that is calculated as the difference among the liquid assets and the liquidity requirement. The liquidity requirement is the difference of contractual cash inflows and contractual and non-contractual cash outflows during the period according to the LRI methodology.

The liquidity calculations described above assume normal liquidity conditions, according to the contractual flows and historical experience of each financial subsidiaries. In extreme liquidity events caused by unusual deposit withdrawals, the financial subsidiaries have contingency plans that include available credit lines with other financial institutions and access to special lines of credit with Colombia´s Central Bank, in accordance with current regulations. These lines of credit are granted when required and are collateralized by Colombian government securities and by a portfolio of high quality loans, as specified in the Central Bank regulations. Grupo Aval´s financial subsidiaries did not access the Central Bank special lines of credit during the years ended at December 31, 2018 and 2017.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The following is a breakdown by contractual undiscounted cash flows of the financial assets and liabilities including contractual interest receivable and payable at December 31, 2018 and 2017.

December 31, 2018

Assets	Less than one month	From one to six months	From six to twelve months	More than a year	Total
Cash and cash equivalents	Ps. 28,450,114	Ps. —	Ps. —	Ps. —	Ps. 28,450,114
Investments in debt securities at FVTPL	576,072	350,307	1,026,669	2,018,209	3,971,257
Investments in debt securities at FVOCI	163,389	2,272,601	1,547,078	18,292,502	22,275,570
Investments in debt securities at amortized cost	1,691,200	447,674	866,184	1,019	3,006,077
Commercial loans and leases	12,524,966	24,196,186	13,982,791	58,838,873	109,542,816
Consumer loans and leases	6,218,323	12,707,647	7,369,756	45,240,501	71,536,227
Mortgages and housing leases	297,155	1,376,279	1,626,730	32,061,546	35,361,710
Microcredit loans and leases	58,093	125,474	128,180	256,278	568,025
Trading derivatives	476,088	244,385	22,483	14,216	757,172
Hedging derivatives	28,941	4,083	—	—	33,024
Other accounts receivable	4,260,837	—	397	2,929,814	7,191,048
Other assets	631,231	—	—	—	631,231
Total Assets	**Ps. 55,376,409**	**Ps. 41,724,636**	**Ps. 26,570,268**	**Ps. 159,652,958**	**Ps. 283,324,271**

Liabilities	Less than one month	From one to six months	From six to twelve months	More than a year	Total
Checking accounts	Ps. 39,708,169	Ps. —	Ps. —	Ps. —	Ps. 39,708,169
Time Deposits	8,375,127	26,030,729	15,605,292	20,730,824	70,741,972
Saving deposits	57,443,560	—	—	—	57,443,560
Other deposits	582,122	—	—	—	582,122
Interbank and overnight funds	6,813,329	—	—	—	6,813,329
Borrowing from banks and other	1,665,739	8,779,185	4,490,249	7,248,223	22,183,396
Long-term debt	138,362	904,752	1,896,186	21,493,625	24,432,925
Borrowing from development entities	145,712	578,545	423,122	3,189,314	4,336,693
Trading derivatives	515,697	236,390	20,305	27,955	800,347
Hedging derivatives	182,849	6,587	6,718	—	196,154
Other liabilities	6,884,154	896,154	67,042	299	7,847,649
Total Liabilities	**Ps. 122,454,820**	**Ps. 37,432,342**	**Ps. 22,508,914**	**Ps. 52,690,240**	**Ps. 235,086,316**

Commitments Loans	Less than one month	From one to six months	From six to twelve months	More than a year	Total
Guarantees	Ps. 2,297,206	Ps. 9,742	Ps. 4,222	Ps. 2,370	Ps. 2,313,540
Standby letters of credit	928,585	208	2	—	928,795
Overdraft facility	306,740	—	—	—	306,740
Standby credit card facility	20,409,059	—	—	—	20,409,059
Undrawn approved loans	3,612,600	—	—	—	3,612,600
Others	394,688	—	—	—	394,688
Total Commitments Loans	**Ps. 27,948,878**	**Ps. 9,950**	**Ps. 4,224**	**Ps. 2,370**	**Ps. 27,965,422**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

December 31, 2017

Assets	Less than one month	From one to six months	From six to twelve months	More than a year	Total
Cash and cash equivalents	Ps. 23,420,225	Ps. —	Ps. —	Ps. —	Ps. 23,420,225
Investments in debt securities held for trading	913,190	310,701	619,023	1,316,239	3,159,152
Investments in securities available-for-sale	622,057	1,968,847	1,810,606	18,818,121	23,219,631
Investments in debt securities held-to-maturity	649,833	934,821	1,576,581	5,946	3,167,181
Commercial loans and leases	14,641,827	30,985,969	15,378,967	66,048,385	127,055,148
Consumer loans and leases	4,524,515	12,114,983	7,186,854	34,943,876	58,770,228
Mortgages and housing leases	263,314	1,228,796	1,434,850	28,060,685	30,987,645
Microcredit loans and leases	49,932	117,240	119,397	261,625	548,194
Trading derivatives	249,305	103,245	33,859	29,329	415,738
Hedging derivatives	52,122	2,657	1,752	—	56,531
Other accounts receivable	3,745,261	238	163	1,013,167	4,758,829
Other assets	482,636	—	—	—	482,636
Total Assets	**Ps. 49,614,217**	**Ps. 47,767,497**	**Ps. 28,162,052**	**Ps. 150,497,373**	**Ps. 276,041,139**

Liabilities	Less than one month	From one to six months	From six to twelve months	More than a year	Total
Checking accounts	Ps. 40,840,666	Ps. —	Ps. —	Ps. —	Ps. 40,840,666
Time Deposits	9,583,488	21,734,913	15,150,201	21,094,851	67,563,454
Saving deposits	58,656,060	—	—	—	58,656,060
Other deposits	471,645	—	—	34,275	505,920
Interbank and overnight funds	4,274,983	166,891	—	—	4,441,874
Borrowing from banks and other	1,963,636	6,359,672	4,262,502	8,417,134	21,002,945
Long-term debt	52,468	5,780,195	531,963	18,902,134	25,266,760
Borrowing from development entities	36,954	258,909	301,372	4,338,700	4,935,935
Trading derivatives	120,429	377,898	3,918	7,107	509,351
Hedging derivatives	13,345	119	—	—	13,464
Other Liabilities	6,517,069	58,605	50,583	—	6,626,258
Total Liabilities	**Ps. 122,530,743**	**Ps. 34,737,201**	**Ps. 20,300,540**	**Ps. 52,794,200**	**Ps. 230,362,686**

Commitments Loans	Less than one month	From one to six months	From six to twelve months	More than a year	Total
Guarantees	Ps. 2,591,109	Ps. 2,158	Ps. —	Ps. 3,066	Ps. 2,596,333
Standby letters of credit	1,080,986	154,068	—	56	1,235,110
Overdraft facility	75,225	—	—	—	75,225
Standby credit card facility	19,816,305	—	—	—	19,816,305
Undrawn approved loans	4,468,837	—	—	—	4,468,837
Others	242,910	—	—	—	242,910
Total Commitments Loans	**Ps. 28,275,372**	**Ps. 156,226**	**Ps. —**	**Ps. 3,122**	**Ps. 28,434,720**

4.4 Regulatory capital management

As of December, 31 2018, Grupo Aval is not subject to requirements of minimum capital; consequently, regulatory capital management of Grupo Aval focuses on complying with requirements at the financial subsidiaries level, pursuant to the rules established under Colombian law and regulation or under the laws and regulation of the jurisdictions where the subsidiaries operate.

Grupo Aval's financial subsidiaries are subject to a "Total Solvency Risk Ratio" (Total Regulatory Capital/Risk Weighted Assets) of at least 9% and a "Basic Solvency Risk Ratio" (Basic Ordinary Regulatory Capital/Risk Weighted Assets) of at least 4.5%.

As of December 31, 2018, and 2017, all of Grupo Aval´s financial subsidiaries comply with minimum regulatory capital requirements.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Following is the detail of the calculation of the minimum regulatory capital, required for the entities regulated by the Superintendency of Finance:

	December 31, 2018				
Regulatory Capital	**Banco de Bogotá**	**Banco de Occidente**	**Banco Popular**	**Banco AV Villas**	**Corficolombiana**
Regulatory Capital	**17,730,918**	**3,917,005**	**2,170,075**	**1,176,179**	**3,631,640**
Basic ordinary equity	11,655,669	3,166,981	1,648,438	1,106,529	3,381,550
Basic additional equity	6,075,249	750,024	521,637	69,650	250,090
Market risk	10,275,186	1,754,924	1,809,867	421,379	2,440,618
Credit risk	120,604,192	29,405,386	19,624,155	10,759,423	7,834,598
Total assets weighted by risk	**130,879,378**	**31,160,310**	**21,434,022**	**11,180,802**	**10,275,216**
Total solvency risk index.	13.55 %	12.57 %	10.12 %	10.52 %	35.34 %
Basic solvency risk index.	8.91 %	10.16 %	7.69 %	9.90 %	32.91 %

	December 31, 2017				
Regulatory Capital	**Banco de Bogotá**	**Banco de Occidente**	**Banco Popular**	**Banco AV Villas**	**Corficolombiana**
Regulatory Capital	**16,749,137**	**4,007,636**	**2,090,131**	**1,195,815**	**2,666,487**
Basic ordinary equity	10,870,598	3,123,860	1,774,823	1,060,749	2,295,929
Basic additional equity	5,878,538	883,776	315,309	135,066	370,558
Market risk	9,220,514	1,660,535	1,391,833	204,852	1,769,041
Total assets weighted by risk	**123,708,231**	**28,165,602**	**18,452,556**	**9,493,492**	**7,246,604**
Total solvency risk index.	13.54 %	13.44 %	10.53 %	12.33 %	36.80 %
Basic solvency risk index.	8.79 %	10.47 %	8.94 %	10.94 %	31.68 %

Despite the above, Grupo Aval will be subject to requirements of minimum capital in compliance with the new regulation of the Superintendency of Finance in Colombia, according with the explanation in “New Risk Framework by the Colombian Superintendence” section. In addition, Decree 1477 was issued on August 6, 2018, aligning the capital requirements of Colombian financial institutions to Basel III standards, specifically, definitions of tier 1 and tier 2 equity and risk weighed assets and incorporating buffers for equity conservation and for systematically important entities. The decree includes an 18-month transition period, which expires on February 2020, and therefore the obligation of Grupo Aval´s financial subsidiaries to meet the requirements will be based on financial statements as of December 31, 2020.

NOTE 5 – ESTIMATION OF FAIR VALUE

The fair value of the financial assets and liabilities traded in active markets (such as financial assets in debt securities, equity securities and derivatives actively listed in stock exchanges or interbank markets) is based on dirty prices supplied by a price vendor.

An active market is a market wherein transactions for assets or liabilities are carried out with sufficient frequency and volume in order to provide price information on an ongoing basis. A dirty price includes accrued and pending interest on the security, as from the date of issuance or last payment of interest, until the date in which the purchase and sale operation is due. The fair value of financial assets and liabilities that are not traded in an active market is determined through appraisal techniques determined by the price supplier or by the management of Grupo Aval’s entities. Appraisal techniques used for non-standardized financial instruments such as options, foreign exchange swaps and derivatives of the over-the-counter market, which include the use of interest rate or currency assessment curves built by providers and extrapolated to the specific conditions of the instrument being appraised, discounted cash flow analysis, options pricing models and other valuation techniques commonly used by market participants who rely mostly on market data and the least possible on specific data of entities.

Grupo Aval may use models developed internally for financial instruments with no active markets. These models are usually based on valuation techniques and methods generally standardized in the financial sector. The valuation models are mainly used for appraising financial equity instruments not listed on the stock exchange, debt certificates and other debt instruments for which the markets were or have been inactive during the financial period. Some inputs of these models may not be observable in the market and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and the valuation techniques used may not fully reflect all the factors relevant to the positions of Grupo Aval. Therefore, the appraisals are adjusted, if necessary, to allow for additional factors, including country risk, liquidity risks and counterparty risks.

The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for assets or liabilities identical to those which the entity can access as of the date of measurement.
- Level 2 inputs are inputs different than quoted prices included in Level 1 that are observable for the asset or liability, whether directly or indirectly in non-active markets.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which fair value measurement is classified in whole is determined based on the input of the lowest level that is most significant for measuring its total fair value. For such purpose, the relevance of an input is assessed in connection with the measurement of the total fair value. Financial instruments that are listed in markets that are not deemed active, but which are valued based in accordance with quoted market prices, quotes from price vendors or alternative price sources supported by observable inputs, are classified in Level 2.

If a fair value measurement uses observable inputs that require significant adjustments based on unobservable inputs, this measurement is classified as Level 3. The assessment of the importance of a particular input to the measurement of fair value in whole requires judgment, taking into account specific factors of the asset or liability.

Determining what is deemed as ‘observable’ requires a significant judgment by Grupo Aval. Grupo Aval considers as observable data the market data which is already available, distributed or updated by the price suppliers, and it is reliable and verifiable, with no property rights, and provided by independent sources which are actively involved in the reference market.

5.1 Measurements of Fair Value on a Recurring Basis

Measurements of fair value on a recurring basis are those required or allowed in statement of financial position at the end of each accounting period.

The following table presents an analysis, within the hierarchy of fair value, of Grupo Aval´s assets and liabilities (by class), measured at fair value as of December 31, 2018 and 2017 on a recurring basis.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

December 31, 2018

	Level 1		Level 2		Level 3		Total	
Assets								
Trading investments								
Securities issued or secured by Colombian Government	Ps.	2,109,574	Ps.	161,068	Ps.	—	Ps.	2,270,642
Securities issued or secured by other Colombian Government entities		19,606		108,940		—		128,546
Securities issued or secured by foreign Governments		—		98,155		—		98,155
Securities issued or secured by central banks		—		12,914		—		12,914
Securities issued or secured by other financial entities		—		1,218,751		—		1,218,751
Securities issued or secured by non-financial sector entities		—		29,122		—		29,122
Others		—		4,848		—		4,848
Total trading investments	**Ps.**	**2,129,180**	**Ps.**	**1,633,798**	**Ps.**	**—**	**Ps.**	**3,762,978**
Investments in debt securities at fair value through profit or loss								
Others		—		17,523		13,733		31,256
Total investments in debt securities at fair value through profit or loss	**Ps.**	**2,129,180**	**Ps.**	**1,651,321**	**Ps.**	**13,733**	**Ps.**	**3,794,234**
Investments in debt securities at fair value through OCI								
Securities issued or secured by Colombian Government		8,208,778		2,316,996		—		10,525,774
Securities issued or secured by other Colombian Government entities		232,312		265,323		—		497,635
Securities issued or secured by foreign Governments		91,315		2,924,241		—		3,015,556
Securities issued or secured by central banks		—		1,131,740		—		1,131,740
Securities issued or secured by other financial entities		279,653		3,028,827		—		3,308,480
Securities issued or secured by non-financial sector entities		—		209,940		—		209,940
Others		—		246,632		—		246,632
Total investments in debt securities at fair value through OCI	**Ps.**	**8,812,058**	**Ps.**	**10,123,699**	**Ps.**	**—**	**Ps.**	**18,935,757**
Total investments in debt securities	**Ps.**	**10,941,238**	**Ps.**	**11,775,020**	**Ps.**	**13,733**	**Ps.**	**22,729,991**
Equity securities								
Trading equity securities		3,060		2,212,915		456,673		2,672,648
Investments in equity through OCI		935,737		51,224		103,640		1,090,601
Total equity securities	**Ps.**	**938,797**	**Ps.**	**2,264,139**	**Ps.**	**560,313**	**Ps.**	**3,763,249**
Held for trading derivatives								
Currency forward		—		616,116		1,683		617,799
Bond forward		—		71		—		71
Interest rate swap		—		43,181		—		43,181
Currency swap		—		48,546		—		48,546
Currency options		—		59,089		—		59,089
Total held for trading derivatives	**Ps.**	**—**	**Ps.**	**767,003**	**Ps.**	**1,683**	**Ps.**	**768,686**
Hedging derivatives								
Currency forward		—		30,138		—		30,138
Total hedging derivatives	**Ps.**	**—**	**Ps.**	**30,138**	**Ps.**	**—**	**Ps.**	**30,138**
Other account receivables								
Financial assets in concession contracts		—		—		2,488,414		2,488,414
Total other account receivables designated at fair value	**Ps.**	**—**	**Ps.**	**—**	**Ps.**	**2,488,414**	**Ps.**	**2,488,414**
Non- financial assets								
Biological assets		—		—		84,206		84,206
Investment properties		—		—		836,324		836,324
Total non- financial assets	**Ps.**	**—**	**Ps.**	**—**	**Ps.**	**920,530**	**Ps.**	**920,530**
Total assets at fair value on recurring basis	**Ps.**	**11,880,035**	**Ps.**	**14,836,300**	**Ps.**	**3,984,673**	**Ps.**	**30,701,008**
Liabilities								
Trading derivatives								
Currency forward		—		583,242		5,779		589,021
Bond forward		—		2,730		—		2,730
Bond futures		32		—		—		32
Interest rate swap		—		32,380		—		32,380
Currency swap		—		148,378		—		148,378
Currency options		—		38,764		—		38,764
Total trading derivatives	**Ps.**	**32**	**Ps.**	**805,494**	**Ps.**	**5,779**	**Ps.**	**811,305**
Hedging derivatives								
Currency forward		—		195,539		—		195,539
Total hedging derivatives	**Ps.**	**—**	**Ps.**	**195,539**	**Ps.**	**—**	**Ps.**	**195,539**
Total liabilities at fair value on recurring basis	**Ps.**	**32**	**Ps.**	**1,001,033**	**Ps.**	**5,779**	**Ps.**	**1,006,844**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

December 31, 2017 [(1)]

	Level 1	Level 2	Level 3	Total
Assets				
Held for trading debt securities				
Securities issued or secured by Colombian Government	Ps. 1,104,829	Ps. 126,390	Ps. —	Ps. 1,231,219
Securities issued or secured by other Colombian Government entities	—	70,064	—	70,064
Securities issued or secured by foreign Governments	—	92,931	—	92,931
Securities issued or secured by central banks	—	34,095	—	34,095
Securities issued or secured by other financial entities	—	1,137,525	—	1,137,525
Securities issued or secured by non-financial sector entities	—	17,869	—	17,869
Others	—	53,858	12,975	66,833
Total held for trading debt securities	**Ps. 1,104,829**	**Ps. 1,532,732**	**Ps. 12,975**	**Ps. 2,650,536**
Investments in debt securities available-for-sale				
Securities issued or secured by Colombian Government	7,668,545	1,816,380	—	9,484,925
Securities issued or secured by other Colombian Government entities	—	662,702	—	662,702
Securities issued or secured by foreign Governments	29,604	2,074,793	—	2,104,397
Securities issued or secured by central banks	—	1,356,874	—	1,356,874
Securities issued or secured by other financial entities	456,354	3,161,723	—	3,618,077
Securities issued or secured by non-financial sector entities	—	324,469	—	324,469
Others	—	232,056	6,627	238,683
Total investments in debt securities available-for sale	**Ps. 8,154,503**	**Ps. 9,628,997**	**Ps. 6,627**	**Ps. 17,790,127**
Total investments in debt securities	**Ps. 9,259,332**	**Ps. 11,161,729**	**Ps. 19,602**	**Ps. 20,440,663**
Equity securities				
Trading equity securities	28,659	2,095,160	25,341	2,149,160
Investments in equity securities available-for-sale	768,336	55,697	—	824,033
Total equity securities	**Ps. 796,995**	**Ps. 2,150,857**	**Ps. 25,341**	**Ps. 2,973,193**
Held for trading derivatives				
Currency forward	—	222,377	1,578	223,955
Bond forward	—	731	—	731
Interest rate swap	—	52,970	—	52,970
Currency swap	—	33,104	—	33,104
Currency options	—	17,632	—	17,632
Total held for trading derivatives	**Ps. —**	**Ps. 326,814**	**Ps. 1,578**	**Ps. 328,392**
Hedging derivatives				
Currency forward	—	55,261	—	55,261
Total hedging derivatives	**Ps. —**	**Ps. 55,261**	**Ps. —**	**Ps. 55,261**
Other financial assets at fair value through profit or loss				
Financial assets in concession contracts	—	—	2,282,611	2,282,611
Total financial assets designated at fair value	**Ps. 10,056,327**	**Ps. 13,694,661**	**Ps. 2,329,132**	**Ps. 26,080,120**
Non- financial assets				
Biological assets	—	—	66,139	66,139
Investment properties	—	—	783,794	783,794
Total non- financial assets	**Ps. —**	**Ps. —**	**Ps. 849,933**	**Ps. 849,933**
Total assets at fair value on recurring basis	**Ps. 10,056,327**	**Ps. 13,694,661**	**Ps. 3,179,065**	**Ps. 26,930,053**
Liabilities				
Trading derivatives				
Currency forward	—	142,760	1,812	144,572
Bond forward	—	1,107	—	1,107
Interest rate swap	—	40,693	—	40,693
Currency swap	—	79,263	—	79,263
Currency options	—	33,030	—	33,030
Total trading derivatives	**Ps. —**	**Ps. 296,853**	**Ps. 1,812**	**Ps. 298,665**
Hedging derivatives				
Currency forward	—	13,464	—	13,464
Total hedging derivatives	**Ps. —**	**Ps. 13,464**	**Ps. —**	**Ps. 13,464**
Total liabilities at fair value on recurring basis	**Ps. —**	**Ps. 310,317**	**Ps. 1,812**	**Ps. 312,129**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2.5 (B)

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

5.2 Items Measured at Fair Value on a Non-Recurring Basis

Grupo Aval is required, on a nonrecurring basis to adjust the carrying value of certain assets and liabilities or provide valuation allowances. These assets or liabilities primarily include impaired collateralized loans and non-current assets held for sale. The fair value of these assets which are classified as Level 3 are determined using pricing models, discounted cash flow methodologies, a current replacement cost or similar techniques, using internal models or external experts with sufficient experience and knowledge of the real estate market or of assets being appraised. Generally, these appraisals are carried out by references to market data or based on the replacement cost, when sufficient market data is not available.

The following table present Grupo Aval's assets and liabilities, classified within the fair value hierarchy, which are measured on a nonrecurring basis as of December 31, 2018 and 2017 at fair value less cost of sale:

	Level 1		Level 2		Level 3		Total	
December 31, 2018								
Impaired collateralized loans	Ps.	—	Ps.	—	Ps.	896,257	Ps.	896,257
Non- current assets held for sale		—		—		186,714		186,714
	Ps.	**—**	**Ps.**	**—**	**Ps.**	**1,082,971**	**Ps.**	**1,082,971**

	Level 1		Level 2		Level 3		Total	
December 31, 2017								
Impaired collateralized loans	Ps.	—	Ps.	—	Ps.	701,948	Ps.	701,948
Non- current assets held for sale		—		—		101,382		101,382
	Ps.	**—**	**Ps.**	**—**	**Ps.**	**803,330**	**Ps.**	**803,330**

5.3 Fair Value determination

Level 1 financial instruments are those traded in an active market. Their fair value was established according to quoted prices (unadjusted) supplied by the price vendor, which are determined using the weighted averages of transactions carried out during the trading day.

Level 2 financial instruments as those traded in non-active market, the following table provides information about valuation techniques and significant inputs when measuring assets and liabilities.

	Valuation technique	Significant inputs (1)
ASSETS		
Investments in debt securities at fair value		
In Colombian Pesos	_	_
Securities issued or secured by the Colombian Government	Discounted cash flow	Estimated Prices (2)
Securities issued or secured by Colombian government entities	Discounted cash flow	Estimated Prices (2)
Securities issued or secured by other financial entities	Discounted cash flow	Estimated Prices (2) Yield and Margin
Securities issued or secured by non-financial sector entities	Discounted cash flow	Estimated Prices (2)
Other	Discounted cash flow	Estimated Prices (2) Yield and Margin
In Foreign Currency		
Securities issued or secured by the Colombian Government	Market Price	Quoted Prices Estimated Prices (2)
Securities issued or secured by Colombian government entities	Discounted cash flow	Estimated Prices (2)
Securities issued or secured by foreign governments	- Internal Model - Market Price	- Discounted cash flows using yields from similar securities outstanding - Market Price or price calculated based on benchmarks set by price providers methodologies - Bloomberg Generic / Bloomberg Valuation
Securities issued or secured by Central Banks	- Internal Model - Market Price	- Discounted cash flows using yields from similar securities outstanding - Market Price or price calculated based on benchmarks set by price providers methodologies
Securities issued or secured by other financial entities	- Discounted cash flow - Internal Model - Market Price	- Estimated Prices (2) - Quoted Price or price calculated based on benchmarks set by price providers methodologies - Bloomberg Generic / Bloomberg Valuation
Securities issued or secured by non-financial sector entities	- Market Price	- Average Price - Quoted Price - Bloomberg Generic
Other	- Discounted cash flow - Internal Model - Market Price	- Estimated Prices (2) - Theoretical Price Mutual Funds which by the end of the month capitalize or pay interests - Quoted Price
Equity securities		
Corporate Stock	Market Price	Estimated Prices (2)
Investment Funds	Market Price	Market value of underlying assets, less management and administrative fees
Pension and severance funds (3)	Market Price	Market value of underlying assets, less management and administrative fees
Trading Derivatives		
Foreign Currency Forward		- Underlying asset price
Debt securities Forward		- Currency curve by underlying asset

	Valuation technique	Significant inputs [1]
Interest rate Swap	Discounted cash flow	- Forward Exchange rates curve of the operation's currency
Cross Currency Swap		- Implicit curves of Exchange rates forwards
Swap (others)		- Swap curves by underlying asset
Currency Options		- Implicit volatilities matrixes and curves
Hedging Derivatives		
Currency Forward	Discounted cash flow	Curves by currency
LIABILITIES		
Derivatives held for trading		
Foreign Currency Forward	Discounted cash flow	- Underlying asset price
Debt securities Forward		- Currency curve by underlying asset
Interest rate Swap		- Forward Exchange rates curve of the operation's currency
Currency Swap		- Implicit curves of exchange rates forwards
Swap (others)		- Swap curves by underlying asset
Currency Options		- Implicit volatilities matrixes and curves
Hedging Derivatives		
Foreign Currency Forward	Discounted cash flow	- Underlying asset price
Interest rate Forward		- Currency curve by underlying asset
Interest rate Swap		- Forward Exchange rates curve of the operation's currency
		- Implicit curves of Exchange rates forwards
		- Swap curves by underlying asset
		- Implicit volatilities matrixes and curves

(1) Quoted market prices (ie obtained from price vendors)
(2) Estimated Price: A valuation model based on information obtained from a price vendor when it is not able to supply quoted prices (unadjusted) for each security. This model is the basis for the construction of the valuation margin of the securities that is represented on the assigned curve or reference rate. This margin remains constant on the assigned curve or reference rate when calculating the theoretical valuation price.
(3) The subsidiary Porvenir S. A. according to Colombian rules is required to invest to 1% of its total assets under management from severance and mandatory pension funds.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The following table provides information about valuation techniques and significant unobservable inputs when measuring Level 3 assets and liabilities at recurring fair value.

	Valuation technique	Significant inputs
ASSETS		
Investments in debt securities at fair value		
In Colombian Pesos		
Other	Discounted cash flow	Projected payments flow of mortgage securitizations (1)
Equity securities		
Investments in equity securities (2)	Discounted cash flow	- Growth in values after 5 years - Net Income - Growth in residual values after 5 years Discount interest rates
	Comparable Multiples	- EBITDA Value - Multiple of EBITDA - Net income value - Multiple of net income
Other financial assets		
Assets under concession contracts	Discounted cash flow	- Free-cash flow from concession contracts - Concession contract's maturity period - Perpetuity value of the year "n" free-cash flow - Present value of the discounted residual value at Weighted Average Cost of Capital ("WACC"). - Financial income: annual adjustment of the financial asset's value. The detail of valuation process for financial assets in concession arrangements are outlined in (3)
Non-financial assets		
Biological assets	Discounted cash flow	The processes used to collect data and determine the fair value of biological assets are described in (4).
Investment properties	Discounted cash flow	The processes used to collect data and determine the fair value of biological assets are described in (5)

(1) Mortgage-Backed Securities

Titularizadora Colombiana S.A issued mortgage securitizations. Following is the valuation under 3 scenarios, these scenarios are based on projections that, consider different prepayment and delinquency assumptions. The following table shows the sensitivity analysis of this fair value under three different scenarios.

December 2018					
Baseline scenario (i)		**Increase - Favorable scenario (ii)**		**Decrease - Unfavorable scenario (iii)**	
Ps.	13,733	Ps.	57	Ps.	(63)

December 2017					
Baseline scenario (i)		**Increase - Favorable scenario (ii)**		**Decrease - Unfavorable scenario (iii)**	
Ps.	19,602	Ps.	80	Ps.	(95)

(i) Fair value calculated based on valuation scenario, considers 12-month Moving Average Prepayment between 9.25% and 10.90% as of December 31, 2018 and 12.4% and 15.8% as of December 31, 2017, and 1 Time Delinquency Curve.
(ii) Pre-payment of 10% and 1 time delinquency curve

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

(iii) Pre-payment of 20% and 1 time delinquency curve

(2) Valuation of equity securities Level 3

Investments with fair value hierarchy level 3 have significant unobservable inputs. Level 3 instruments includes equity instruments, which are not quoted on any stock exchange. Like observable prices are not available for these securities, Grupo Aval has used valuation techniques as discounted cash flows to obtain fair value.

The following table includes a sensitivity analysis of main equity securities by Ps. 45,219 as of December 31, 2018 classified at FVOCI level 3:

Methods and Variables	Variation	Favorable impact	Unfavorable impact
Comparable multiples / Recent transaction price			
EBITDA Number of times	+/-1 x	Ps. 1,819	Ps. (1,823)
Adjusted net Asset Value			
Most relevant variable in assets	+/-10%	221	(177)
Adjusted discounted cash flow			
Growth in residual values	+/-1% of the gradient	204	(134)
Growth in residual values after 5 years	+/-1%	60	(147)
	+/- 30 bp	135	(101)
	+/-1%	743	(741)
Income	+/-1%	710	(674)
	+/- 1% anual	352	(529)
Discount interest rates	+/- 50 pb	597	(572)
		Ps. 4,841	**Ps. (4,898)**

(3) Valuation of financial assets under Gas and Energy concession arrangement rights

Promigas and subsidiaries, designated at fair value the financial assets under concession contracts, the method of discounted cash flows was used to determine the fair value.

The assumptions in the calculation of the financial asset were:

Financial assets were calculated taking into account the expiration date of each concession contract.

The calculation was carried out in proportion to the expiration of each of the concession contracts in force.

Only the operational cash flows of these assets under concession were taken into account.

The components of the calculations are as follows:

- Free cash flow generated solely by assets under concession.
- Expiration period of the concession.
- Amount in-perpetuity of the Free Cash Flow (FCF) of the year, estimated factoring a growth in the residual amount between 3% and 1% each year.
- Current amount of the residual amount Weighted Average Cost of Capital (WACC), estimated taking into account an interest rate between 9.35 % and 8.64% each year.
- Financial Income: Annual adjustment of the amount of the financial asset to WACC (*).

(*) Nominal WACC calculated under the Capital Asset Pricing Model (CAPM) methodology for each, updated annually. The following variables were used for determining the WACC:

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

- Beta Unlevered USA (Oil/Gas Distribution): Damodaran. [Betaunlevered 0.61, 2018]
- Risk Free Rate, Source: Geometric Average 1992-2018 of American bonds "T-Bonds".
- Marker Return, Source: Geometric Average 1992-2018 Damodaran "Stocks" USA.
- Market Premium: Market Return – Risk Free Rate
- Country Risk Premium: Average last 5 years EMBI (Difference between 10-year Colombian sovereign bonds and 10 year "T-Bonds"). Damodaran
- Emerging Market: Equity Premium Emerging countries (Lambda - Damodaran)

Sensitivity analysis

The following table includes a sensitivity analysis of the assumptions used by Promigas and its subsidiaries in the calculation of fair value of unconditional transfer rights of gas pipelines to Government entities at the expiration date of the contracts. The value of the financial asset at December 31, 2018 is Ps. 2,488,414 and Ps. 2,282,611 at 2017, the sensitivity analysis shows their increase or decrease.

	December 31, 2018		December 31, 2017	
Variable	**+100 bps**	**-100 bps**	**+100 bps**	**-100 bps**
WACC	Ps. (637,463)	Ps. 979,778	Ps. (608,164)	Ps. 949,005
Growth rate	550,567	(387,696)	520,052	(362,867)

(4) Biological Assets

Fair value of Grupo Aval subsidiaries' "biological assets", which correspond to agricultural activities related to biological assets (animals or plants), is estimated based on internal reports prepared by the companies who own such assets. Fair value of biological assets is determined using valuations performed by experienced internal professionals, using discounted cash flow models. Since no comparable market exist for the biological assets, given their nature, their fair value is determined using discounted cash flows models for each biological asset, based on estimated future quantities of crops, prices, harvesting costs, and maintenance and crop yields, among others, discounted using a risk-free rate adjusted by an appropriate risk premium. See note 15.

The main assumptions used for determining the fair value of the principal biological assets are as follows:

1. Biological assets growing in rubber crops:

The price of natural rubber used to calculate the 2019-2021 cash flows was forecasted based on the average of the last 3 years of the Technically Specified Rubber (TSR20) per ton since January 2016 Ps. 0.47 (USD 1,521/Ton), in order to reflect the behavior of the commodity for an entire economic cycle. Forecasted prices are adjusted annually based on the expected US inflation rate.

Yield per hectare: Based on the crop composition and the planting year of the different clones, we forecasted a stepwise yield per hectare starting in year 7 after plantation and stabilizing after year 10.

Year	Tons of rubber per hectare per year
Year 7	0.60
Year 8	0.90
Year 9	1.40
Year 10 and other	1.80

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Costs and administrative expenses: Costs are forecasted considering the different activities incurred during the life of a rubber project. A cost per hectare is forecasted for every key activity such as crop establishment, maintenance of immature plant and maintenance and harvest of mature plants.

Discount rate: Based on the data for the "Farming/Agriculture" sector of Damodaran Online's Global Markets data base, a cost of equity of 16.75% as of December 31, 2018 and 15.23% as of December 31, 2017 was defined. Additionally, a cost of debt of 6.29% as of December 31, 2018 and 5.84% as of December 31, 2017 was defined based on existing debt market conditions. Based on the above, the discount rate, or WACC, was determined to be 10.74% as of December 31, 2018 and 11.71% as of December 31, 2017.

2. Biological assets growing in African palm crops:

The price of African palm oil (USD per ton) used to calculate the 2019-2020 cash flows was forecasted based on the average price of palm oil since January 2017 (USD 671/Ton), in order to reflect the behavior of the commodity for an entire economic cycle. Forecasted prices are adjusted annually with the expected US inflation rate.

The source of information for international prices for Colombia's market are the following:
Crude palm oil: BURSA MALAYSIA DERIVATIVES (BMD) – Crude Palm Oil Futures (FCPO) – Third Position. It is a relevant international market prices, of easy public access, and is provided by transparent and objective source.

For the price forecast, available future prices (FCPO) were also used as reference.

Yield per hectare: Based on the crop composition and the re-planting year of the crops. which started in 2006, we forecasted a stepwise yield per hectare for each plantation as follows:

Year	**Tons of fresh fruit per hectare**
0 to 3	—
4	4
5	10
6	12
7	22
7 to 18	22
More than 18	36
Weighted average	**18**

Extraction rate: The oil extraction rate (OER) is a factor that defines the amount of crude palm oil that is produced. The OER varies depending on the age of the plantation, and was forecasted based on the following table:

Year	**Extraction Rate (%)**
0 to 3	19
4	23
5	23
6	23
7	23
7 to 18	23
More than 18	21
Weighted average	**22**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Costs and administrative expenses: Costs are forecast considering the different activities that are incurred during the life of an African palm crop. A cost per hectare is forecast for every key activity such as crop establishment, maintenance and exploitation, harvest and transport.

Discount rate: Based on the data for the "Farming/Agriculture" sector of Damodaran Online's Global Markets data base, a cost of equity of 16.75% (15.23% as of December 31, 2017) was defined. Additionally, a cost of debt of 6.29% (5.84% as of December 31, 2017) was defined based on existing debt market conditions. Based on the above, the discount rate, or WACC, was determined at 10.74% (11.71% as of December 31, 2017).

Sensitivity analysis of Biological Assets at fair value

As a result of its investment in Corficolombiana, Grupo Aval´s assets include certain biological assets, that consist primarily of rubber and African palm oil. Grupo Aval does not sells its products in the Rotterdam market or produces/sells African palm oil from Malaysia. However, Grupo Aval has knowledge that the price of rubber and African palm oil traded at both markets is used to determine the price reference of these commodities.

If the average price of technically specified rubber (TSR20) and crude palm oil (CPO) had been 5% higher or lower in 2018 and 2017, with all the other variables remaining constant and excluding the effect of hedging activities, Grupo Aval's profits for the period, before taxes, would have been the following, including only the product growing on bearer plants.

Rubber Plantations

	TSR20 reference price USD/ton	Change in fiscal year-end price	Value of the biological asset	Profits before taxes
	1,597	5 %	44,615	20,457
Dec-18	1,521	Baseline scenario	41,533	17,375
	1,445	(5)%	38,451	14,293
	1,620	5 %	25,366	10,762
Dec-17	1,543	Baseline scenario	24,158	9,554
	1,466	(5)%	22,950	8,346

African Palm Plantations

	CPO reference price USD/ton	Change in fiscal year-end price	Value of the biological asset	Profits before taxes
	705	5 %	32,786	6,231
Dec-18	671	Baseline scenario	29,783	3,228
	638	(5) %	26,779	224
	683	5 %	27,883	5,068
Dec-17	651	Baseline scenario	26,555	3,740
	618	(5) %	25,228	2,412

The fair value of biological assets is also affected by different circumstances in the market such as climate, natural disasters and plagues. The subsidiaries that manage biological assets have taken all the necessary precautions to reduce these risks. An analysis of any situation that could compromise the fulfilment of the company´s objectives is carried out by the different technical areas and the potential impact of any deviation is also measured. The result of said analysis is informed to top management to determine, in accordance with the significance of the situation, if they need to be reported to the Board of Directors.

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(5) Investment properties

Investment properties are recognized at fair value, based on a valuation made at each year-end period, using as a basis, independent appraisal expert appraisal report obtained and reviewed by management. While in Colombia, the frequency of transactions in the real state sector is low compared to other more developed markets, management believes there are enough references to assess the fair value of investment properties owned by Grupo Aval and its subsidiaries based on comparable market transactions.
Fire-sales are excluded from the comparable transactions used to estimate the fair-value of investment properties. Management has reviewed the main assumptions used by the independent external appraisers (such as inflation, interest rates, etc.) and believes they are consistent with market conditions at each end of period. However, management believes that the estimation of the fair value of investment properties depends on significant judgment from the independent expert appraisers, and as such, there could be a significant probability that the actual price of sale of a property differs from its fair value.

5.4 Transfers between level 1 and level 2 of the fair value hierarchy

The following table summarizes the transfer between fair value levels 1 and 2 during 2018 and 2017. In general, transfers between Level 1 and Level 2 in the investment portfolios are due, fundamentally, to changes in the liquidity levels of the securities in the markets.

December 31, 2018

	Investments in debt securities at FVTPL Transfers between:		Investments in debt securities at FVOCI Transfers between:	
	Level 2 to 1	**Level 1 to 2**	**Level 2 to 1**	**Level 1 to 2**
Securities issued or secured by Colombian Government	Ps. —	Ps. —	Ps. 17,668	Ps. 14,081
Securities issued or secured by other Colombian Government entities	—	—	229,202	—
Securities issued or secured by other financial entities	—	—	—	189,013
	Ps. —	**Ps. —**	**Ps. 246,870**	**Ps. 203,094**

December 31, 2017

	Trade debt securities Transfers between:		Debt securities available-for-sale Transfers between:	
	Level 2 to 1	**Level 1 to 2**	**Level 2 to 1**	**Level 1 to 2**
Securities issued or secured by Colombian Government	Ps. —	Ps. 49	Ps. —	Ps. 28,104
Securities issued or secured by other Colombian Government entities	—	313	—	9,908
Securities issued or secured by other financial entities	—	—	—	65,209
Securities issued or secured by entities of the non-financial sector	—	—	—	85,552
	Ps. —	**Ps. 362**	**Ps. —**	**Ps. 188,773**

There were no transfers of fair values between levels and 2 to or from level 3.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

5.5 Reconciliation Level 3 of the fair value hierarchy

The reconciliation of the balances at the beginning of the period to the closing balances with the fair value measurements classified at Level 3 is shows in the following table.

	Financial assets in debt securities	Equity instruments	Financial assets in concession arrangements	Biological assets	Investment properties
December 31, 2015	**Ps. 36,077**	**Ps. —**	**Ps. 1,891,692**	**Ps. 240,212**	**Ps. 538,246**
Valuation adjustment with an effect on income	750	—	180,982	14,644	53,680
Valuation adjustments with an effect on OCI	(9,450)	—	—	—	—
Reclassification of bearer plants balance	—	—	—	(188,177)	—
Effects of amendments in accounting policies of bearer plants.	—	—	—	(18,108)	—
Transfers to non-current assets held for sale	—	—	—	—	11,319
Reclassification	—	—	—	(1,331)	(2,539)
Additions	—	—	—	21,432	71,268
Sales / redemptions	—	—	—	(20,670)	(61,786)
December 31, 2016	**Ps. 27,377**	**Ps. —**	**Ps. 2,072,674**	**Ps. 48,002**	**Ps. 610,188**
Valuation adjustment with an effect on income	765	—	209,937	13,503	46,675
Valuation adjustments with an effect on OCI	(8,540)	—	—	—	—
Transfers from non-current assets held for sale	—	—	—	—	101,469
Reclassification	—	25,341	—	—	(30,143)
Additions	—	—	—	24,409	84,036
Sales / redemptions	—	—	—	(19,775)	(28,431)
December 31, 2017	**Ps. 19,602**	**Ps. 25,341**	**Ps. 2,282,611**	**Ps. 66,139**	**Ps. 783,794**
Adoption IFRS 9 (See note 2)	—	102,214	—	—	—
Valuation adjustment with an effect on income	(5,119)	9,207	205,803	20,606	39,415
Valuation adjustments with an effect on OCI	—	1,426	—	—	—
Transfers from non-current assets held for sale	—	—	—	—	19,719
Reclassification	—	25,989	—	(96)	10,780
Additions	—	(*) 396,136	—	20,900	61,300
Sales / redemptions	(750)	—	—	(23,343)	(78,684)
December 31, 2018	**Ps. 13,733**	**Ps. 560,313**	**Ps. 2,488,414**	**Ps. 84,206**	**Ps. 836,324**

(*) Includes investment in NEXUS Real Estate Capital Funds by Banco de Bogota of Ps.330,350, Banco Popular of Ps.24,222, Alpopular of Ps.41,070 and Fiduciaria Popular of Ps.494

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

5.6 Fair Value of Financial Assets and Liabilities recognized at Amortized Cost

The following table shows a summary of financial assets and liabilities accounted at amortized cost and valued at fair value as of December 31, 2018 and 2017, only for disclosure purposes.

	December 31, 2018		December 31, 2017	
	Carrying Amount	Fair Value Estimate	Carrying Amount	Fair Value Estimate
Assets				
Investments in debt securities at amortized cost (2017 - held-to-maturity) (1)	Ps. 2,972,616	Ps. 2,984,973	Ps. 2,899,039	Ps. 2,928,929
Credit portfolio at amortized cost (2)	168,685,654	176,228,181	160,754,295	166,303,676
Total financial assets	**Ps. 171,658,270**	**Ps. 179,213,154**	**Ps. 163,653,334**	**Ps. 169,232,605**
Liabilities				
Customer deposits (3)	Ps. 164,359,451	Ps. 164,682,493	Ps. 154,885,224	Ps. 154,805,726
Financial obligations (4)	51,211,990	51,811,778	45,276,036	45,413,210
Total financial liabilities	**Ps. 215,571,441**	**Ps. 216,494,271**	**Ps. 200,161,260**	**Ps. 200,218,936**

(1) Financial assets held-to-maturity

Fair value of fixed income investments at amortized cost was determined using the dirty price given by the price supplier, securities in an active market and with a market price for the day of the valuation are classified as level 1; securities with no active market and/or with an estimated price (present value of the flows of a security, discounted with the reference rate and the corresponding margin) given by the supplier are classified as level 2.

(2) Credit portfolio at amortized cost

For credit portfolio at amortized cost, the fair value was determined using discounted cash flows models at the interest rates offered by banks for granting new loans, taking into account the credit risk and its maturity; the process of valuation is deemed as level 3.

Accounts receivable and payable are classified as short-term assets and liabilities; in consequence, their fair value is similar to their book value.

(3) Customer deposits

The fair value of demand deposits is equal to their carrying value. For fixed-term deposits with maturities of less than 180 days, their fair value is deemed equal to their carrying value. For fixed-term deposits with maturities of more than 180 days, their fair value was estimated using the carrying discounted cash flow models and the interest rates offered by banks in accordance with their maturity. This is considered as a level 2 valuation.

(4) Financial obligations

For financial liabilities and other short-term liabilities, the carrying value was considered to be similar to its fair value. The fair value of long-term financial liabilities was determined using the discounted cash flow model at interest rates free of risk adjusted by risk premiums of each entity. The fair value of outstanding bonds is determined according to quoted prices or estimated prices supplied by the price vendor. It is considered that this is a level 2 valuation.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

NOTE 6 – CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

See accounting policies in Notes 2(2.6).

The following table provides a reconciliation of gross amount between line items in the statement of financial position and categories of financial instruments.

December 31, 2018	Note	Mandatorily at FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	Amortized Cost	Total carrying amount
Cash and cash equivalents	7	Ps. —	Ps. —	Ps. —	Ps. 28,401,283	Ps. 28,401,283
Trading assets	**8**	**7,204,312**	**—**	**—**	**—**	**7,204,312**
Debt securities		3,762,978	—	—	—	3,762,978
Equity securities		2,672,648	—	—	—	2,672,648
Derivative assets		768,686	—	—	—	768,686
Investment securities	**9**	**31,256**	**18,935,757**	**1,090,601**	**2,972,616**	**23,030,230**
Measured at fair value		31,256	18,935,757	1,090,601	—	20,057,614
Measured at amortized cost		—	—	—	2,972,616	2,972,616
Loans	11	—	—	—	176,881,841	176,881,841
Other accounts receivable	**12**	**2,488,414**	**—**	**—**	**7,069,120**	**9,557,534**
Measured at fair value		2,488,414	—	—	—	2,488,414
Measured at amortized cost		—	—	—	7,069,120	7,069,120
Hedging derivative assets	10	30,138	—	—	—	30,138
Total financial assets		**Ps. 9,754,120**	**Ps. 18,935,757**	**Ps. 1,090,601**	**Ps. 215,324,860**	**Ps. 245,105,338**

December 31, 2018	Note	Mandatorily at FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	Amortized Cost	Total carrying amount
Trading liabilities						
Derivative liabilities	8	Ps. 811,305	Ps. —	Ps. —	Ps. —	Ps. 811,305
Hedging derivative liabilities	10	195,539	—	—	—	195,539
Customer deposits	20	—	—	—	164,359,451	164,359,451
Financial obligations	21	—	—	—	51,211,990	51,211,990
Total financial liabilities		**Ps. 1,006,844**	**Ps. —**	**Ps. —**	**Ps. 215,571,441**	**Ps. 216,578,285**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

December 31, 2017 (1)	Trading	Designated at FVTPL	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortized cost	Total carrying amount
Cash and cash equivalents	Ps. —	Ps. —	Ps. —	Ps. —	Ps. —	Ps. 22,336,838	Ps. 22,336,838
Trading assets	**5,128,088**	**—**	**—**	**—**	**—**	**—**	**5,128,088**
Debt securities	2,650,536	—	—	—	—	—	2,650,536
Equity securities	2,149,160	—	—	—	—	—	2,149,160
Derivative assets	328,392	—	—	—	—	—	328,392
Investment securities	—	—	**2,899,039**	—	**18,614,160**	—	**21,513,199**
Debt securities	—	—	2,899,039	—	17,790,127	—	20,689,166
Investment equity securities	—	—	—	—	824,033	—	824,033
Loans and receivables	—	—	—	166,372,776	—	—	166,372,776
Other accounts receivable	—	2,282,611	—	—	—	4,466,134	6,748,745
Hedging derivative assets	—	55,261	—		—	—	55,261
Total financial assets	**Ps. 5,128,088**	**Ps. 2,337,872**	**Ps. 2,899,039**	**Ps. 166,372,776**	**Ps. 18,614,160**	**Ps. 26,802,972**	**Ps. 222,154,907**

December 31, 2017 (1)	Trading	Designated at FVTPL	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortized cost	Total carrying amount
Derivative liabilities held for trading	Ps. 298,665	Ps. —	Ps. —	Ps. —	Ps. —	Ps. —	Ps. 298,665
Hedging derivative liabilities	—	13,464	—	—	—	—	13,464
Customer deposits	—	—	—	—	—	154,885,224	154,885,224
Financial obligations	—	—	—	—	—	45,276,036	45,276,036
Total financial liabilities	**Ps. 298,665**	**Ps. 13,464**	**Ps. —**	**Ps. —**	**Ps. —**	**Ps. 200,161,260**	**Ps. 200,473,389**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.5) (B).

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

NOTE 7 – CASH AND CASH EQUIVALENTS

Balances of cash and cash equivalents comprise the following as of December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
In Colombian Pesos		
Cash	Ps. 4,489,637	Ps. 4,100,166
Deposits in the Colombian central bank	3,794,412	3,820,539
Demand deposits in banks and other financial entities	559,181	312,661
Clearing houses	3,428	1,733
Investments in debt securities maturing in under three months	2,449	28,603
Restricted cash [1]	254,280	366,584
	Ps. 9,103,387	**Ps. 8,630,286**
In foreign currency		
Cash	1,955,745	1,704,861
Demand deposits in banks and other financial entities	17,342,151	11,999,859
Restricted cash [2]	—	1,832
	Ps. 19,297,896	**Ps. 13,706,552**
Total cash and cash equivalents	**Ps. 28,401,283**	**Ps. 22,336,838**

(1) Grupo Aval has restricted cash related to the collection of tolls in concessions and in banking reserves.

(2) Grupo Aval has restricted cash related to deposits in guarantee for Banco Corficolombiana Panamá S.A and Gas Comprimido del Perú S.A.

Grupo Aval´s banking subsidiaries had cash reserves to comply with the mandatory amount for time deposits, checking account and savings accounts for Ps.8,291,372 and Ps. 7,679,587 at December 31, 2018 and 2017, respectively.

NOTE 8 – TRADING ASSETS AND LIABILITIES

Balances of trading asset and liabilities comprise the following as of December 31, 2018 and 2017:

	Note	December 31, 2018	December 31, 2017 [1]
Trading assets			
Debt securities	8.1	Ps. 3,762,978	Ps. 2,650,536
Equity securities	8.2	2,672,648	2,149,160
Derivative assets	8.3	768,686	328,392
		Ps. 7,204,312	**Ps. 5,128,088**
Trading liabilities			
Derivative liabilities	8.3	811,305	298,665
		Ps. 811,305	**Ps. 298,665**
Total trading assets and liabilities net		**Ps. 6,393,007**	**Ps. 4,829,423**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2.5(B)

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

8.1 Trading investments in debt securities (2017 Debt and Equity Securities Held-For-Trading [(1)])

The following is the balance at December 31, 2018 and 2017 [(1)].

	December 31, 2018	December 31, 2017
Securities issued or secured by Colombian Government	Ps. 2,270,642	Ps. 1,231,219
Securities issued or secured by other Colombian Government entities	128,546	70,064
Securities issued or secured by foreign Governments	98,155	92,931
Securities issued or secured by central banks	12,914	34,095
Securities issued or secured by other financial entities	1,218,751	1,137,525
Securities issued or secured by non-financial sector entities	29,122	17,869
Other	4,848	66,833
Total trading debt securities	**Ps. 3,762,978**	**Ps. 2,650,536**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2.5 (B)

8.2 Trading investments in equity securities (2017 - Debt and Equity Securities Held-For-Trading [(1)])

The following is the balance at December 31, 2018 and 2017 [(1)].

	December 31, 2018	December 31, 2017
In Colombian Pesos		
Corporate stock	Ps. 3,060	Ps. 4,188
Investment funds [(2)]	1,162,260	802,941
Pension and severance funds [(3)]	1,451,692	1,279,009
	Ps. 2,617,012	**Ps. 2,086,138**
In foreign currency		
Corporate stock	32,733	49,812
Investment funds	22,903	13,210
	Ps. 55,636	**Ps. 63,022**
Total equity securities	**Ps. 2,672,648**	**Ps. 2,149,160**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Note 2 (2.5) (B).

(2) Grupo Aval has restricted Investment Funds related to Concesionaria Nueva Vía al Mar Ps. 46,276 y Concesionaria Vial del Pacífico Ps. 18,218

(3) Pursuant to Colombian rules the subsidiary Porvenir S. A. is required to directly invest 1% of the total assets of these funds in mandatory severance and pension funds managed by Porvenir.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

8.3 Trading derivatives assets and liabilities

Trading derivative assets and liabilities financial instruments comprise the following as of December 31, 2018 and 2017:

	December 31, 2018		December 31, 2017	
Item	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Forward contracts				
Foreign currency to buy	Ps. 599,987	Ps. 22,175	Ps. 60,799	Ps. 120,083
Foreign currency to sell	17,811	566,846	163,156	24,489
Debt securities to buy	50	—	357	171
Debt securities to sell	22	2,730	374	936
Subtotal	**Ps. 617,870**	**Ps. 591,751**	**Ps. 224,686**	**Ps. 145,679**
Swap				
Cross currency	48,546	148,378	33,104	79,263
Interest rate	43,181	32,380	52,970	40,693
Subtotal	**Ps. 91,727**	**Ps. 180,758**	**Ps. 86,074**	**Ps. 119,956**
Futures contracts				
Debt securities to buy	—	32	—	—
Subtotal	**Ps. —**	**Ps. 32**	**Ps. —**	**Ps. —**
Options contracts				
Foreign currency to buy	59,089	—	—	33,030
Foreign currency to sell	—	38,764	—	—
Debt securities to buy	—	—	17,632	—
Subtotal	**59,089**	**38,764**	**17,632**	**33,030**
Total derivative assets and liabilities	**Ps. 768,686**	**Ps. 811,305**	**Ps. 328,392**	**Ps. 298,665**
Net derivatives trading		**(42,619)**	**29,727**	

Derivative instruments contracted by Grupo Aval or its consolidated entities are generally traded in either domestic financial markets or in over-the-counter international markets. Derivative instruments have a net favorable position (asset) or a net unfavorable position (liability) as a result of fluctuations in exchange rates, in interest rates or other variables relating to market conditions. As a result, the aggregate amount of fair values of the assets and liabilities in derivative instruments may vary significantly from time to time.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

8.4 Trading assets in debt securities pledged as collateral

The following is a list of held-for-trading financial assets that are being used as collateral in repo operations, pledged as collateral for transactions with financial instruments, or pledged to third parties as collateral to secure financial obligations with other banks (See note 21).

	December 31, 2018		December 31, 2017	
Pledged as collateral in money market operations				
Securities issued or secured by central banks	Ps.	11,533	Ps.	5,217
Securities issued or secured by foreign Governments		51,055		54,644
Securities issued or secured by Colombian Government		1,027,436		744,332
Securities issued or secured by other financial entities		15,567		9,590
	Ps.	**1,105,591**	**Ps.**	**813,783**
Pledged as collateral to special entities such as CRCC, BR and BVC (*)				
Securities issued or secured by Colombian Government	**Ps.**	34,191	**Ps.**	29,292
		34,191		**29,292**
	Ps.	**1,139,782**	**Ps.**	**843,075**

(*) Cámara de Riesgo Central de Contraparte (“CRCC”), Banco de la República (“BR”) and Bolsa de Valores de Colombia (“BVC”)

NOTE 9 – INVESTMENT SECURITIES

Balances of investment securities comprise the following as of December 31, 2018 and 2017:

	Note	December 31, 2018	
Investments in debt securities mandatorily at FVTPL	9.1	Ps.	31,256
Investments in debt securities at FVOCI	9.2		18,935,757
Investments in debt securities at amortized cost	9.3		2,972,616
Investments in equity securities at FVOCI	9.4		1,090,601
		Ps.	**23,030,230**
Loss impairment			
Investments in debt securities at amortized cost	4.1.5		(71)
		Ps.	**(71)**
Total investment securities net		**Ps.**	**23,030,159**

	Note	December 31, 2017 (1)	
Investments in debt securities available for sale	9.2	Ps.	17,790,127
Investments in debt securities held to maturity	9.3		2,899,039
Investments in equity securities available for sale	9.4		824,033
Total investment securities net		**Ps.**	**21,513,199**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Note 2 (2.5) (B).

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

9.1 Investments in debt securities at FVTPL

The following table includes investments on asset-backed securities mandatorily at FVTPL because the contractual cash flows of these securities are not SPPI on the principal outstanding.

	December 31, 2018	December 31, 2017 [1]
Others	31,256	—
Total investments in debt securities madatorily at FVTPL	**Ps. 31,256**	**Ps. —**

[1] Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2.5 (B).

9.2 Investments in debt securities at FVOCI

December 31, 2018

Debt securities	Cost	Unrealized Gain	Unrealized Losses	Fair Value
Securities issued or secured by Colombian Government	Ps. 10,517,512	Ps. 65,724	Ps. (57,462)	Ps. 10,525,774
Securities issued or secured by other Colombian Government entities	496,936	3,581	(2,882)	497,635
Securities issued or secured by foreign Governments	3,042,595	9,209	(36,248)	3,015,556
Securities issued or secured by central banks	1,133,337	1,058	(2,655)	1,131,740
Securities issued or secured by other financial entities	3,352,299	3,191	(47,010)	3,308,480
Securities issued or secured by non-financial sector entities	278,838	156	(69,054)	209,940
Others	251,878	121	(5,367)	246,632
Total debt securities at FVOCI	**Ps. 19,073,395**	**Ps. 83,040**	**Ps. (220,678)**	**Ps. 18,935,757**

December 31, 2017 - Available-for-sale securities [1]

Debt securities	Cost	Unrealized Gain	Unrealized Losses	Fair Value
Securities issued or secured by Colombian Government	Ps. 9,442,457	Ps. 77,571	Ps. (35,103)	Ps. 9,484,925
Securities issued or secured by other Colombian Government entities	656,294	13,251	(6,843)	662,702
Securities issued or secured by foreign Governments	2,113,106	8,655	(17,364)	2,104,397
Securities issued or secured by central banks	1,359,924	739	(3,789)	1,356,874
Securities issued or secured by other financial entities	3,621,311	11,853	(15,087)	3,618,077
Securities issued or secured by non-financial sector entities	347,285	21,725	(44,541)	324,469
Others	237,486	2,826	(1,629)	238,683
Total debt securities available-for-sale	**Ps. 17,777,863**	**Ps. 136,620**	**Ps. (124,356)**	**Ps. 17,790,127**

[1] Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Note 2 (2.5).

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The following table shows amounts reclassified to profit or loss form OCI gross of taxes, related to investment debt securities FVOCI (2017 and 2016 available-for-sale):

	December 31, 2018	December 31, 2017	December 31, 2016
Redemptions or sales	43,574	73,953	25,911
ECL allowance (2017 and 2016: Impairment loss allowance)	31,809	—	(70,146)
Total reclassified to profit or loss	**Ps. 75,383**	**Ps. 73,953**	**Ps. (44,235)**

9.3 Investments in debt securities at amortized cost (2017 - Held to maturity)

Debt securities	December 31, 2018	December 31, 2017
Securities issued or secured by Colombian Government	Ps. —	Ps. 424
Securities issued or secured by other Colombian Government entities	2,931,172	2,839,286
Securities issued or secured by foreign Governments	32,321	26,864
Securities issued or secured by other financial entities	9,123	32,465
Total debt securities at amortized cost (2017 held-to-maturity)	**Ps. 2,972,616**	**Ps. 2,899,039**

As of December 31, 2018, and 2017 there are no investments in debt securities at amortized cost (2017 - held-to-maturity securities) pledged as collateral for financial liabilities.

The following is a summary of investments in debt securities at amortized cost by maturity dates:

	December 31, 2018	December 31, 2017
Up to 1 month	Ps. 671,047	Ps. 722,026
More than 1 month and no more than 3 months	12,787	38,071
More than 3 months and no more than 1 year	2,287,755	2,133,344
More than 1 year and no more than 5 years	1,027	5,598
	Ps. 2,972,616	**Ps. 2,899,039**

9.4 Investments in equity securities at fair value through OCI

The following is the balance at December 31, 2018 and 2017.

December 31, 2018

	Cost	Unrealized Gain	Unrealized Losses (*)	Fair Value
In Colombian Pesos				
Corporate stock	Ps. 593,611	Ps. 476,023	Ps. (3,314)	Ps. 1,066,320
In foreign currency				
Corporate stock	12,717	11,571	(7)	24,281
Total equity securities	**Ps. 606,328**	**Ps. 487,594**	**Ps. (3,321)**	**Ps. 1,090,601**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

December 31, 2017

	Cost	Unrealized Gain	Unrealized Losses (*)	Fair Value
In Colombian Pesos				
Corporate Stock	Ps. 276,452	Ps. 541,520	Ps. (75)	Ps. 817,897
In foreign currency				
Corporate Stock	452	5,684	—	6,136
Total equity securities	**Ps. 276,904**	**Ps. 547,204**	**Ps. (75)**	**Ps. 824,033**

The details of equity instruments through OCI as of December 31, 2018 and 2017 are as follows.

Entity (*)	December 31, 2018	December 31, 2017
Empresa de Energia de Bogota S.A. E.S.P.	Ps. 841,279	Ps. 659,208
Gas Natural S.A. ESP	43,460	49,998
Mineros S.A.	45,706	56,546
Bolsa de Valores de Colombia S.A.	48,351	52,064
Sociedades Portuarias (1)	28,897	—
Master Card	7,526	5,634
Others (1)	75,382	583
Total	**Ps. 1,090,601**	**Ps. 824,033**

(*) These investments in equity securities have been designated as FVOCI taking into account that they represent strategic investments for Grupo Aval and therefore, they are not expected to be sold in a foreseeable future.

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2.5 (B)

For the years ended December 31, 2018, 2017 and 2016, dividends from these equity investments in the amount of Ps. 71,487, Ps. 50,439 and Ps. 28,027 respectively, were recognized in profit or loss in other income line (see note 30).

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

9.5 Investment assets in debt securities through OCI pledged as collateral

The following is a list of debt securities at FVOCI assets that are being used as collateral in repo operations, pledged as collateral for transactions with financial instruments, or pledged to third parties as collateral to secure financial obligations with other banks (See note 21).

	December 31, 2018	December 31, 2017
Pledged as collateral in money market operations		
Securities issued or secured by foreign Governments	Ps. 202,300	Ps. 148,816
Securities issued or secured by Colombian Government	3,195,548	2,215,568
Securities issued or secured by non-financial sector entities	—	—
Securities issued or secured by other Colombian Government entities	63,605	133,701
Securities issued or secured by other financial entities	57,182	38,536
Others	39,602	50,273
	Ps. 3,558,237	**Ps. 2,586,894**
Pledged as collateral in operations with derivative instruments		
Securities issued or secured by Colombian Government	1,087	77,736
	Ps. 1,087	**Ps. 77,736**
Pledged as collateral to special entities such as CRCC, BR and BVC (*)		
Securities issued or secured by Colombian Government	471,579	291,878
	Ps. 471,579	**Ps. 291,878**
Other collaterals		
Securities issued or secured by central banks	167,634	158,951
	Ps. 167,634	**Ps. 158,951**
	Ps. 4,198,537	**Ps. 3,115,459**

(*) Cámara de Riesgo Central de Contraparte – CRCC, Banco de la República – BR and Bolsa de Valores de Colombia – BVC

NOTE 10 – HEDGE ACCOUNTING

In accordance with its risk management policies, Grupo Aval uses hedge accounting to manage foreign exchange risk relating to investments in foreign operations and in forecasted transactions of its subsidiary Promigas, as follows:

Hedges of net investment in foreign operations

Banco de Bogotá, Banco de Occidente and Promigas are exposed to foreign exchange risk relating to its investments in foreign subsidiaries, whose functional currencies are the US dollar.

The purpose of hedge accounting is to mitigate and offset any adverse changes resulting from the fluctuation in exchange rate of the Colombian Peso and the functional currency of such investments. The impacts of those movements are reflected in the cumulative translation adjustment in other comprehensive income of the consolidated financial statements.

To cover this risk, Grupo Aval hedges its exposure through foreign currency financial liabilities expressed in U.S. dollars and forward contracts for the sale of U.S. dollars.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Changes in the fluctuation of the Colombian peso against the U.S. dollar are as follows:

Date	Value of USD 1	Variation in pesos
December 31, 2016	3,000.71	(148.76)
December 31, 2017	2,984.00	(16.71)
December 31, 2018	3,249.75	265.75

According to information described above, the following table shows movements of OCI gross of taxes, related to hedges of net investment in foreign operations:

Detail of investment	Translation adjustment of the investments	Exchange difference of financial liabilities	Exchange difference in forward contracts	Net OCI account
Leasing Bogotá Panamá	Ps. 1,064,099	Ps. (549,336)	Ps. (514,343)	Ps. 420
Other subsidiaries and branches Banco de Bogotá	33,088	—	(32,967)	121
Occidental Bank Barbados	5,866	(5,866)	—	—
Banco de Occidente Panamá	5,598	(5,598)	—	—
Sociedad Portuaria El Cayao S.A. E.S.P.	7,865	(7,865)	—	—
Gases del Pacífico S.A.C.	1,492	(1,492)	—	—
Gas Natural de Lima y Callao S.A.C. – Calidda	6,724	(6,724)	—	—
Total	**Ps. 1,124,732**	**Ps. (576,881)**	**Ps. (547,310)**	**Ps. 541**

According to information described above, the following table contains details of hedging operations carried out to cover foreign denominated equity investments. The analysis is presented gross of taxes:

December 31, 2018

	Thousands of USD			*Ps. millions*			
Detail of investment	Investment amount	Amount of hedge by financial liabilities in foreign currency	Amount of hedge by forward contracts	Cumulative translation adjustment of the investments (1)	Exchange difference of financial liabilities (1)	Exchange difference in forward contracts	Net OCI account
Leasing Bogotá Panamá	3,964,051	(2,067,100)	(1,896,348)	Ps. 4,129,381	Ps. (1,595,205)	Ps. (2,669,831)	Ps. (135,655)
Other subsidiaries and branches Banco de Bogotá (2)	126,380	—	(121,116)	125,978	—	(123,398)	2,580
Occidental Bank Barbados	23,971	(23,971)	—	24,606	(24,606)	—	—
Banco de Occidente Panamá	23,439	(23,439)	—	35,577	(35,577)	—	—
Sociedad Portuaria El Cayao S.A. E.S.P. (3)	31,214	(31,214)	—	10,072	(10,072)	—	—
Gases del Pacífico S.A.C. (3)	4,000	(4,000)	—	2,394	(2,394)	—	—
Gas Natural de Lima y Callao S.A.C. – Calidda (3)	31,649	(19,336)	—	7,996	(7,996)	—	—
Total	**4,204,704**	**(2,169,060)**	**(2,017,464)**	**Ps. 4,336,004**	**Ps. (1,675,850)**	**Ps. (2,793,229)**	**Ps. (133,075)**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

December 31, 2017

	Thousands of USD			*Ps. millions*			
Detail of investment	**Investment amount**	**Amount of hedge by financial liabilities in foreign currency**	**Amount of hedge by forward contracts**	**Cumulative translation adjustment of the investments** [(1)]	**Exchange difference of financial liabilities** [(1)]	**Exchange difference in forward contracts**	**Net OCI account**
Leasing Bogotá Panamá	3,781,475	(2,067,100)	(1,703,009)	Ps. 3,065,281	Ps. (1,045,872)	Ps. (2,155,488)	Ps. (136,079)
Other subsidiaries and branches Banco de Bogotá [(2)]	113,909	—	(112,049)	92,891	—	(90,431)	2,460
Occidental Bank Barbados	26,396	(26,396)	—	18,740	(18,740)	—	—
Banco de Occidente Panamá	25,044	(25,044)	—	29,979	(29,979)	—	—
Sociedad Portuaria El Cayao S.A. E.S.P. [(3)]	25,000	(25,000)	—	2,207	(2,207)	—	—
Gases del Pacífico S.A.C. [(3)]	10,214	(10,214)	—	902	(902)	—	—
Gas Natural de Lima y Callao S.A.C. – Calidda [(3)]	15,895	(15,895)	—	1,272	(1,272)	—	—
Total	**3,997,933**	**(2,169,649)**	**(1,815,058)**	**Ps. 3,211,272**	**Ps. (1,098,972)**	**Ps. (2,245,919)**	**Ps. (133,619)**

(1) Includes exchange difference hedged
(2) Includes Banco de Bogotá Panamá, Banco Bogotá Finance, Ficentro and contributions of foreign branches in Miami, New York and Nassau.
(3) Includes only a portion of this investments hedged

Hedging with Forward Contracts

Forward contracts to sell U.S. dollars have been contracted to hedge part of the net foreign investment that Banco de Bogotá has in Leasing Bogotá Panamá and others foreign subsidiaries. The forward contracts were executed with counterparties from the financial sector and the hedge was documented as a "dynamic hedging strategy," where new forward contracts are signed simultaneously as the previous ones expire. According to IAS 39, changes in the fair value of derivatives due to changes in the peso/U.S. dollar exchange rate are registered under “Other Comprehensive Income” in equity and the ineffective part is recognized in the statement of income for the period

Hedging with Debt in Foreign Currency in U.S. dollars

Debt financial instruments that are not derivatives can be designated as hedging instruments of changes in foreign currency exchange rates. According to this rule Banco de Bogotá and Banco de Occidente designed debt in U.S. dollar as hedging instruments of their foreign subsidiaries as follows:

- Bonds issued by Banco de Bogotá in the international market were designated as hedging instruments of its investment in Leasing Bogotá Panamá amounting US$2,067 million in 2018 and 2017.
- Other financial liabilities in the amount of $102 million as December 31, 2018 (US$103 million as of December 31, 2017) were used to hedge part of the net foreign investment Banco de Occidente and Promigas have in foreign subsidiaries as part of a hedging strategy, by which when some obligations expire, new obligations will be designated to replace them.
- Between December 21, 2015 and November 2, 2016, financial liabilities designated as hedging instruments described above included an intra-group liability amounting to US$ 500 million that Banco de Bogotá had as a hedging instrument of its investment in Leasing Bogotá Panamá. This operation was eliminated in the consolidation process of Grupo Aval and was excluded of the foreign investment hedge accounting. Starting May 1st and up to November 2nd, 2016 Grupo Aval designated financial assets in foreign debt securities amounting to US$ 500 million as cash flow hedge, the foreign exchange differences of this intra-group liability

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

were not eliminated in the consolidation process and recorded in Other Comprehensive Income in the amount of Ps. 73,708. This value would be realized in the future as income only when the investment in Leasing Bogotá Panamá is sold. On November 2nd, 2016 Banco de Bogotá cancelled the intragroup liability amounting to US$ 500 million which was replaced in the foreign investment hedge accounting with other obligations in foreign currency with third parties.

Hedging of Forecast Transactions

In the ordinary course of its operations Promigas S.A. and its subsidiaries receive income in U.S. Dollars derived from the transportation of gas in their gas pipelines. Promigas and its subsidiaries hedge the exchange risk arising in future transactions of highly probable gas transportation income, entered into forward contracts for the sale of U.S. dollars with financial entities different from the ones consolidated into Grupo Aval. During the years ended December 31, 2018, 2017 and 2016, an exchange difference recognized under “Other Comprehensive Income” as a result of cash flow hedge accounting of income from these highly probable transactions, was reclassified to profit or loss in the amounts of Ps. (276), Ps. (26,846) and Ps. 5,037 respectively.

The following is the summary of Promigas and its subsidiaries open cash flow hedges:

	December 31, 2018	December 31, 2017
Income in U.S. dollars forecasted	120,265	41,614
Notional amount contracts forward U.S. dollars	120,265	41,614
% hedged	100 %	100 %
Fair value in Colombian pesos	(13,414)	4,303
# of contracts	1,470	468

The movement of the accumulated OCI account related to cash flow hedges in Colombian pesos during the years ended on December 31, 2018, 2017 and 2016 is as follows:

	December 31, 2018		December 31, 2017		December 31, 2016	
Balance at the beginning of the year	**Ps.**	**5,447**	**Ps.**	**7,419**	**Ps.**	**(11,757)**
Changes in the fair value of the hedge forward contracts		(19,513)		24,874		14,139
Reclassified to profit or loss		(276)		(26,846)		5,037
Balance at the end of the year	**Ps.**	**(14,343)**	**Ps.**	**5,447**	**Ps.**	**7,419**

Testing of Hedge Effectiveness

Grupo Aval considers hedging as highly effective if at the beginning and in subsequent periods, the hedging is highly effective at offsetting changes in fair value or in cash flows attributable to the risk hedged during the period for which the hedging has been designated. The hedging is considered as such if the effectiveness of the hedging is in a range between 80% and 125%. Such effectiveness is assessed by Grupo Aval’s entities at least quarterly and at the end of each accounting period.

Grupo Aval has documented the hedging effectiveness of its foreign currency denominated investments in based on the portion of the net investment hedged at the beginning of the hedging relationship. Since the net balance of these investments fluctuates during the year, Grupo Aval evaluates the hedging relationship on a daily basis as well as the result of the testing of hedge effectiveness.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Hedge Effectiveness with Forward Contracts

Grupo Aval applies the method of the forward rate used in forward contracts to evaluate the hedge effectiveness; for such purpose, Grupo Aval measures the hedge ineffectiveness comparing the value of current forward contracts, which serve as hedge, with the change in the value of a hypothetical derivative with the same maturity.

Hedge Effectiveness with Debt Instruments in Foreign Currency

For debt instruments in foreign currency designated as a hedging instrument, the gain or loss arising from the conversion of the debt to Colombian Pesos is based on the current exchange rate between the U.S. dollar and the Colombian Peso, which is the functional currency of Grupo Aval. If the notional amount of the hedging instrument exactly matches with the portion of the hedged investment in foreign operations, no ineffectiveness is registered in the statement of income.

Derivative Financial Instruments for hedging purposes comprise the following:

	December 31, 2018		December 31, 2017	
Item	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Forward contracts				
Foreign currency to buy	Ps. 28,367	Ps. 1,128	Ps. 1	Ps. 5,455
Foreign currency to sale	1,771	194,411	55,260	8,009
Total hedge derivatives	**Ps. 30,138**	**Ps. 195,539**	**Ps. 55,261**	**Ps. 13,464**
Total hedge derivatives, net		**Ps. (165,401)**	**Ps. 41,797**	

NOTE 11 – LOANS

11.1 Loan Portfolio by Product

The distribution of the loan portfolio of Grupo Aval by product is shown as follows:

	December 31, 2018	**December 31, 2017 (1)**
General purpose loans	Ps. 65,923,472	Ps. 64,153,372
Personal loans	33,791,703	30,553,566
Mortgages	17,279,362	15,103,533
Credit Cards	15,550,920	13,846,823
Working capital loans	15,192,830	14,723,490
Commercial financial leases	9,858,952	9,892,402
Interbank & overnight funds	7,635,188	7,279,047
Automobile and vehicle loans	5,951,793	5,896,640
Loans funded by development banks	3,222,754	2,713,818
Housing leases	1,312,741	1,047,766
Overdrafts	481,946	525,867
Microcredit	425,697	409,688
Consumer financial leases	254,483	226,764
Gross balance of loan portfolio	**Ps. 176,881,841**	**Ps. 166,372,776**
Loss allowance loan portfolio (2)	(8,196,187)	(5,618,481)
Net balance of loan portfolio	**Ps. 168,685,654**	**Ps. 160,754,295**

(1) Grupo Aval has initially adopted IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2.5 (B).

(2) See reconciliations from the opening to the closing balance of the loss allowance on note 4.1.5.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

11.2 Loan portfolio by maturity

The distribution of loan portfolio of Grupo Aval by contractual maturity period is as follows:

December 31, 2018

	Up to 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Total
Commercial	Ps. 46,119,981	Ps. 18,810,647	Ps. 11,234,938	Ps. 16,384,459	Ps. 92,550,025
Consumer	15,798,783	10,507,521	10,794,506	18,099,771	55,200,581
Residential mortgage	287,133	504,727	676,978	15,810,524	17,279,362
Microcredit	226,651	182,245	13,345	3,456	425,697
Financial leasing (*)	2,344,468	2,826,293	2,801,147	3,454,268	11,426,176
Total gross loan portfolio	**Ps. 64,777,016**	**Ps. 32,831,433**	**Ps. 25,520,914**	**Ps. 53,752,478**	**Ps. 176,881,841**

December 31, 2017

	Up to 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Total
Commercial	Ps. 44,888,149	Ps. 19,651,034	Ps. 11,088,553	Ps. 13,908,758	Ps. 89,536,494
Consumer	16,240,350	11,146,916	8,809,557	13,959,308	50,156,131
Residential mortgage	469,702	785,736	857,039	12,991,056	15,103,533
Microcredit	209,364	178,052	17,707	4,565	409,688
Financial leasing (*)	2,159,750	2,889,713	2,496,769	3,620,698	11,166,930
Total gross loan portfolio	**Ps. 63,967,315**	**Ps. 34,651,451**	**Ps. 23,269,625**	**Ps. 44,484,385**	**Ps. 166,372,776**

(*) See note 4.1.1

11.3 Interest income by portfolio

The interest income of the loan portfolio of Grupo Aval by portfolio is shown as follows:

	December 31, 2018	December 31, 2017	December 31, 2016
Commercial	Ps. 7,559,392	Ps. 8,420,789	Ps. 8,100,635
Consumer	8,280,113	8,087,403	7,312,009
Residential mortgage	1,442,638	1,278,001	1,135,929
Microcredit	108,472	113,774	116,943
Total interest income by portfolio	**Ps. 17,390,615**	**Ps. 17,899,967**	**Ps. 16,665,516**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

11.4 Financial Leasing portfolio

As of December 31, 2018, and 2017 the following table shows the reconciliation between gross investment in financial leasing and the present value of minimum payments to be received in these dates:

	December 31, 2018	December 31, 2017
Total gross rent payments receivable	Ps. 17,372,906	Ps. 16,445,998
Less amounts representing running costs (such as taxes, maintenance, insurances, etc.,)	(286)	(225)
Plus, estimated residual amount of assets given for rental (without guarantee)	36,166	21,673
Gross investment in contracts of financial leasing	**17,408,786**	**16,467,446**
Less unrealized financial income	(5,982,610)	(5,300,516)
Net investment in contracts of financial leasing	**11,426,176**	**11,166,930**
Impairment of net investment in financial leasing	**Ps. (471,007)**	**Ps. (297,319)**

The detailed information of gross investment and net investment in financial leasing contracts receivable as of December 31, 2018 and 2017 in each period is as follows:

	December 31, 2018	
	Gross investment	**Net investment**
Up to 1 year	Ps. 2,296,714	Ps. 1,579,195
From 1 to 5 years	6,799,539	4,870,790
More than 5 years	8,312,533	4,976,191
Total	**Ps. 17,408,786**	**Ps. 11,426,176**

	December 31, 2017	
	Gross investment	**Net investment**
Up to 1 year	Ps. 2,147,421	Ps. 1,614,889
From 1 to 5 years	6,428,242	4,986,723
More than 5 years	7,891,783	4,565,318
Total	**Ps. 16,467,446**	**Ps. 11,166,930**

The banks of Grupo Aval grant loans through the modality of financial leasing mainly for the financing of vehicles and computer equipment, generally with terms between 36 and 60 months with a purchase option, machinery and equipment with terms of 60 to 120 months with a purchase option at the end of the contract and for housing leasing with terms of 120 to 240 months transferring the asset at the end of the contract. All these leasing contracts are granted at current market interest rates at inception.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

NOTE 12 – OTHER ACCOUNTS RECEIVABLE, NET

Balances of other accounts receivable net of impairment losses comprise the following as of December 31, 2018 and 2017:

	Reference	December 31, 2018	December 31, 2017 [1]
Contract assets	12.1	Ps. 5,119,649	Ps. 3,068,629
Other accounts receivable	12.2	4,437,885	3,680,116
Total other accounts receivable		**9,557,534**	**6,748,745**
Impairment allowance	4.1.5	(256,891)	(226,862)
Total other accounts receivable, net		**Ps. 9,300,643**	**Ps. 6,521,883**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2.

12.1 Contract assets

The following table provides information about assets from contracts with customers as of December 31, 2018 and 2017:

Contract assets	December 31, 2018	December 31, 2017 [1]
Financial assets in concession arrangements rights at fair value [2]	Ps. 2,488,414	Ps. 2,282,611
Financial assets in concession arrangements rights at amortized cost [2]	2,631,235	786,018
Gross balance of other accounts receivable	**Ps. 5,119,649**	**Ps. 3,068,629**
Impairment allowance [3][4]	(966)	—
Total contract assets	**Ps. 5,118,683**	**Ps. 3,068,629**

(1) Grupo Aval has initially adopted IFRS 15 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2.5 (A), information about 2017
(2) See note 16 details about concession arrangements rights
(3) Grupo Aval has initially adopted IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2.5 (B)
(4) See reconciliations from the opening to the closing balance of the loss allowance on note 4.1.5.

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12.2 Other accounts receivable

The detailed information of other accounts receivable measured at amortized cost as of December 31, 2018 and 2017 is as follows:

Other accounts receivable measured at amortized cost		**December 31, 2018**		**December 31, 2017**
Accounts receivable for goods and services sales in Non-financial sector companies	Ps.	962,364	Ps.	1,070,936
Debtors		406,079		224,340
Guarantee deposits in foreing currency transactions		377,751		142,168
Credit card compensations and network compensation		372,702		426,090
Payment in advance		370,144		228,765
Transfers in process		330,941		185,634
Dormant customer deposits ICETEX (1)(2)		279,219		256,806
Commissions		244,669		186,646
Fees, services and advances		241,147		224,418
Payment in advance to supplier's contract		151,313		117,858
Holding and parent establishment		136,551		114,513
Accounts receivable to payment offices		69,996		34,432
Transfers to the National Treasury (2)		61,046		58,042
Storage services		40,265		43,767
Quota shares retirement pensions		29,768		28,485
Promissory sellers		20,785		15,144
Claims to insurance companies		14,142		14,450
Deductible taxes		10,234		11,961
Payment in advance for industry and trade taxes		9,563		13,392
Dividends		1,086		3,561
Others (5)		308,120		278,708
Gross balance of other accounts receivable	**Ps.**	**4,437,885**	**Ps.**	**3,680,116**
Impairment allowance (3)(4)		(255,925)		(226,862)
Other accounts receivable, net	**Ps.**	**4,181,960**	**Ps.**	**3,453,254**

(1) Pursuant to Colombian Law number 1777 of 2016, financial institutions in Colombia since August 1, 2016, must transfer the funds from clients' in dormant customer deposits to a special fund as a loan to a Colombian Government entity denominated "ICETEX", and classified as "Other accounts receivable" given it is permanently deemed refundable to any particular client. This Government Entity Fund is responsible for managing the monies funds with the commitment to return them at the time the bank customer account holder requests them. Dormant client's customer deposits are accounts of savings or current accounts that exceed the 322 UVR (Real Value Units) equivalent to Ps. 260.665 pesos, on which no deposit, withdrawal, transfer or, in general, debit or credit movements have been made during an uninterrupted period of three years.

(2) The expected dates of realization for these assets is more than twelve months

(3) Grupo Aval has initially adopted IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2.5 (B)

(4) See reconciliations from the opening to the closing balance of the loss allowance on note 4.1.5.

(5) The table below shows detail of the others

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Detail others	December 31, 2018		December 31, 2017	
Receivable from forward contracts	Ps.	130,989	Ps.	99,473
Interest		52,948		36,646
Other taxes		21,321		43,373
Value added taxes		39,098		2,806
Deficiency in savings accounts		6,864		6,074
Joint ventures		5,172		6,879
ACH, PSE, CENIT fees		4,988		8,732
Transaction fees		4,731		—
Operative process		4,486		4,408
Credit card brands compensations		3,247		—
SIIF condonations		2,219		4,435
Others		32,057		65,882
Total	**Ps.**	**308,120**	**Ps.**	**278,708**

NOTE 13 – NON-CURRENT ASSETS HELD FOR SALE

The movement of the non-current assets held for sale during the years ended December 31, 2018, 2017 and 2016 is as follows:

	December 31, 2018		December 31, 2017		December 31, 2016	
Balance at the beginning of the year	**Ps.**	**101,382**	**Ps.**	**259,527**	**Ps.**	**199,475**
Additions		180,296		89,216		236,632
Assets sold		(52,164)		(78,784)		(130,784)
Changes in fair value		(25,136)		(37,818)		(34,572)
Reclassifications [(1)]		(20,038)		(134,795)		(5,631)
Exchange gains in foreign currency		2,374		4,036		(5,593)
Balance at year end	**Ps.**	**186,714**	**Ps.**	**101,382**	**Ps.**	**259,527**

(1) Includes reclassifications to: I) Investment properties by Ps. (19,718), II) other assets by Ps. (299) and III) Investments by Ps. (21) at December 2018 and I) Investment properties by PS. (108,924); II) Investments by Ps. (23,368) and III) Other assets by Ps. (2,503) at December 2017.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The following is the detail of the non-current assets held for sale:

	December 31, 2018		December 31, 2017	
Foreclosed assets				
Movable property	Ps.	19,733	Ps.	8,523
Residential real estate		33,622		31,666
Other real estate		88,569		37,061
	Ps.	**141,924**	**Ps.**	**77,250**
Assets received from leasing agreements				
Machinery and equipment		14,989		15,640
Vehicles		984		1,623
Real estate		25,060		1,963
	Ps.	**41,033**	**Ps.**	**19,226**
Other non-current assets held for sale				
Real estate		3,517		982
Other		240		3,924
		3,757		**4,906**
Total non-current assets held for sale	**Ps.**	**186,714**	**Ps.**	**101,382**

Following is the detail of the associated liabilities to assets held for sale:

	December 31, 2018		December 31, 2017	
Commercial accounts payable	Ps.	15,876	Ps.	18,382
Total	**Ps.**	**15,876**	**Ps.**	**18,382**

Non-current assets held for sale are primarily assets received through foreclosure from assets pledged as loan collateral. Accordingly, Grupo Aval´s intention is to sell them immediately, and it has departments, processes and special sales programs for that purpose. Foreclosed assets are either sold for cash or financing for their sale is provided to potential buyers under normal market conditions. These are expected to be sold within a period of 12 months subsequent to their classification as assets held for sale. There are options contracts in place for some of these assets. Note 4.1 on credit risk contains information on assets received through foreclosure and sold during the period. During the years ended on December 31, 2018, 2017 and 2016, there were no changes in plans for the disposal of non-current assets held for sale.

NOTE 14 – INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The detail of the investments in associates and joint ventures is as follows:

	December 31, 2018		December 31, 2017	
Associates	Ps.	975,032	Ps.	925,823
Joint ventures		7,711		117,191
Total	**Ps.**	**982,743**	**Ps.**	**1,043,014**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The following table shows the balances of each investment in associates and joint ventures as of December 31, 2018 and 2017, and Grupo Aval's ownership interest percentage in those entities:

	December 31, 2018		December 31, 2017	
	Ownership interest	Book value	Ownership interest	Book value
Associates				
A.C.H Colombia S.A.	34 %	Ps. 14,010	34 %	Ps. 12,357
Redeban Multicolor S.A.	20 %	20,508	20 %	19,529
Credibanco	25 %	195,157	25 %	196,071
Aerocali S.A.	50 %	19,157	50 %	17,633
Colombiana de Extrusión S.A. Extrucol	30 %	11,327	30 %	11,476
Concesionaria Tibitoc S.A.	33 %	18,339	33 %	20,165
Metrex S.A.	18 %	2,054	18 %	2,559
C.I. Acepalma S.A. (*)	11 %	5,458	11 %	5,625
Gases del Caribe S.A. E.S.P.	31 %	269,185	31 %	269,739
Gas Natural de Lima y Callao S.A. -Calidda S.A.	40 %	410,984	40 %	363,139
Energía Eficiente S.A.	39 %	8,252	39 %	6,927
Concentra Inteligencia en Energía S.A.S.	24 %	601	24 %	603
		Ps. 975,032		**Ps. 925,823**

	December 31, 2018		December 31, 2017	
	Ownership interest	Book value	Ownership interest	Book value
Joint ventures				
Cfc Sk Eldorado Latam Advisory Company S.A.S. (1)	50 %	Ps. 398	50 %	Ps. 345
Cfc Sk El Dorado Latam Management Company Ltd (1)	50 %	6,764	50 %	4,568
Cfc Sk El Dorado Latam Capital Partner Ltd (1)	50 %	549	50 %	495
Concesionaria Ruta Del Sol S.A.S. (2) (**)	33 %	—	33 %	111,783
		Ps. 7,711		**Ps. 117,191**

(*) Grupo Aval has significant influence over C.I. Acepalma S.A. due to its participation in the Board of Directors.
(**) On December 31, 2018 the investment in Concesionaria Ruta del Sol S.A.S. has been provisioned at 100% by Ps.111,783.

The main corporate purpose of Grupo Aval´s associates is described as follows:

	Associate	Corporate purpose
1	A.C.H. Colombia S.A.	Financial transactions
2	Redeban Multicolor S.A.	Payment processing
3	Aerocali S.A	Projects in airport infrastructure
4	Colombiana de Extrusión S.A. - Extrucol	Networks and infrastructure
5	Concesionaria Tibitoc S.A.	Infrastructure projects
6	Metrex S.A.	Manufacturing and commercialization of industrial equipment
7	C.I. Acepalma S.A.	Oil palm farming and subproducts
8	Gases del Caribe S.A. E.S.P.	Gas distribution
9	Gas Natural de Lima y Callao S.A. - Calidda	Gas distribution
10	Concentra Inteligencia en Energía S.A.S.	Gas distribution
11	Energía Eficiente S.A.	Gas distribution
12	Credibanco S.A.	Payment processing

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Below is the detail of the corporate purpose of significant joint ventures in concession agreements:

(1) Different joint businesses executed by Grupo Aval's subsidiaries with specific purposes wherein the joint business assumes no responsibilities for business results, not requiring significant equity resources from Grupo Aval. In June 2017 Cfc Sk El Dorado Latam Fund L.P. went from being a Joint venture to an investment in equity securities in the trading portfolio.

(2) Estudios Proyectos del Sol S.A.S. ("Episol"), 100% owned subsidiary of Corficolombiana S.A. carried out an impairment analysis on its investment in Concesionaria Ruta del Sol S.A.S. (CRDS), a company in which it participates in 33% of its share capital, reflecting an adjustment in the amount of Ps.140,691 for 2017. The balance of this investment after the impairment expense amounts to Ps.111,783.

    In November 2018, according to the analysis carried out internally and taking into account outlines set out in International Financial Reporting Standards, the deterioration of the remaining balance of the investment was recognized through a provision. To date 100% of the investment in the Concessionaire Ruta del Sol SAS has already been fully provisioned.

As of December 31, 2018, and 2017, Grupo Aval did not have contingent assets as income receivable that arose from any contractual difference with any concession, other than any tariff recognition. There were also no contingent liabilities for fines or sanctions imposed by the Government in the development of concession contracts for possible contractual breaches.

A roll-forward of investments in associates and joint ventures accounts is shown below for the years ended at December 31, 2018, 2017 and 2016:

Associates

	December 31, 2018	December 31, 2017	December 31, 2016
Balance at the beginning of the year	**Ps. 925,823**	**Ps. 865,410**	**Ps. 645,377**
Change in accounting policy see note 2.5 B (IFRS 9)	(3,691)	—	—
Acquisitions	—	—	16
Gain in non-monetary transactions (*)	—	—	195,514
Participation in the profit or loss of the period	195,991	170,349	147,867
Participation in Other Comprehensive Income	22,400	1,135	(17,949)
Dividends received	(171,899)	(107,812)	(96,375)
Capitalization reductions	—	—	(4,746)
Allowance for Impairment	—	—	(4,027)
Reclassifications	—	—	—
Exchange difference	6,408	(3,259)	(267)
Year-end balance	**Ps. 975,032**	**Ps. 925,823**	**Ps. 865,410**

(*) Since November 30, 2016, Grupo Aval has significant influence on Credibanco. On August 26, 2016 Credibanco's General Shareholders Meeting agreed to transform the society from a non-profit organization to a Limited Liability Company, which is now accounted for as an associate.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Joint ventures

	December 31, 2018	December 31, 2017	December 31, 2016
Balance at the beginning of the year	**Ps. 117,191**	**Ps. 281,237**	**Ps. 282,222**
Participation in the period profit or loss	1,724	1,615	(7,102)
Participation in Other Comprehensive Income	—	(7)	(2,112)
Dividends received	—	—	—
Capitalization	—	87	17,282
Allowance for impairment (*)	(111,783)	(140,691)	(5,892)
Transfers / reclassification	—	(12,405)	(3,569)
Exchange difference	579	—	408
Balance acquired in business combination	—	(12,645)	—
Year-end balance	**Ps. 7,711**	**Ps. 117,191**	**Ps. 281,237**

(*) Impairment of the investment in the Concesionaria Ruta del Sol S.A.S. joint businesses (CRDS).

The condensed financial information of the associates and joint ventures is as follows:

Associates

December 31, 2018

	Assets	Liabilities	Equity	Income	Expenses	Net income
A.C.H. Colombia S.A.	Ps. 78,878	Ps. 37,437	Ps. 41,441	Ps. 83,612	Ps. 64,067	Ps. 19,545
Redeban Multicolor S.A.	213,133	111,626	101,507	214,360	201,980	12,380
Credibanco	263,521	93,951	169,570	240,489	219,166	21,323
Aerocali S.A.	104,506	66,191	38,315	214,805	205,171	9,634
Colombiana de Extrusión S.A. Extrucol	86,398	48,642	37,756	113,749	108,781	4,968
Concesionaria Tibitoc S.A.	57,420	2,403	55,017	20,468	15,964	4,504
Metrex S.A.	31,482	19,938	11,544	43,468	41,254	2,214
C.I. Acepalma	281,161	232,843	48,318	723,908	717,637	6,271
Gases del Caribe S.A.	2,585,669	1,608,107	977,562	1,938,431	1,646,970	291,461
Cálidda S.A.	2,943,477	1,916,017	1,027,460	2,007,368	1,804,907	202,461
Concentra Inteligencia en Energía S.A.S.	2,560	435	2,125	1,234	1,292	(58)
Energía Eficiente S.A.	57,226	36,188	21,038	112,914	109,488	3,426
	Ps. 6,705,431	**Ps. 4,173,778**	**Ps. 2,531,653**	**Ps. 5,714,806**	**Ps. 5,136,667**	**Ps. 578,129**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

December 31, 2017

	Assets	Liabilities	Equity	Income	Expenses	Net income
A.C.H. Colombia S.A.	Ps. 56,670	Ps. 20,119	Ps. 36,551	Ps. 69,120	Ps. 54,746	Ps. 14,374
Redeban Multicolor S.A.	177,667	81,001	96,666	160,470	149,902	10,568
Credibanco	253,991	84,294	169,697	207,592	180,422	27,170
Aerocali S.A.	133,977	99,008	34,969	117,169	100,900	16,269
Colombiana de Extrusión S.A. Extrucol	68,059	29,807	38,252	65,870	62,201	3,669
Concesionaria Tibitoc S.A.	79,566	19,069	60,497	47,125	34,003	13,122
Metrex S.A.	38,933	24,726	14,207	47,763	43,003	4,760
C.I. Acepalma	290,406	240,547	49,859	798,782	789,925	8,857
Gases del Caribe S.A.	2,363,464	1,481,320	882,144	1,577,041	1,343,286	233,755
Cálidda S.A.	2,441,398	1,536,738	904,660	1,575,804	1,402,709	173,095
Concentra Inteligencia en Energía S.A.S.	2,331	231	2,100	1,634	1,491	143
Energía Eficiente S.A.	40,853	23,142	17,711	92,170	89,709	2,461
	Ps. 5,947,315	**Ps. 3,640,002**	**Ps. 2,307,313**	**Ps. 4,760,540**	**Ps. 4,252,297**	**Ps. 508,243**

Joint ventures

December 31, 2018

	Assets	Liabilities	Equity	Income	Expenses	Net income
CFC SK Eldorado Latam Advisory Company S.A.S.	Ps. 1,077	Ps. 281	Ps. 796	Ps. 1,939	Ps. 1,762	Ps. 177
Cfc Sk Eldorado Latam Management Company Ltd.	13,573	45	13,528	3,697	410	3,287
Cfc Sk Eldorado Latam Capital Partners, Ltd.	1,125	26	1,099	150	126	24
	Ps. 15,775	**Ps. 352**	**Ps. 15,423**	**Ps. 5,786**	**Ps. 2,298**	**Ps 3,488**

December 31, 2017

	Assets	Liabilities	Equity	Income	Expenses	Net income
CFC SK Eldorado Latam Advisory Company S.A.S.	Ps. 893	Ps. 204	Ps. 689	Ps. 2,037	Ps. 1,877	Ps. 159
Cfc Sk Eldorado Latam Management Company Ltd.	9,169	34	9,135	3,584	374	3,210
Cfc Sk Eldorado Latam Capital Partners, Ltd.	1,007	16	991	—	131	(131)
Concesionaria Vial del Pacífico (*)	424,888	424,379	509	113,113	115,567	(2,454)
Concesionaria Nueva Vía al Mar (*)	188,731	166,955	21,776	26,215	23,049	3,166
	Ps. 624,688	**Ps. 591,588**	**Ps. 33,100**	**Ps. 144,949**	**Ps. 140,998**	**Ps 3,950**

(*) As of December 2017, the investment stopped being a Joint Venture and became a controlled investment. (See note 15, this acquisition is considered non-significant).

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

NOTE 15 – TANGIBLE ASSETS

The movement of the carrying value amounts of tangible assets for the years ended on December 31, 2018, 2017 and 2016 is as follows:

	For own use [2]	Given in operating leases	Investment properties [4]	Biological assets at fair value	Total
Cost					
Balance as of January 1, 2016	**Ps. 7,969,593**	**Ps. 10,491**	**Ps. 538,246**	**Ps. 240,212**	**Ps. 8,758,542**
Reclassification of bearer plants balance [1]	188,177	—	—	(188,177)	—
Effects of amendments in accounting policies of bearer plants	29	—	—	(18,108)	(18,079)
Purchases or capitalized expenses	814,194	362	71,268	21,432	907,256
Withdrawals / Sales	(367,987)	(3,806)	(61,786)	(20,670)	(454,249)
Changes in fair value	—	—	53,680	14,644	68,324
Transfers to/from non-current assets held for sale	(18,704)	—	11,319	—	(7,385)
Adjustments for exchange differences	(138,320)	—	—	—	(138,320)
Reclassifications	(58,046)	—	(2,539)	(1,331)	(61,916)
Balance as of December 31, 2016	**8,388,936**	**7,047**	**610,188**	**48,002**	**9,054,173**
Purchases or capitalized expenses	470,650	3,102	84,036	24,409	582,197
Withdrawals / Sales [5]	(374,606)	(2,467)	(28,431)	(19,775)	(425,279)
Changes in fair value	—	—	46,675	13,503	60,178
Transfers to/from non-current assets held for sale	587	—	101,469	—	102,056
Adjustments for exchange differences	(65,404)	—	—	—	(65,404)
Reclassifications	77,394	—	(30,143)	—	47,251
Balance as of December 31, 2017	**8,497,557**	**7,682**	**783,794**	**66,139**	**9,355,172**
Purchases or capitalized expenses [3]	547,668	1,641	61,300	20,900	631,509
Withdrawals / Sales [5]	(389,303)	(1,539)	(78,684)	(23,343)	(492,869)
Changes in fair value [6]	—	—	39,415	20,606	60,021
Transfers to/from non-current assets held for sale	1,335	—	19,719	—	21,054
Adjustments for exchange differences	120,766	—	—	—	120,766
Reclassifications	(37,538)	—	10,780	(96)	(26,854)
Balance as of December 31, 2018	**8,740,485**	**7,784**	**836,324**	**84,206**	**9,668,799**
Accumulated Depreciation:					
Balance January 1, 2016	**(2,236,346)**	**(7,064)**	**—**	**—**	**(2,243,410)**
IAS 41 Adoption Effect – agriculture	(29)	—	—	—	(29)
Depreciation for the year charged to profit or loss	(454,620)	(1,232)	—	—	(455,852)
Withdrawals / Sales	126,782	3,413	—	—	130,195
Transfers to/from non-current assets held for sale	10,781	—	—	—	10,781
Adjustments for exchange differences	71,582	—	—	—	71,582
Reclassification	(5,338)	—	—	—	(5,338)
Balance December 31, 2016	**(2,487,188)**	**(4,883)**	**—**	**—**	**(2,492,071)**
Depreciation of the year charged against profit or loss	(463,133)	(759)	—	—	(463,892)
Withdrawals / Sales [5]	274,804	2,036	—	—	276,840
Adjustments for exchange differences	20,881	—	—	—	20,881
Reclassification	(35,531)	—	—	—	(35,531)
Balance December 31, 2017	**(2,690,167)**	**(3,606)**	**—**	**—**	**(2,693,773)**
Depreciation of the year charged against profit or loss	(477,260)	(1,346)	—	—	(478,606)
Withdrawals / Sales [5]	164,541	1,381	—	—	165,922
Adjustments for exchange differences	(63,058)	—	—	—	(63,058)
Reclassification	(4,897)	—	—	—	(4,897)
Balance December 31, 2018	**(3,070,841)**	**(3,571)**	**—**	**—**	**(3,074,412)**
Impairment losses:					
Balance as of January 1, 2016	**(1,017)**	**(67)**	**—**	**—**	**(1,084)**
Year impairment charge	(1,482)	(21)	—	—	(1,503)
Balance as of December 31, 2016	**(2,499)**	**(88)**	**—**	**—**	**(2,587)**
Withdrawals / Year impairment charge	(4,894)	88	—	—	(4,806)
Balance as of December 31, 2017	**(7,393)**	**—**	**—**	**—**	**(7,393)**
Withdrawals / Year impairment charge	1,492	(3)	—	—	1,489
Balance as of December 31, 2018	**(5,901)**	**(3)**	**—**	**—**	**(5,904)**
Tangible Assets, net:					
Balance as of December 31, 2017	**Ps. 5,799,997**	**Ps. 4,076**	**Ps. 783,794**	**Ps. 66,139**	**Ps. 6,654,006**
Balance as of December 31, 2018	**Ps. 5,663,743**	**Ps. 4,210**	**Ps. 836,324**	**Ps. 84,206**	**Ps. 6,588,483**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

(1) Recognition of bearer plants See note 2.19.
(2) Only includes assets for own use different than assets given in operating lease (see note 15.2).
(3) The total of purchases of for own use, includes Ps. 325 for capitalization of intangible.
(4) The total of purchases of investment properties, includes Ps. 6,895 at December 31, 2018 and Ps. 8,219 at December 31, 2017, of assets received in total or partial settlement of the payment obligations of debtors.
(5) The total of Withdrawals includes Ps. (114,099) in Own Use, Ps. 3,064 in investment properties and Ps. (4,225) in biological assets, from the liquidation of "Pizano and Banco Corficolombiana Panamá" at December 31, 2018 and Ps. (30,440) in Own Use of the liquidation of "Consorcio Consol" at December 31, 2017.
(6) The total of changes in fair value of investment properties includes Ps. 9,888 by Withdrawals of the period.

15.1. Properties, plant and equipment for own use

The following is the detail of the balance at December 31, 2018 and 2017, by type:

	Cost	Accumulated depreciation	Impairment loss	Carrying amount
December 31, 2018				
Land	Ps. 1,011,018	Ps. —	Ps. (3,742)	Ps. 1,007,276
Buildings	2,652,100	(569,741)	—	2,082,359
Office equipment and accessories	1,013,974	(684,617)	(262)	329,095
Information technology equipment	1,725,795	(1,260,973)	—	464,822
Vehicles	134,417	(70,826)	(35)	63,556
Equipment and machinery	1,354,271	(222,139)	(1,862)	1,130,270
Silos	8,613	(5,739)	—	2,874
Warehouses	44,416	(26,679)	—	17,737
Advanced payments for the acquisition of plant property and equipment	1,284	—	—	1,284
Improvements in leaseholds properties	381,158	(220,939)	—	160,219
Construction in progress	185,264	—	—	185,264
Bearer plants	228,175	(9,188)	—	218,987
Balance as of December 31, 2018	**Ps. 8,740,485**	**Ps. (3,070,841)**	**Ps. (5,901)**	**Ps. 5,663,743**

	Cost	Accumulated depreciation	Impairment loss	Carrying amount
December 31, 2017				
Land	Ps. 1,007,788	Ps. —	Ps. (3,741)	Ps. 1,004,047
Buildings	2,640,644	(485,924)	(116)	2,154,604
Office equipment and accessories	944,127	(613,400)	(226)	330,501
Information technology equipment	1,573,284	(1,121,179)	(11)	452,094
Vehicles	131,301	(62,304)	—	68,997
Equipment and machinery	1,362,242	(187,500)	(3,299)	1,171,443
Silos	8,613	(4,760)	—	3,853
Warehouses	43,592	(25,734)	—	17,858
Advanced payments for the acquisition of plant property and equipment	6,974	—	—	6,974
Improvements in leaseholds properties	348,431	(182,318)	—	166,113
Construction in progress	211,120	—	—	211,120
Bearer plants	219,441	(7,048)	—	212,393
Balance as of December 31, 2017	**Ps. 8,497,557**	**Ps. (2,690,167)**	**Ps. (7,393)**	**Ps. 5,799,997**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

15.2 Properties, plant and equipment given in operating lease:

The following is movement of carrying value amounts of the balance to as of December 31, 2018 and 2017, by type:

December 31, 2018	Cost	Accumulated depreciation	Impairment loss	Carrying amount
Equipment, furniture and office equipment	Ps. 98	Ps. (98)	Ps. —	Ps. —
Computing equipment	4,041	(1,641)	1	2,401
Vehicles	3,176	(1,648)	(4)	1,524
Mobilization equipment and machinery	469	(184)	—	285
Balance as of December 31, 2018	**Ps. 7,784**	**Ps. (3,571)**	**Ps. (3)**	**Ps. 4,210**

December 31, 2017	Cost	Accumulated depreciation	Impairment loss	Carrying amount
Equipment, furniture and office equipment	Ps. 203	Ps. (203)	Ps. —	Ps. —
Computing equipment	3,363	(1,484)	—	1,879
Vehicles	3,627	(1,834)	—	1,793
Mobilization equipment and machinery	489	(85)	—	404
Balance as of December 31, 2017	**Ps. 7,682**	**Ps. (3,606)**	**Ps. —**	**Ps. 4,076**

Below is a summary of the minimum lease payments to be received in the next years based on assets given in operating lease to December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Less than a year	Ps. 2,313	Ps. 2,833
More than a year, less than 5	2,588	2,435
Total	**Ps. 4,901**	**Ps. 5,268**

15.3 Biological Assets

Following is the detail of the biological assets by type:

	December 31, 2018	December 31, 2017
African palm		
In production (at fair value)	Ps. 29,783	Ps. 26,555
Rubber plantations		
In production (at fair value)	41,533	24,158
Other at fair value (1)	12,890	15,426
Total	**Ps. 84,206**	**Ps. 66,139**

(1) Includes short-term crops, livestock and fish farming.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

During the years ended on December 31, 2018, 2017 and 2016, Grupo Aval recorded in its statement of income the following and expenses income related to biological assets:

	December 31, 2018	December 31, 2017	December 31, 2016
Sales of biological goods	Ps. 88,382	Ps. 43,788	Ps. 39,032
Changes in fair value of biological assets	20,606	13,503	14,644
Subtotal	**108,988**	**57,291**	**53,676**
Costs and expenses	(73,981)	(37,313)	(27,067)
Depreciation of bearer plants	(11,816)	(3,405)	(2,665)
General administration costs and sales	(5,390)	(7,278)	(4,379)
Financial costs	(5,599)	(4,136)	(2,285)
Subtotal	**(96,786)**	**(52,132)**	**(36,396)**
Total net income	**Ps. 12,202**	**Ps. 5,159**	**Ps. 17,280**

The following is the detail of the hectares sown by subordinates of Grupo Aval in the process of growth and in the production process as of December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Areas planted in hectares		
In production process	8,534	7,731

The following is the detail of hectares for expected years of production:

	December 31, 2018	December 31, 2017
Areas planted in hectares		
Less than 1 year	1,639	1,168
Between 1 and 5 years	3,194	1,078
Between 5 and 10 years	1,966	2,074
More than 10 years	1,735	3,411
Total	**8,534**	**7,731**

15.4 Investment properties

The following table summarizes investment properties as of December 31, 2018 and 2017:

December 31, 2018	Cost	Accumulated adjustments to fair value	Carrying amount
Land	Ps. 371,087	Ps. 198,252	Ps. 569,339
Buildings	215,712	51,273	266,985
Balance as of December 31, 2018	**Ps. 586,799**	**Ps. 249,525**	**Ps. 836,324**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

December 31, 2017		**Cost**		**Accumulated adjustments to fair value**		**Carrying amount**
Land	Ps.	365,675	Ps.	159,836	Ps.	525,511
Buildings		217,897		40,386		258,283
Balance as of December 31, 2017	**Ps.**	**583,572**	**Ps.**	**200,222**	**Ps.**	**783,794**

The following amounts have been recognized in the Consolidated Statement of Income during the years ended on December 31, 2018, 2017 and 2016 in relation to investments properties:

		December 31, 2018		**December 31, 2017**		**December 31, 2016**
Income from rents	Ps.	10,370	Ps.	11,992	Ps.	5,183
Direct operating expenses deriving from property investments which create income from rent		(1,486)		(1,053)		(321)
Direct operating expenses deriving from property investments which do not create income from rent		(5,112)		(4,239)		(1,328)
	Ps.	**3,772**	**Ps.**	**6,700**	**Ps.**	**3,534**

NOTE 16 – CONCESSION ARRANGEMENTS RIGHTS

The following is the balance of the assets in concession agreements registered in the Group as of December 31, 2018 and 2017:

		December 31, 2018		**December 31, 2017**
Financial assets at fair value (3)	Ps.	2,488,414	Ps.	2,282,611
Financial asset at amortized cost net (1) (2) (3)		2,630,269		786,018
Intangible asset (2)		5,514,481		3,114,167
Total assets in concession contracts	**Ps.**	**10,633,164**	**Ps.**	**6,182,796**

(1) At December 31, 2018, the balance of the financial asset at amortized cost includes an impairment expense of Ps. 966, see note 16.1.
(2) Grupo Aval has initially adopted IFRS 15 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See notes 2.5.
(3) See note 12, other accounts receivables.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

16.1 Financial Assets in Concession Arrangements

The following table shows the changes in financial assets in concession arrangements registered in Grupo Aval's subsidiaries for the years ended at December 31, 2018 and 2017:

	Gas and Energy	Infrastructure	Total
Balance at December 31, 2015	**Ps. 1,891,692**	**Ps. 42,864**	**Ps. 1,934,556**
Additions or new concession arrangements	—	408,040	408,040
Collections during the year	—	(327,607)	(327,607)
Adjustment to fair value credited to income	180,982	—	180,982
Accrued interest	—	79,944	79,944
Balance at December 31, 2016	**Ps. 2,072,674**	**Ps. 203,241**	**Ps. 2,275,915**
Additions or new concession arrangements (1)	—	698,749	698,749
Collections during the year	—	(162,271)	(162,271)
Adjustment to fair value credited to income	209,937	—	209,937
Accrued interest	—	46,299	46,299
Balance at December 31, 2017	**Ps. 2,282,611**	**Ps. 786,018**	**Ps. 3,068,629**
Impact of the adoption of IFRS 15 (2)	—	463,622	463,622
Impact of the adoption of IFRS 9 (2) (3)	—	(568)	(568)
Balance at January 01, 2018	**Ps. 2,282,611**	**Ps. 1,249,072**	**Ps. 3,531,683**
Additions or new concession arrangements	—	1,361,261	1,361,261
Collections during the year	—	(22,803)	(22,803)
Adjustment to fair value credited to income	205,803	—	205,803
Accrued interest	—	43,137	43,137
Impairment expense	—	(398)	(398)
Balance at December 31, 2018	**Ps. 2,488,414**	**Ps. 2,630,269**	**Ps. 5,118,683**

(1) Corporación Financiera Colombiana - Corficolombiana S.A., acquired an additional 40% of the Concesionaria Vial del Pacífico S.A.S. and an additional 40% of the Concesionaria Nueva Vía al Mar S.A.S., both domiciled in Colombia, increasing amortized cost in Ps. 396,467 (this acquisition is considered non-significant).

(2) Grupo Aval has initially adopted IFRS 15 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2.5.

(3) See note 12, other accounts receivables.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

16.2 Intangible Assets in Concession Arrangements

The following table shows a roll-forward of the main concession agreements in Grupo Aval's subsidiaries under intangible assets during the years ended at December 31, 2018, 2017 and 2016:

	Gas and energy	Infrastructure	Total
Cost			
At December 31, 2015	**Ps. 1,884,476**	**Ps. 888,834**	**Ps. 2,773,310**
Additions	421,202	190,977	612,179
Reclassification to PPE	68,587	4	68,591
Withdrawals / Sales	(4,334)	(17)	(4,351)
At December 31, 2016	**Ps. 2,369,931**	**Ps. 1,079,798**	**Ps. 3,449,729**
Additions	193,489	417,420	610,909
Reclassification to PPE	(14,408)	—	(14,408)
Withdrawals / Sales	(1,915)	(1,590)	(3,505)
Foreign exchange adjustment	(1,041)	—	(1,041)
At December 31, 2017	**Ps. 2,546,056**	**Ps. 1,495,628**	**Ps. 4,041,684**
Impact of the adoption of IFRS 15 [(2)]	—	619,949	619,949
Balance at January 01, 2018	**Ps. 2,546,056**	**Ps. 2,115,577**	**Ps. 4,661,633**
Additions	428,375	1,617,306	2,045,681
Reclassification to PPE	25,840	—	25,840
Withdrawals / Sales	(1,250)	(124)	(1,374)
Foreign exchange adjustment	33,993	—	33,993
At December 31, 2018	**Ps. 3,033,014**	**Ps. 3,732,759**	**Ps. 6,765,773**
Accumulated Amortization			
At December 31, 2015	**Ps. (149,743)**	**Ps. (232,865)**	**Ps. (382,608)**
Amortization of the year	(100,850)	(159,817)	(260,667)
Reclassification to PPE	(2,111)	(2)	(2,113)
Withdrawals / sales	973	—	973
At December 31, 2016	**Ps. (251,731)**	**Ps. (392,684)**	**Ps. (644,415)**
Amortization of the year	(119,549)	(164,940)	(284,489)
Reclassification to PPE	841	—	841
Withdrawals / sales	630	—	630
Foreign exchange adjustment	(84)	—	(84)
At December 31, 2017	**Ps. (369,893)**	**Ps. (557,624)**	**Ps. (927,517)**
Amortization of the year	(129,509)	(170,701)	(300,210)
Reclassification to PPE	(665)	**—**	(665)
Withdrawals / sales [(1)]	147	**(21,230)**	(21,083)
Foreign exchange adjustment	(1,817)	**—**	(1,817)
At December 31, 2018	**Ps. (501,737)**	**Ps. (749,555)**	**Ps. (1,251,292)**
Total Intangible Assets			
Balance at December 31, 2015	**Ps. 1,734,733**	**Ps. 655,969**	**Ps. 2,390,702**
Cost	485,455	190,964	676,419
Amortization	(101,988)	(159,819)	(261,807)
Balance at December 31, 2016	**Ps. 2,118,200**	**Ps. 687,114**	**Ps. 2,805,314**
Cost	176,125	415,830	591,955
Amortization	(118,162)	(164,940)	(283,102)
Balance at December 31, 2017	**Ps. 2,176,163**	**Ps. 938,004**	**Ps. 3,114,167**
Impact of the adoption of IFRS 15 [(2)]	—	619,949	619,949
Balance at January 01, 2018	**2,176,163**	**Ps. 1,557,953**	**Ps. 3,734,116**
Cost	486,958	1,617,182	2,104,140
Amortization	(131,844)	(191,931)	(323,775)
Balance at December 31, 2018	**Ps. 2,531,277**	**Ps. 2,983,204**	**Ps. 5,514,481**

(1) In infrastructure, Proyectos de Infraestructura PISA S.A. includes an amortization of Ps. 21,230 that was offset with a liability outstanding with Agencia Nacional de Infraestructura – (ANI), due to the liquidation of the capacity records with the ANI.

(2) Grupo Aval has initially adopted IFRS 15 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2.5.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The following is a summary of the main concession contracts granted to Grupo Aval's subsidiaries as of December 31, 2018

Concession Owner	Business and country	Objective	Current stage	Contract date	Year of construction start	% progress of construction	Concession end date
Gas and Energy							
Surtigas S.A. E.S.P.	Gas and Energy Colombia	Purchase, storage, packaging and distribution of gases derived from hydrocarbons.	Operation	03/1984 to 04/1994	1984	100 %	2034 to 2045
Transmetano E.S.P. S.A.	Gas and Energy Colombia	Construction, operation and maintenance of gas transportation systems.	Operation and maintenance	08/1994	1996	100 %	2044
Promigas S.A. E.S.P.	Gas and Energy Colombia	Purchase, sale, transportation, distribution, exploitation and exploration of natural gas, oil and hydrocarbons in general.	Operation	05/1976 to 11/1994	1976	100 %	2026 to 2044
Promioriente S.A. E.S.P.	Gas and Energy Colombia	Construction, operation and maintenance of gas pipelines.	Operation and maintenance	09/1995	1995	100 %	2045
Gases de Occidente S.A. E.S.P.	Gas and Energy Colombia	Transportation and distribution of liquefied petroleum gas and natural gas.	Operation	08/1998	1998	100 %	2047
Compañía Energética de Occidente S.A. E.S.P.	Gas and Energy Colombia	Administrative, operational, technical and commercial management for the provision of electrical energy.	Construction and Operation	01/2010	2010	34 %	2035
Gases del Pacífico S.A.C.	Gas and Energy Perú	Purchase, sale, production, commercialization of energy in any of its forms.	Construction and Operation	10/2013	2015	37 %	2034
Sociedad Portuaria El Cayao S.A. E.S.P.	Gas and Energy Perú	Construction, maintenance and administration of ports.	Operation and maintenance	07/2015	2015	100 %	2035
Infrastructure							
Proyectos de Infraestructura S.A.	Infrastructure Colombia	Design, construction, equipment, conservation, operation and maintenance of road infrastructure.	Operation and maintenance	12/1993	1994	100 %	2033
Concesionaria Vial de los Andes S.A.S. - Coviandes	Infrastructure Colombia	Design, construction, equipment, conservation, operation and maintenance of road infrastructure.	Operation and maintenance	08/1994	1996	100 %	2019 to 2023
Concesiones CCFC S.A.S.	Infrastructure Colombia	Design, construction, equipment, conservation, operation and maintenance of road infrastructure.	Operation and maintenance	06/1995	2001	100 %	2024
Concesionaria Panamericana S.A.S.	Infrastructure Colombia	Design, construction, equipment, conservation, operation and maintenance of road infrastructure.	Operation and maintenance	12/1997	2009	100 %	2035
Concesionaria Vial del Pacífico S.A.S.	Infrastructure Colombia	Design, construction, equipment, conservation, operation and maintenance of road infrastructure.	Construction	09/2014	2018	14.03 %	2040
Concesionaria Nueva Vía del Mar S.A.S.	Infrastructure Colombia	Design, construction, equipment, conservation, operation and maintenance of road infrastructure.	Preconstruction	01/2015	N/A	2.61 %	2044
Concesionaria Vial Andina S.A.S.	Infrastructure Colombia	Design, construction, equipment, conservation, operation and maintenance of road infrastructure.	Construction	06/2015	2016	38.37 %	2050
Concesionaria Vial Del Oriente S.A.S.	Infrastructure Colombia	Design, construction, equipment, conservation, operation and maintenance of road infrastructure.	Construction	07/2015	2018	12.83 %	2038

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

NOTE 17 – GOODWILL

The following is the roll-forward of the goodwill balance during the years ended December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Balance at the beginning of the year	**Ps.** 6,901,056	**Ps.** 6,824,935
Additions / Purchases [(1)]	—	102,376
Foreign exchange adjustment [(2)]	417,538	(26,255)
Balance at the end of the year	**Ps. 7,318,594**	**Ps. 6,901,056**

(1) In 2017 Corficolombiana acquired an additional 40 % of the Concesionaria Vial del Pacífico – Covipacífico S.A.S., located in Colombia. The business acquisition generated Goodwill of Ps. 102,376 (this acquisition is considered non-significant).

(2) The foreign exchange adjustment is attributable to Leasing Bogotá Panamá.

The following is the detail of goodwill assigned by cash generating units (CGU) representing the lowest identifiable level within Grupo Aval and monitored by management. In addition the values of goodwill are not greater than the identified business' segments:

	Goodwill carrying amount	
CGU	**December 31, 2018**	**December 31, 2017**
Leasing Bogotá Panamá [(2)]	Ps. 5,105,901	Ps. 4,688,363
Banco de Bogotá S.A. over Megabanco [(1)]	465,905	465,905
Promigas S.A. and Subsidiaries	169,687	169,687
Concesionaria Panamericana S.A.S.	119,915	119,915
Concesionaria Covipacífico S.A.S.	102,376	102,376
Hoteles Estelar S.A.	6,661	6,661
Banco de Occidente S.A. over Banco Unión [(1)]	22,724	22,724
Banco Popular S.A.	358,401	358,401
Banco de Bogotá S.A.	301,222	301,222
Banco de Occidente S.A.	127,571	127,571
Sociedad Administradora de Pensiones y Cesantías Porvenir S.A.	538,231	538,231
	Ps. 7,318,594	**Ps. 6,901,056**

(1) Goodwill recognized as a result of mergers into these entities.
(2) The foreign exchange adjustment is attributable to Leasing Bogotá Panamá.

The recoverable amount of each cash generating unit was determined based on market values of banks, listed in stock exchanges and a recoverable amount is determined by a study for those not listed in stock exchanges. Such calculations used cash flow projections, covering periods from 5 to 20 years. Cash flows subsequent to these periods were extrapolated using estimated growth rates for such flows, not exceeding the average of the economic sector where the cash generating unit operates.

There are no impairment losses for the periods ended as of December 31, 2018 and 2017, given that the recoverable amounts of these cash-generating units exceed the book value.

Below is a detail of the most significant values that comprise Goodwill, representing more than 80% of the Goodwill balance detailed above:

A. Leasing Bogotá S.A. Panamá

On December 9, 2010, Banco de Bogotá S.A. acquired control of BAC Credomatic Inc (BAC COM) through its subsidiary Leasing Bogotá S.A. Panamá (LBP), which is the Panamanian company that executed the purchase agreement. BAC Credomatic Inc. (BAC COM), a company incorporated to do business under the laws of the British Virgin Islands, is the owner of Banco BAC International Bank, Inc. and the operations of BAC Credomatic Inc. (BAC) in Central America.

With the acquisition of BAC COM, through LBP, BAC's corporate structure now is controlled by Banco de Bogotá S.A., which is controlled, in turn, by Grupo Aval. Goodwill was generated and recognized as a result of that operation. Banco de Bogotá was authorized by the Superintendency of Finance to make this acquisition, through its subsidiary Leasing Bogotá Panamá, as indicated in Official Notice 2010073017- 048 dated December 3, 2010.

Afterwards, ninety-eight point ninety-two percent (98.92%) of the shares of Banco Bilbao Vizcaya Argentaria S.A. Panamá (BBVA Panamá, now BAC de Panamá) were acquired by Banco de Bogotá, through its subsidiary Leasing Bogotá Panamá, under authorization from the Superintendency of Finance, as per Official Notice 2013072962-052 dated December 12, 2013.

Also, one hundred percent (100.00%) of the shares of Banco Reformador de Guatemala (Reformador) and of Transcom Bank Limited in Barbados (Transcom) were acquired, and both banks were stated as Grupo Financiero Reformador de Guatemala. The Superintendency of Finance authorized Banco de Bogotá to acquire these banks, through its subsidiaries Credomatic International Corporation and BAC Credomatic Inc., as per Official Notice 2013068082-062 dated December 3, 2013.

Finally, during 2015, Credomatic International Corporation, a subsidiary of the company, acquired 100% of the issued and outstanding shares of COINCA Corporation Inc. (COINCA) and Corporación Tenedora BAC Credomatic S.A., and an indirect subsidiary of the Company, acquired 100% of the issued and outstanding shares of Medios de Pago MP S.A., domiciled in Costa Rica, generating with the latter an additional capital gain of Ps. 853,401 that was included in the consolidated financial statements of the Bank in the first quarter of 2016.

The latest valuation update for the groups of cash generating units to which this goodwill was allocated was done by an external adviser and reviewed by Management in January 2019, based on the financial statements of BAC Credomatic at September 30, 2018. The conclusion was that there are no situations that imply a possible impairment, given that the recoverable amount of the groups of cash generating units associated with goodwill was Ps. 18,531,491 exceeds the book value by Ps. 5,723,300.

The following table shows the averages of the main assumptions used in the reports on impairment of the cash-generating units with allocated goodwill, based on the impairment assessments done on the indicated dates. Although the valuation exercise includes a 10 years projection, the following tables only show the first 5 years as, following the first year of projection, rates are generally stable with no significant variations.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

December 31, 2018

	2019	2020	2021	2022	2023
Lending rate on the loan portfolio and investments	11.4 %	11.4 %	11.4 %	11.3 %	11.3 %
Borrowing rate	2.9 %	3.0 %	3.0 %	3.0 %	3.0 %
Growth in income from commissions	2.0 %	7.7 %	8.0 %	7.8 %	7.7 %
Growth in expenses	5.3 %	6.2 %	5.8 %	6.0 %	6.3 %
Discount rate after taxes	11.8 %				
Growth rate after ten years	3.0 %				

December 31, 2017

	2018	2019	2020	2021	2022
Lending rate on the loan portfolio and investments	11.0 %	11.0 %	11.0 %	11.0 %	11.1 %
Borrowing rate	2.7 %	2.8 %	2.9 %	3.0 %	3.0 %
Growth in income from commissions	6.5 %	8.3 %	8.2 %	8.2 %	8.3 %
Growth in expenses	6.1 %	6.2 %	6.7 %	6.7 %	6.8 %
Discount rate after taxes	11.3 %				
Growth rate after ten years	3.0 %				

A 10-year projection was made to evaluate goodwill impairment, considering the business will have matured and the flow of funds will have stabilized once this period has elapsed. In turn, macroeconomic assumptions as well as those for BAC Credomatic's business in each of the countries where it operates were used for the projection, so as to reflect the reality that each market provides to the CGUs as a whole. The averages of the main premises used are listed in the foregoing tables, including the variables for all the countries where BAC Credomatic Inc. operates. The following is description of that process:

- Lending rates on loans and investments were projected based on historical data and on the expectations of management in each of the countries where BAC Credomatic Inc. operates, considering the competitiveness of the different services in their respective markets and the growth strategies for each segment. The projection on US Federal Reserve rates was taken into account as well, since these rates serve as a basis for international banking rates.

- Growth in income from commissions was projected in line with the growth in BAC Credomatic´s active portfolio, which allows for greater income through products and services like insurance, memberships. commissions on foreign currency exchange and also the implementation of new services among others. Competitive markets were also considered in the projected time horizon elapsed.

- Although the functional or reporting currency of the business is that of each country in the region where BAC Credomatic Inc´s. subsidiaries operate, the future flows of funds have been converted into nominal U.S. dollars in each projected period, discounted at a nominal rate in U.S. dollars, net of income tax, estimated as "Ke". A discount rate in U.S. dollars is used, given that a consistent discount rate in the respective local currencies cannot be estimated because of the lack of necessary data.

- The discount rate has been estimated in light of the risk profile of each of the markets where BAC Credomatic Inc. operates.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

- To estimate the terminal value, the normalized flow of funds, adjusted according to expectations for its growth, was projected in perpetuity. This projection does not exceed the average long-term rate of growth for the economies in each of the countries where BAC operates. Consequently, an annual growth rate of 3.0% was estimated for the long term.

The discount rate after taxes used to discount the dividend flows reflects the specific risks relative to the CGU and the markets where BAC Credomatic operates, as mentioned earlier. Had the USD denominated estimated 11.8% discount rate been 1.0% higher; it would not have been necessary to reduce the book value of goodwill, since the value-in-use of the cash-generating units associated with goodwill would have been Ps. 16,068,408, still exceeding book value as of December 31, 2018 of Ps. 12,808,191.

B. Cash-generating units inside Banco de Bogotá

Goodwill was generated in 2006 with the acquisition of 94.99% of the shares of Banco de Crédito y Desarrollo Social – MEGABANCO S.A. and later merged with Banco de Bogotá. This operation was authorized by the Office of the Superintendency of Finance in Resolution No. 917 dated June 2, 2006.

That goodwill was allocated to the groups of cash-generating units inside Banco de Bogotá involved in the following lines of business:

	Share (%)	Value
Commercial	32.7 %	Ps. 152,539
Consumer	30.8 %	143,287
Payroll installment loans	27.0 %	125,934
Vehicles	6.7 %	31,304
Microcredit	2.8 %	12,841
Total	**100.0 %**	**Ps. 465,905**

The latest valuation update for the business lines of the groups of cash-generating units to which this goodwill was allocated, was performed by an external adviser and reviewed by management. This valuation was conducted on January 2019 and is based on Banco de Bogotá´s financial statements at September 30, 2018. It was concluded that there are no situations that imply a possible impairment, given that the recoverable amount of the groups of cash generating units associated with goodwill was Ps. 9,865,076 exceeds the book value by Ps. 2,461,897.

The following table shows the main assumptions used in the latest impairment tests of the groups of cash-generating units with allocated goodwill.

December 31, 2018

	2019	2020	2021	2022	2023
Lending rate on the loan portfolio and investments	9.4 %	10.0 %	10.1 %	10.3 %	10.5 %
Borrowing rate	3.5 %	3.8 %	3.9 %	4.2 %	4.3 %
Growth in income from commissions	9.9 %	7.5 %	8.0 %	7.9 %	8.3 %
Growth in expenses	3.7 %	3.9 %	3.1 %	3.5 %	3.6 %
Inflation	2.9 %	3.1 %	2.7 %	3.5 %	3.3 %
Discount rate after taxes	14.0 %				
Growth rate after five years	3.1 %				

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

December 31, 2017

	2018	2019	2020	2021	2022
Lending rate on the loan portfolio and investments	9.6 %	9.4 %	9.3 %	9.5 %	9.6 %
Borrowing rate	3.6 %	3.3 %	3.2 %	3.6 %	3.8 %
Growth in income from commissions	9.2 %	7.7 %	7.8 %	8.5 %	8.5 %
Growth in expenses	2.5 %	4.0 %	4.0 %	5.1 %	4.4 %
Inflation	3.3 %	3.4 %	3.2 %	3.3 %	3.6 %
Discount rate after taxes	14.0 %				
Growth rate after five years	3.5 %				

A 5-year projection was made to estimate goodwill, based on macroeconomic assumptions and those related to the businesses listed in the foregoing tables.

The following is a description of that process.

- The lending rates on loans and investments were projected based on the Company expected rates and lending rates from independent specialists (The Economist Intelligence Unit "EIU")
- The borrowing rates were projected based on the Company expected rates and the money market interest rate from EIU.
- Estimated growth in commissions is based on its historical percentage over the gross loan portfolio.
- Estimated growth in expenses is based on the inflation's growth and/or its historical percentage over revenues.
- The inflation rate used in the projections is based on reports from outside sources, such as The Economist Intelligence Unit, and Corficolombiana.
- The growth rate used for the terminal value was 3.1%, which is the average projected inflation provided by the independent specialists and reviewed by management.

The discount rate after taxes used to discount dividend flows reflects the specific risks relative to each cash-generating unit. If the 14.0% estimated discount rate had been 1.0% higher than the rate estimated in the models, the book value of goodwill would not have to be reduced, since the fair value of the groups of cash-generating units associated with goodwill would have been Ps. 9,044,053, which is above the book value of Ps. 7,403,179 as of December 31, 2018.

C. Sociedad Administradora de Fondos de Pensiones y Cesantías Porvenir S.A.

After the acquisition, Porvenir absorbed AFP Horizonte Pensiones y Cesantías S.A and the goodwill in question was allocated to the groups of cash-generating units that together made up Porvenir later that same year.

The latest valuation update for the business lines of the groups of cash-generating units to which this goodwill was allocated, was done by an external adviser and reviewed by management. This valuation was conducted on January 2019 and is based on financial statements of Porvenir at September 30, 2018. The conclusion was that there are no situations that imply a possible impairment, given that the recoverable amount of the groups of cash generating units associated with goodwill was Ps. 4,056,799, exceeding the book value by Ps. 867,904.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The following are the main assumptions used in the impairment test reports taken as the basis for impairment testing on the dates listed, although the valuation exercise includes a 20 years projection, the following tables only show the first 5 years as reates, following the first year of projection, are generally stable with no significant variations.

December 31, 2018

	2019	**2020**	**2021**	**2022**	**2023**
Interest rate on investments	4.6 %	5.7 %	5.7 %	6.5 %	6.3 %
Borrowing rate	6.3 %	6.3 %	6.3 %	6.3 %	6.3 %
Growth in income from commissions	1.0 %	9.4 %	7.5 %	7.8 %	6.8 %
Growth in expenses	4.3 %	4.6 %	5.6 %	6.6 %	0.5 %
Inflation	2.9 %	3.1 %	2.7 %	3.5 %	3.3 %
Discount interest rate after taxes	13.0 %				
Growth rate after twenty years	3.1 %				

December 31, 2017

	2018	**2019**	**2020**	**2021**	**2022**
Interest rate on investments	5.8 %	5.9 %	5.7 %	5.8 %	6.2 %
Borrowing rate	6.3 %	6.3 %	6.3 %	6.3 %	6.3 %
Growth in income from commissions	14.2 %	8.0 %	7.7 %	7.6 %	7.5 %
Growth in expenses	11.2 %	6.7 %	6.1 %	6.1 %	6.4 %
Inflation	3.3 %	3.4 %	3.2 %	3.3 %	3.6 %
Discount interest rate after taxes	13.0 %				
Growth rate after twenty years	3.5 %				

A 20-year projection was made to estimate goodwill based on macroeconomic assumptions and those related to the business of Porvenir, as indicated in the foregoing tables. The following is a description of that process.

- Investments and borrowing rates were projected using historical data and data provided by the Company on the business.
- The estimated increases in commissions and expenses are based on business growth and other transactions estimated by the Company.
- The inflation rate used in the projections is based on reports from outside sources, such as The Economist Intelligence Unit, and Corficolombiana.
- The growth rate used for the terminal value was 3.1%, which is the average projected inflation provided by the independent specialists.

The discount interest rate after taxes that was used to discount dividend flows reflects the specific risks relative to each cash-generating unit. If the estimated discount rate of 13.0% had been 1.0% higher than the estimated rate in the valuation done by external experts, there would be no need to reduce the book value of goodwill, since the fair value of the groups of cash-generating units associated with goodwill would be Ps. 3,661,147 and exceeds their book value of Ps. 3,188,895 as of December 31, 2018.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

NOTE 18 – OTHER INTANGIBLE ASSETS

Below is the detail of the balances of other intangible assets as of December 31, 2018 and 2017:

December 31, 2018

Description	Cost	Accumulated amortization	Net book value
Software and information technology applications purchased	**Ps. 1,035,643**	**Ps. (375,363)**	**Ps. 660,280**
Internally generated	927,246	(305,253)	621,993
Non-internally generated	108,397	(70,110)	38,287
Licenses	**Ps. 529,074**	**Ps. (208,419)**	**Ps. 320,655**
Internally generated	117,330	(31,983)	85,347
Non-internally generated	411,744	(176,436)	235,308
Other intangibles assets	**Ps. 69,432**	**Ps. (16,483)**	**Ps. 52,949**
Total	**Ps. 1,634,149**	**Ps. (600,265)**	**Ps. 1,033,884**

December 31, 2017

Description	Cost	Accumulated amortization	Net book value
Software and information technology applications purchased	**Ps. 845,402**	**Ps. (292,959)**	**Ps. 552,443**
Internally generated	681,167	(236,972)	444,195
Non-internally generated	164,235	(55,987)	108,248
Licenses	**Ps. 391,726**	**Ps. (137,998)**	**Ps. 253,728**
Internally generated	86,249	(19,130)	67,119
Non-internally generated	305,477	(118,868)	186,609
Other intangibles assets	**Ps. 52,125**	**Ps. (9,615)**	**Ps. 42,510**
Total	**Ps. 1,289,253**	**Ps. (440,572)**	**Ps. 848,681**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

NOTE 19 – INCOME TAX

19.1 Components of the income tax expense:

The expense for income tax for the years ended on December 31, 2018, 2017 and 2016 comprises the following:

	December 31, 2018	December 31, 2017	December 31, 2016
Current period income tax	Ps. 1,746,881	Ps. 1,276,458	Ps. 1,264,066
Income tax surcharge	95,630	151,980	—
CREE tax	—	—	295,324
CREE surcharge	—	—	193,425
Subtotal current period taxes	**1,842,511**	**1,428,438**	**1,752,815**
Prior years adjustments (1)	(74,230)	(117,568)	(13,440)
Adjustment due to settlement of uncertain tax positions from prior years	24,277	(7,367)	(31,067)
Deferred taxes	357,032	449,291	348,601
Total	**Ps. 2,149,590**	**Ps. 1,752,794**	**Ps. 2,056,909**

(1) In the year 2018 tax recovery includes Ps. 50,316 in Banco de Occidente. It was generated by the use of presumptive excesses of CREE for the years 2013 and 2014; it also includes Ps. 17,812 in Corficolombiana for the reimbursement of income tax mainly from Episol and PISA Concessionaire. In the year 2017, it includes a Ps. 109,632 tax recovery at Banco de Bogotá for the years 2014, 2015 and 2016.

19.2 Reconciliation of the Nominal Tax Rate and the Effective tax Rate:

The following are the basic parameters in force with respect to income tax:

In Colombia

In December 2018, the Colombian congress issued Law 1943 called the Financing Law, which includes the following relevant changes to the income tax and related taxes applicable as of 2019:

- The income tax rate will be 33% in the year 2019, 32% in the year 2020, 31% in the year 2021 and 30% from the year 2022 and onwards.
- Financial institutions in Colombia are expected to pay an income tax surcharge with a rate of 4% in 2019, and 3% for the years 2020 and 2021, leaving the income rate in a total of 37% in 2019, 35% in the year 2020, 34% in the year 2021 and 30% from 2022 and onwards.
- Included in the special rate of income tax of 9% companies the engaged in the provision of hospitality services of new or expanded hotels and / or remodeled at 50% of the acquisition value, for a term of 10 years.
- The percentage of presumptive income is reduced to the rate of 1.5% in the years 2019 and 2020 and to the rate of 0% from 2021.
- An income tax exemption is created for companies in orange economy sector, for a period of 7 years (businesses that provide value-added in artistic and creative activities and technological industries). Also, an income tax

exemption for a period of 10 years is created for investment income that increases productivity in the agricultural sector, as long as it meets the requirements established by the national government.

- A special rate on dividends or participations received by national companies of 7.5% is created, which will be required to be withheld by the paying entity only on the company that receives such dividends for the first time and whose credit will be transferable to the final beneficiary, that is, the natural person resident in Colombia or the investor residing abroad.

- A regime of Colombian Holding Companies ("CHC") is created in the income tax pertaining to entities that have direct or indirect participation in at least 10% of the capital of two or more Colombian and / or foreign companies or entities for a minimum period of 12 months and with at least three employees; it will be regulated by the national government.

Colombian regulation for income tax and related taxes applicable during 2018 and 2017 include the following:

- Taxable income is taxed at a rate of 34% in the year 2017 and 33% in 2018. And additional income tax surcharge of 6% was created in 2017 and of 4% in 2018, for those companies with taxable incomes exceeding Ps. 800.

- Gains on the sale or disposal of non-current assets held for more than two years is taxed at 10%.

- The taxable income for income tax may not be less than 3.5% of each of our tax-declaring companies' net equity at the end of the preceding year. When the taxable income is less than that this percentage, the difference, known as "presumptive income", can be offset by taxable income over the following five years.

- Tax loss-carry forwards incurred prior to 2017 may be offset on the same terms applicable for 2016, but they may not be fiscally readjusted. Tax loss carry-forwards incurred since 2017 may be offset against company taxable income over the following twelve years.

- As of 2017 the companies' taxable income will be determined based in the new accounting regulation in force in Colombia since January 1, 2015. However, the new tax regulation also includes special income tax rules for several transactions.

- Corporate tax returns are in firm by tax authorities three years after the filing date, however if tax loss carry forward are used to offset the taxable income, this term is six years after the filing date.

Colombian regulation for income tax and related taxes applicable until 2016 include the following:

- Taxable income was taxed at rate of 25% and income tax CREE is taxed at rate of 9% with an additional of 6% in 2016.

- Tax loss carry forward incurred since 2007, fiscally readjusted, may be offset with future taxable income at any time, for both income tax and CREE.

- The taxable income of the companies may not be lower than 3% of fiscal equity at the end of the preceding year; and if the taxable income is lower than that base, the difference may be deducted from taxable income within five years of its occurrence, as "excess of presumptive income".

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

- The taxable income is determined on the basis of accounting rules applicable in Colombia up to December 31, 2014, prior to the partial introduction of the IFRS framework in Colombian regulations.

- Corporate tax returns are in firm by tax authorities two years after the filing date, however if tax loss carry forward are used to offset the taxable income, this term is five years after the filing date.

In other countries

Given that our subsidiary Leasing Bogotá Panamá has an international license it has a tax rate of 0%. The subsidiaries in Guatemala are taxed at a rate of 25%; the subsidiaries in El Salvador, Honduras, Costa Rica, Nicaragua and Mexico are taxed at a rate of 30% and the subsidiaries with a local license in Panamá are taxed at a rate of 25%.

Below is the detailed reconciliation between total expenses of the income tax of Grupo Aval calculated at the applicable enacted tax rate and the tax expense recognized in the statement of income for the years ended on December 31, 2018, 2017 and 2016:

	Years ended on:		
	December 31, 2018	**December 31, 2017**	**December 31, 2016**
Profit before income tax	Ps. 7,334,141	Ps. 4,915,227	Ps. 5,573,845
Enacted tax rate in Colombia	37 %	40 %	40 %
Theoretical income tax expense	2,713,632	1,966,091	2,229,538
Nondeductible expenses	373,918	387,933	339,803
Tax losses considered non recoverable for income tax purpose	100,249	96,266	140,904
Presumptive income considered non recoverable for income tax purpose	33,296	7,991	45,385
Wealth tax	—	40,762	107,051
Nontaxable dividends	(23,457)	(19,587)	(15,655)
Nontaxable income under equity method in associates	(39,901)	(68,026)	(56,306)
Profit (loss) on sales or appraisal of investment	(2,148)	(16,584)	(71,669)
Nontaxable interest income and other income	(212,992)	(137,312)	(150,714)
Other nontaxable income	(167,091)	(155,010)	(83,742)
Revenues taxable at different tax rate	15,378	(658)	(14,983)
Difference from expenses deductibles at different tax rate	(11,060)	(11,822)	(4,679)
Tax benefits in the acquisition of property and equipment	(22,715)	(20,585)	(66,245)
Profits (losses) in Subsidiaries in tax free countries or with different tax rate	(168,117)	(200,661)	(143,109)
Effect on the deferred income tax due to changes in tax rates (1)	(308,534)	(38,574)	(96,232)
Expenses considered non recoverable for deferred income tax purposes	—	—	1,465
Prior year adjustments	(74,230)	(117,568)	(13,440)
Adjustments due to uncertain tax positions in previous year	24,277	(7,367)	(31,067)
Other	(80,915)	47,505	(59,396)
Total tax expense of the year	**Ps. 2,149,590**	**Ps. 1,752,794**	**Ps. 2,056,909**
Effective income tax rate	**29.31 %**	**35.66 %**	**36.90 %**

(1) The effect is due to the application of the new tax rates established in Law 1943 of 2018, with which the deferred tax rates decreased from 33% to 30%. The impact on Corficolombiana was Ps. 233,865, in Banco de Bogotá it was Ps. 59,054, in Banco de Occidente Ps. 8,408, in Banco Av Villas Ps. 6,934 and in Banco Popular of Ps.362.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

19.3 Tax Losses and excess of Presumptive Income:

As of December 31, 2018 and 2017, the following table shows the detail of the tax loss carry forward and excess of presumptive income over taxable income of the entities of Grupo Aval which are not recognized as deferred tax assets.

	December 31, 2018	December 31, 2017
Tax loss carry forwards expiring on:		
December 31, 2019	Ps. —	Ps. 4,732
December 31, 2020	—	1,758
December 31, 2022	66	—
December 31, 2025	1,216	—
December 31, 2029	173,118	3,107
December 31, 2030	271,685	160,084
Without expiration date	458,499	484,376
Subtotal	**904,584**	**654,057**
Excess of presumptive income expiring on:		
December 31, 2018	—	43,668
December 31, 2019	61,152	64,590
December 31, 2020	45,738	48,170
December 31, 2021	61,296	64,998
December 31, 2022	51,077	46,727
December 31, 2023	48,218	—
Subtotal	**267,481**	**268,153**
Total	**Ps. 1,172,065**	**Ps. 922,210**

19.4 Deferred Taxes from Investments in Subsidiaries:

At 31 December 2018, there was a temporary difference of Ps. 8,231,985 (2017: Ps. 6,613,585) related to investments in subsidiaries. However, this liability was not recognized because Grupo Aval controls the dividend policy of its subsidiaries and is able to veto the payment of dividends of its subsidiaries – i.e. Grupo Aval controls the timing of reversal of the related taxable temporary differences and management is satisfied that they will not reverse in the foreseeable future.

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19.5 Deferred taxes by Type of Temporary Difference:

The differences between the carrying value of the assets and liabilities and their tax bases give rise to the following temporary differences which result in deferred taxes, calculated and recorded in the years ended on December 31, 2018, 2017 and 2016, based on current tax regulations as references for the years wherein such temporary differences will be reverted:

Year ended on December 31, 2018

	Balance as of December 31, 2017	Change in accounting policies	Credited (charged) to profit or loss	Credited (charged) to OCI	Netting Reclassifications	Balance as of December 31, 2018
Deferred tax assets						
Debt securities at fair value	Ps. 8,081	Ps. (2,431)	Ps. 18,840	Ps. 4,563	Ps. 597	Ps. 29,650
Equity securities at fair value	8	102	512	—	—	622
Derivative instruments	36,805	—	(102,681)	185,803	(46,773)	73,154
Allowance of investments securities	366	31	(264)	—	3	136
Allowance for accounts receivable	333	—	44,660	—	(3,603)	41,390
Loans and receivables	71,938	64,527	(121,072)	—	(476)	14,917
Allowance for impairment on loans and receivables	66,127	68,513	13,808	—	10,721	159,169
Allowance for other accounts receivable	4,649	—	(4,649)	—	—	—
Foreclosed assets	18,161	—	(15,474)	—	240	2,927
Property, plant and equipment costs	364,540	—	(77,625)	—	(2,804)	284,111
Depreciation of property, plant and equipment	11,993	—	8,854	—	56	20,903
Deferred charges and of intangible assets	145,625	—	23,233	—	(2)	168,856
Tax losses carry forward	332,354	—	365,698	(402,042)	3,191	299,201
Surplus of presumptive income	2,528	—	2,142	—	—	4,670
Provisions	197,963	(11,038)	2,163	—	794	189,882
Employee benefits	98,924	—	41,406	(9,394)	847	131,783
Deferred income	—	12,349	(9,762)	—	—	2,587
Financial assets in concession contracts	28,536	(6,322)	136,431	—	—	158,645
Biological assets	169	—	(65)	—	—	104
Lease agreements	8,042	—	625	—	(75)	8,592
Other	123,645	(102)	(6,161)	165,680	(11,112)	271,950
Subtotal	**Ps. 1,520,787**	**Ps. 125,629**	**Ps. 320,619**	**Ps. (55,390)**	**Ps. (48,396)**	**Ps. 1,863,249**
Deferred tax liabilities						
Debt securities at fair value	(44,492)	9,555	(14,843)	26	(183)	(49,937)
Equity securities at fair value	(121,226)	(298)	7,361	2,084	(3,798)	(115,877)
Derivative instruments	(87,525)	—	23,187	—	46,773	(17,565)
Accounts receivable	(306,774)	(17)	17,677	1,588	—	(287,526)
Allowance of investments securities	(182)	57	(23,025)	—	—	(23,150)
Loans and receivables	(322,746)	3,668	256,357	—	(846)	(63,567)
Allowance for impairment on loans and receivables	(397,838)	204,100	(77,442)	—	233	(270,947)
Foreclosed assets	(72,209)	—	(20,314)	—	107	(92,416)
Provision for foreclosed assets	(41,654)	—	(67,096)	—	(342)	(109,092)
Property plant and equipment costs	(363,814)	—	11,305	—	(4,875)	(357,384)
Depreciation of property, plant and equipment	(179,877)	—	9,908	—	(169)	(170,138)
Deferred charges and of intangible assets	(107,721)	—	(514,157)	—	—	(621,878)
Provisions	(575)	—	(22,312)	304	(1,697)	(24,280)
Goodwill	(169,675)	—	(23,355)	—	—	(193,030)
Deferred Income	(40,534)	40,534	(116,034)	—	—	(116,034)
Financial assets in concession arrangements	(700,738)	(228,241)	30,238	—	—	(898,741)
Biological assets	(16,583)	—	(6,750)	—	—	(23,333)
Lease agreements	(32,636)	—	28,343	—	—	(4,293)
Other	(71,408)	(779)	(176,699)	(11,271)	16,492	(243,665)
Subtotal	**Ps. (3,078,207)**	**Ps. 28,579**	**Ps. (677,651)**	**Ps. (7,269)**	**Ps. 51,695**	**Ps. (3,682,853)**
Net	**Ps. (1,557,420)**	**Ps. 154,208**	**Ps. (357,032)**	**Ps. (62,659)**	**Ps. 3,299**	**Ps. (1,819,604)**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Year ended on December 31, 2017

	Balance as of December 31, 2016	Credited (charged) to profit or loss	Credited (charged) to OCI	Netting Reclassifications	Balance as of December 31, 2017
Deferred tax assets					
Debt securities at fair value	Ps. 62,627	Ps. (30,580)	Ps. (23,966)	Ps. —	Ps. 8,081
Equity securities at fair value	1,583	(1,254)	(321)	—	8
Derivative instruments	78,740	(41,935)	—	—	36,805
Accounts receivable	16,278	(15,589)	—	10	699
Loans and receivables	6,014	65,924	—	—	71,938
Allowance for impairment on loans and receivables	105,573	(39,446)	—	—	66,127
Allowance for other accounts receivable	6,219	(1,570)	—	—	4,649
Financial assets in concession contracts	25,837	2,571	—	128	28,536
Foreclosed assets	4,846	13,315	—	—	18,161
Property, plant and equipment costs	296,269	68,271	—	—	364,540
Depreciation of property, plant and equipment	5,699	6,294	—	—	11,993
Biological assets	101	68	—	—	169
Deferred charges and of intangible assets	113,817	30,922	—	886	145,625
Tax losses carry forward	385,855	(53,556)	—	55	332,354
Surplus of presumptive income	19,480	(16,952)	—	—	2,528
Provisions	212,695	(17,649)	—	2,917	197,963
Employee benefits	104,606	(29,658)	23,976	—	98,924
Deferred income	113,380	(113,380)	—	—	—
Lease agreements	9,160	(1,118)	—	—	8,042
Other	69,022	52,233	935	1,455	123,645
Subtotal	**Ps. 1,637,801**	**Ps. (123,089)**	**Ps. 624**	**Ps. 5,451**	**Ps. 1,520,787**
Deferred tax liabilities					
Debt securities at fair value	Ps. (27,278)	Ps. 29,105	Ps. (46,319)	Ps. —	Ps. (44,492)
Equity securities at fair value	(100,484)	302	33	(21,077)	(121,226)
Unrealized profits of foreign subsidiaries	(22,029)	—	—	22,029	—
Derivative instruments	(67,974)	(15,190)	(4,361)	—	(87,525)
Accounts receivable	(260,621)	(46,335)	—	182	(306,774)
Allowance of investments securities	—	—	—	(182)	(182)
Loans and receivables	(268,747)	(53,999)	—	—	(322,746)
Allowance for impairment on loans and receivables	(275,785)	(122,053)	—	—	(397,838)
Foreclosed assets	(46,783)	(25,426)	—	—	(72,209)
Provision for foreclosed assets	(37,798)	(3,856)	—	—	(41,654)
Property plant and equipment costs	(400,180)	36,404	—	(38)	(363,814)
Depreciation of property, plant and equipment	(209,549)	30,948	—	(1,276)	(179,877)
Deferred charges and of intangible assets	(60,598)	(47,123)	—	—	(107,721)
Provisions	(471)	(62)	116	(158)	(575)
Goodwill	(86,036)	(83,639)	—	—	(169,675)
Deferred Income	(34,613)	(5,921)	—	—	(40,534)
Financial assets in concession arrangements	(718,496)	20,548	—	(2,790)	(700,738)
Biological assets	(6,806)	(9,777)	—	—	(16,583)
Lease agreements	—	—	—	(32,636)	(32,636)
Other	(65,400)	(30,128)	(11,053)	35,173	(71,408)
Subtotal	**Ps. (2,689,648)**	**Ps. (326,202)**	**Ps. (61,584)**	**Ps. (773)**	**Ps. (3,078,207)**
Net	**Ps. (1,051,847)**	**Ps. (449,291)**	**Ps. (60,960)**	**Ps. 4,678**	**Ps. (1,557,420)**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Year ended on December 31, 2016

	Balance as of December 31, 2015	Credited (charged) to profit or loss	Credited (charged) to OCI	Netting Reclassifications	Balance as of December 31, 2016
Deferred tax assets					
Debt securities at fair value	Ps. 290,465	Ps. (5,459)	Ps. (212,090)	Ps. (10,289)	Ps. 62,627
Equity securities at fair value	323	(26,416)	27,676	—	1,583
Derivative instruments	518,992	(223,831)	(165,894)	(50,527)	78,740
Accounts receivable	7,852	8,426	—	—	16,278
Loans and receivables	5,652	362	—	—	6,014
Allowance for impairment on loans and receivables	96,054	9,679	—	(160)	105,573
Allowance for other accounts receivable	18,119	(11,900)	—	—	6,219
Financial assets in concession contracts	12,096	13,741	—	—	25,837
Foreclosed assets	13,326	(8,480)	—	—	4,846
Property, plant and equipment costs	58,505	237,739	—	25	296,269
Depreciation of property, plant and equipment	5,415	284	—	—	5,699
Biological assets	369	(268)	—	—	101
Deferred charges and of intangible assets	77,055	37,167	—	(405)	113,817
Tax losses carry forward	527,153	(140,623)	—	(675)	385,855
Surplus of presumptive income	166,116	(146,636)	—	—	19,480
Provisions	146,578	60,716	5,706	(305)	212,695
Employee benefits	101,224	(5,718)	8,677	423	104,606
Goodwill	6,947	(6,947)	—	—	—
Deferred income	35,857	77,523	—	—	113,380
Lease agreements	8,414	746	—	—	9,160
Other	174,966	(107,102)	—	1,158	69,022
Subtotal	**Ps. 2,271,478**	**Ps. (236,997)**	**Ps. (335,925)**	**Ps. (60,755)**	**Ps. 1,637,801**
Deferred tax liabilities					
Debt securities at fair value	Ps. (19,943)	Ps. 44,338	Ps. (51,673)	Ps. —	Ps. (27,278)
Equity securities at fair value	(104,317)	(9,072)	13,059	(154)	(100,484)
Derivative instruments	(333,317)	240,468	(21,586)	46,461	(67,974)
Accounts receivable	—	(260,621)	—	—	(260,621)
Loans and receivables	(238,492)	(30,255)	—	—	(268,747)
Allowance for impairment on loans and receivables	(227,336)	(48,449)	—	—	(275,785)
Foreclosed assets	(83,774)	36,991	—	—	(46,783)
Provision for foreclosed assets	(15,198)	(22,600)	—	—	(37,798)
Property plant and equipment costs	(355,478)	(44,865)	—	163	(400,180)
Depreciation of property, plant and equipment	(227,591)	18,114	—	(72)	(209,549)
Deferred charges and of intangible assets	(60,003)	(595)	—	—	(60,598)
Unrealized profits of foreign subsidiaries	(38,209)	16,180	—	—	(22,029)
Provisions	(1,961)	1,490	—	—	(471)
Goodwill	(42,822)	(43,214)	—	—	(86,036)
Deferred Income	(26,940)	(7,673)	—	—	(34,613)
Financial assets in concession arrangements	(627,666)	(90,830)	—	—	(718,496)
Biological assets	(17,578)	3,320	—	7,452	(6,806)
Other	(152,824)	85,669	—	1,755	(65,400)
Subtotal	**Ps. (2,573,449)**	**Ps. (111,604)**	**Ps. (60,200)**	**Ps. 55,605**	**Ps. (2,689,648)**
Net	**Ps. (301,971)**	**Ps. (348,601)**	**Ps. (396,125)**	**Ps. (5,150)**	**Ps. (1,051,847)**

The Group offsets deferred tax assets and liabilities by entity and tax authority, considering the application of the tax provisions in Colombia and other countries in which the legal right to offset tax assets and liabilities and other requirements in IAS 12, according to the following breakdown:

December 31, 2018	Gross Deferred tax amounts	Offset	Balances on Statement of financial position
Deferred tax asset	Ps. 1,863,249	Ps. (1,521,911)	Ps. 341,338
Deferred tax liability	(3,682,853)	1,521,911	(2,160,942)
Net	**Ps. (1,819,604)**	**Ps. —**	**Ps. (1,819,604)**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

December 31, 2017	**Gross Deferred tax amounts**	**Offset**	**Balances on Statement of financial position**
Deferred tax asset	Ps. 1,520,787	Ps. (1,381,364)	Ps. 139,423
Deferred tax liability	(3,078,207)	1,381,364	(1,696,843)
Net	**Ps. (1,557,420)**	**Ps. —**	**Ps. (1,557,420)**

19.6 Effect of the current and deferred taxes in each component of other comprehensive income in equity:

The effects of the current and deferred taxes in each component of other comprehensive income is detailed below during the years ended on December 31, 2018, 2017 and 2016:

	December 31, 2018			
	Amount before taxes	**Current tax (expense) income**	**Deferred tax (expense) income**	**Net**
Hedging of net investments in foreign subsidiaries operations	Ps. 1,124,732	Ps. —	Ps. —	Ps. 1,124,732
Hedging derivatives in foreign currency	(547,310)	372,715	(227,807)	(402,402)
Hedging financial liabilities in foreign currency	(576,881)	—	176,378	(400,503)
Cash Flow hedging	(19,789)	—	6,697	(13,092)
Foreign currency translation differences for foreign operations	(299,804)	—	(16,006)	(315,810)
Debt financial instruments	(107,084)	—	11,554	(95,530)
Investment in associates and join ventures	22,400	—	(393)	22,007
Equity financial instruments	(134,084)	—	(5,891)	(139,975)
Actuarial gains (losses) from defined benefit pension plans	18,013	—	(7,191)	10,822
Total “other comprehensive income” during the period	**Ps. (519,807)**	**Ps. 372,715**	**Ps. (62,659)**	**Ps. (209,751)**

	December 31, 2017			
	Amount before taxes	**Current tax (expense) Income**	**Deferred tax (expense) income**	**Net**
Hedging of net investments in foreign subsidiaries operations	Ps. (47,197)	Ps. —	Ps. —	Ps. (47,197)
Hedging derivatives in foreign currency	16,832	—	(5,554)	11,278
Hedging financial liabilities in foreign currency	30,568	—	(11,065)	19,503
Cash Flow hedging	(2,340)	—	969	(1,371)
Foreign currency translation differences for foreign operations	(91,497)	(12,657)	956	(103,198)
Debt financial instruments	284,480	—	(69,743)	214,737
Investment in associates and joint ventures	1,128	—	116	1,244
Equity financial instruments	57,245	—	(720)	56,525
Actuarial gains (losses) from defined benefit pension plans	(100,232)	—	24,081	(76,151)
Total “other comprehensive income” during the period	**Ps. 148,987**	**Ps. (12,657)**	**Ps. (60,960)**	**Ps. 75,370**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

	December 31, 2016			
	Amount before taxes	Current tax (expense) Income	Deferred tax (expense) income	Net
Hedging of net investments in foreign subsidiaries operations	Ps. (475,000)	Ps. —	Ps. —	Ps. (475,000)
Hedging derivatives in foreign currency	291,506	47,419	(187,480)	151,445
Hedging financial liabilities in foreign currency	35,819	(23,854)	—	11,965
Cash Flow hedging	17,967	—	—	17,967
Foreign currency translation differences for foreign operations	(125,161)	8,204	—	(116,957)
Debt financial instruments	948,212	—	(263,763)	684,449
Investment in associates and joint ventures	(20,061)	—	—	(20,061)
Equity financial instruments	34,509	—	40,735	75,244
Actuarial gains (losses) from defined benefit pension plans	(41,228)	—	14,383	(26,845)
Total "other comprehensive income" during the period	**Ps. 666,563**	**Ps. 31,769**	**Ps. (396,125)**	**Ps. 302,207**

19.7 Uncertainties in Open Tax Positions

As of December 31, 2018, and 2017, Grupo Aval recognized tax uncertainty liabilities for Ps. 121,832 and Ps. 94,692 respectively, uncertain tax positions corresponding to expenses, considered deductible, and which, according to decisions of the tax authorities, uncertainties taken should be considered as non-deductible. Grupo Aval estimates those exposures are likely to be rejected by the tax authorities. These tax positions cannot be deducted with future taxes.

Uncertainties on open tax positions of Grupo Aval's subsidiaries are as follows:

	December 31, 2018	December 31, 2017
Bogotá	Ps. 113,345	Ps. 86,592
Occidente	6,095	7,657
Popular	—	443
Corficolombiana	2,392	—
Total	**Ps. 121,832**	**Ps. 94,692**

The roll-forward of tax uncertainties during the years ended on December 31, 2018, 2017 and 2016 is as follows:

	December 31, 2018	December 31, 2017	December 31, 2016
Balance at the beginning of the year	**Ps. 94,692**	**Ps. 104,156**	**Ps. 145,968**
Provisions increase during the year	11,904	18,039	31,039
Provisions used	(1,088)	(873)	(1,867)
Amounts reversed due to provisions not used	(2,960)	(32,010)	(73,084)
Financial cost	16,421	7,477	12,098
Foreign exchange adjustments	2,863	(2,097)	(9,998)
Balance at the end of the year	**Ps. 121,832**	**Ps. 94,692**	**Ps. 104,156**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The balance as of December 31, 2018 and 2017 is expected to be completely used or released once the inspection rights from the tax authorities regarding tax returns expire, as follows:

Year	December 31, 2018	December 31, 2017
2018	—	3,484
2019	3,006	3,109
2020	27,968	21,579
2021	30,478	23,902
2022	27,276	23,034
2023	31,373	18,250
2024	1,579	1,334
2025	152	—
Total	**Ps. 121,832**	**Ps. 94,692**

NOTE 20 – CUSTOMER DEPOSITS

The following is a detail of the balances of the deposits received from Grupo Aval´s customer:

Detail	December 31, 2018	December 31, 2017
Demand		
Checking accounts	Ps. 39,702,878	Ps. 36,017,602
Savings accounts	57,221,439	55,778,677
Other funds on demand	582,122	472,782
	97,506,439	**92,269,061**
Term deposits (1)		
Fixed term deposit certificates (1)	66,853,012	62,616,163
Total Deposits	**164,359,451**	**154,885,224**
Per currency		
In Colombian Pesos	99,388,366	96,797,225
In foreign currency	64,965,716	58,083,025
Other	5,369	4,974
Total per currency	**Ps. 164,359,451**	**Ps. 154,885,224**

(1) The amount of term deposits due over 12 months as December 31, 2018 is Ps. 20,686,104 and December 31, 2017 is Ps.17,869,572.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

A summary of the effective interest rates which are accrued on customer deposits is as follows:

December 31, 2018

	Deposits			
	in Colombian Pesos Rate		In foreign currency Rate	
	Minimum	Maximum	Minimum	Maximum
	%	%	%	%
Interest-bearing checking accounts	0.04 %	4.76 %	0.25 %	5.50 %
Saving accounts	0.01 %	6.00 %	0.05 %	8.00 %
Fixed term deposit certificates	0.05 %	9.05 %	0.05 %	11.45 %

December 31, 2017

	Deposits			
	in Colombian Pesos Rate		In foreign currency Rate	
	Minimum	Maximum	Minimum	Maximum
	%	%	%	%
Interest-bearing checking accounts	0.06 %	5.77 %	0.15 %	1.50 %
Saving accounts	0.01 %	8.55 %	0.05 %	8.00 %
Fixed term deposit certificates	0.05 %	9.72 %	0.01 %	10.43 %

The following is the detail of the concentration of deposits received from customers per economic sector:

	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
Commerce	Ps. 27,454,858	17 %	Ps. 29,587,825	19 %
Financial	25,001,924	15 %	25,302,624	16 %
Individuals	26,626,082	16 %	23,362,871	15 %
Government and Colombian Government Entities	20,817,529	13 %	17,443,318	11 %
Manufacturing	8,634,657	5 %	9,016,500	6 %
Real Estate	6,235,260	4 %	6,197,620	4 %
Agriculture and livestock	2,200,313	1 %	2,401,684	2 %
Colombian Municipalities	1,807,946	1 %	2,290,683	1 %
Foreign Governments	652,670	1 %	799,687	1 %
Other [(1)]	44,928,212	27 %	38,482,412	25 %
Total	**Ps. 164,359,451**	**100 %**	**Ps. 154,885,224**	**100 %**

(1) December 31, 2018, includes deposits from, education sector of Ps. 525,978, services sector of Ps. 6,328,182, tourism sector Ps. 9,084 and others in the sector Ps. 38,064,968.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

NOTE 21 – FINANCIAL OBLIGATIONS

21.1 Financial obligations other than issued bonds

a) Interbank borrowings, overnight funds and borrowings from banks and others

The following is a summary of the financial obligations of Grupo Aval as of December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Local Currency		
Interbank funds		
Overnight funds	Ps. 4,152	Ps. 1,464
Interbank funds purchased	173,274	336,431
Commitments to transfer open and closed repo operations	1,884,750	715,364
Commitments to transfer simultaneous operations	2,306,037	2,272,496
Commitments originated in short positions simultaneous operations	362,833	176,048
Total interbank funds	**Ps. 4,731,046**	**Ps. 3,501,803**
Borrowings	1,964,408	2,831,100
Letters of credit	300	485
Bankers´ acceptances	217	17
Total borrowings from banks and others	**Ps. 1,964,925**	**Ps. 2,831,602**
Foreign currency		
Interbank funds		
Overnight funds	—	217
Interbank funds purchased	1,568,172	1,135,110
Commitments to transfer open and closed repo operations	514,860	333,300
Total interbank funds	**Ps. 2,083,032**	**Ps. 1,468,627**
Borrowings	17,190,315	14,529,524
Andean Development Corporation	384,758	—
Letters of credit	356,640	195,988
Bankers´ acceptances	664,429	648,206
Discoveries in bank current account	49,699	—
Total borrowings from banks and others	**Ps. 18,645,841**	**Ps. 15,373,718**
Total interbank borrowings, overnight funds and borrowings from banks and others	**Ps. 27,424,844**	**Ps. 23,175,750**

The amount of interbank borrowings, overnight funds and borrowings from banks and others due over 12 months as of December 31, 2018 is Ps.7,219,765 and December 31, 2017 is Ps.8,850,661.

As of December 31, 2018, short-term obligations associated with simultaneous and repo operations amounted to Ps.2,306,037 and guaranteed with investments of Ps.4,663,828 of December 31, 2017 Ps.2,272,496 short term obligations were guaranteed with investments for an amount of Ps. 3,400,677.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

b) Borrowings from development entities

The Colombian Government has established certain credit programs for promoting the development of specific sectors of the economy, including foreign trade, agriculture, tourism, housing construction and other industries. The programs are managed by many entities of the Government such as Banco de Comercio Exterior ("BANCOLDEX"), Fondo para el Financiamiento del Sector Agropecuario ("FINAGRO") and Financiera de Desarrollo Territorial ("FINDETER").

The details of the borrowings from these entities as of December 31, 2018, and 2017 and are as follows:

	Interest rates in force at cut off		December 31, 2018		December 31, 2017
Banco de Comercio Exterior - "BANCOLDEX"	Fixed between 1.8% and 21.15% DTF + 0.08% to 9.91% IBR + 0.50% to 9.76% LIBOR3 + 1.8% to 9.91% LIBOR6 + 2.87% to 6.09%	Ps.	1,303,648	Ps.	835,667
Fondo para el Financiamiento del Sector Agropecuario - "FINAGRO"	Fixed between 0.50% and 15.48% DTF + 0.50% to 6.42%		278,025		342,728
Financiera de Desarrollo Territorial "FINDETER"	Fixed between 2.40% and 13.38% DTF + 1.00% to 7.57% IBR+ 2.50% to 7.57% IPC + 0.50% and 7.57% LIBOR3 5.20% to 5.30% and LIBOR6 + 5.29%		2,065,123		1,819,695
Total		**Ps.**	**3,646,796**	**Ps.**	**2,998,090**

The amount of borrowings from development entities due over 12 months as of December 31, 2018 is Ps. 3,203,170 and December 31, 2017 is Ps.2,790,581.

21.2. Financial obligations from issued bonds

The different entities from Grupo Aval are authorized by the Superintendency of Finance and by the regulatory entities abroad where Grupo Aval operates, for issuing or placing either bonds or general guarantee bonds. The bonds issued by Grupo Aval and subsidiaries are non-guaranteed.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

a) The detail of liabilities as of December 31, 2018 and 2017, by issue date and maturity date was as follows:

Peso denominated

Issuer	Issue Date	December 31, 2018	December 31, 2017	Maturity Date	Interest Rate
Banco de Bogotá S.A.	23/02/2010	Ps. 134,736	Ps. 132,989	23/02/2020	CPI + 5.45 and UVR + 5.45
Banco de Occidente	Between 30/03/2009 and 14/12/2017	3,143,903	3,271,929	Between 09/02/2019 and 14/12/2032	Fixed between 6.18% to 7.85% and IPC + 2.90 to 5.75
Corporación Financiera Colombiana S.A.	Between 27/08/2009 and 02/03/2018	2,853,685	2,361,702	Between 11/03/2019 and 02/03/2043	Fixed 7.1% and CPI + 3.18 to 6.90
Banco Popular	Between 26/02/2013 and 08/05/2018	1,616,729	1,571,308	Between 14/02/2019 and 12/10//2026	Fixed between 6.17% to 8.10%, CPI + 2.72 to 4.13; DTF + 1.49
Grupo Aval Acciones y Valores	Between 03/12/2009 and 28/06/2017	1,108,713	1,109,240	Between 03/12/2019 and 28/06/2042	CPI + 2.69 to 5.20
Peso denominated Total		**Ps. 8,857,766**	**Ps. 8,447,168**		
Foreign Currency					
Banco de Bogotá S.A. Under rule 44A.	Between 19/02/2013 and 03/08 /2017	7,042,678	6,459,452	Between 19/02/2023 and 03/08/2027	Fixed between 4.38% to 6.25%
BAC Credomatic					
El Salvador	Between 11/02/2013 and 26/11/2018	753,556	635,536	Between 30/05/2019 and 26/11/2023	Between 5.20% to 5.85%
Guatemala	Between 24/08/2017 and 24/08/2018	14,025	400,244	Between 07/01/2019 and 26/08/2019	Between 4.25% to 7.50%
Honduras	Between 12/05/2017 and 19/12/2018	205,017	159,674	Between 12/05/2020 and 11/01/2022	Between 0.75% to 8.88%
BAC Credomatic Total		**Ps. 972,598**	**Ps. 1,195,454**		
Banco Bogotá and BAC Credomatic Total		**Ps. 8,015,276**	**Ps. 7,654,906**		
Grupo Aval Limited	19/09/2012	3,267,308	3,000,122	26/09/2022	4.75%
Foreign Currency Total		**Ps. 11,282,584**	**Ps. 10,655,028**		
Total of Bonds		**Ps. 20,140,350**	**Ps. 19,102,196**		

The amount of issue bonds due over 12 months as of December 31, 2018 is Ps. 18,772,405 and December 31, 2017 is Ps.18,118,282.

Grupo Aval has not had any defaults of principal or interest or other breaches with respect to its liabilities during the years ended 31 December 2018 and 2017, and Grupo Aval is complying with the related covenants agreed with investors and debtors.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

NOTE 22 – EMPLOYEE BENEFITS

In accordance with Colombian and other countries labor legislation where Grupo Aval has subsidiaries, and pursuant to labor conventions and labor collective agreements entered into with employees, employees of Grupo Aval have short term benefits such as: salaries, holidays, legal and extralegal premiums, severances and interests on severances, long-term benefits such as seniority bonds premiums and medical aids, post-employment benefits and retirement benefits such as: severance payments to employees that continue with labor regime before Law 50 of 1990 and legal and extralegal retirement pensions. Compensation for key personnel of the management includes salaries and benefits different than cash. (See note 34).

Through personnel benefits plans, Grupo Aval is exposed to several risks (interest rates and operating), which are intended to be minimized by applying the risk management policies and procedures defined in Note 4 above.

The detail of the balance of liabilities for employee benefits at December 31, 2018, and 2017 is as follows:

	December 31, 2018		December 31, 2017	
Short term [1]	Ps.	481,320	Ps.	404,292
Post-employment		541,226		604,110
Long term		242,335		229,770
Total	**Ps.**	**1,264,881**	**Ps.**	**1,238,172**

(1) The expenses for defined contributions for the years ended in December 31, 2018 and 2017 are Ps. 4,297,647 and Ps. 4,027,850 respectively.

22.1 Post-employment benefits

- In Colombia, when employees retire after completing certain years and time of service, retirement pensions are assumed by public or private pension funds based on defined contribution plans, to which entities and employees contribute monthly defined amounts by law for being entitled to the pension at the time of retirement. However, for some employees hired by Grupo Aval entities prior to 1968 that have fulfilled the requirements of age and years of service the pensions are directly assumed by some of the entities of Grupo Aval.

- Certain employees hired by entities of Grupo Aval before 1990 are entitled to receive a compensation corresponding to the last month of salary multiplied by each year of service.

- Some subsidiaries have labor conventions or pay extra-legal premiums to employees retiring in compliance with the required age and time of service, when they start enjoying the pension granted by the pension funds.

22.2 Long Term Employee Benefits

Some Grupo Aval subsidiaries grant their employees extra-legal long term premiums during their working lives depending on number of years of service, five, ten, fifteen, or twenty years etc., calculated as days of salary per year of work.

Some pensioners for Grupo Aval and its entities receive benefits that include coverage of medical treatments, hospitalization and surgery.

Grupo Aval has recognized the liabilities corresponding to these benefits, based on the same actuarial calculations carried out under the same parameters of retirement benefits.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Post-employment and long-term benefits movements during the years ended at December 31, 2018, 2017 and 2016 are as follows:

	Post-Employment Benefits			Long-Term Benefits		
	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2018	December 31, 2017	December 31, 2016
Balance at the beginning of the year	**Ps. 604,110**	**Ps. 509,022**	**Ps. 436,696**	**Ps. 229,770**	**Ps. 191,112**	**Ps. 206,971**
Service costs	13,127	4,425	3,006	21,040	18,201	19,243
Interests cost	36,700	50,826	69,348	13,460	12,889	(20,274)
Gain on settlements	(18,300)	253	—	—	(112)	—
Past Service Costs	(191)	200	—	1,632	(3,961)	—
	635,446	564,726	509,050	265,902	218,129	205,940
Changes in actuarial assumptions from changes in demographic assumptions.	6,136	(8,863)	(1,232)	388	(1,432)	(6,456)
Changes in actuarial assumptions from changes in financial assumptions.	(24,149)	109,095	42,460	11,831	43,870	18,845
	(18,013)	100,232	41,228	12,219	42,438	12,389
Exchange differences	3,502	(982)	6,081	—	—	—
Payments to employees	(79,709)	(59,866)	(47,337)	(35,786)	(30,797)	(27,217)
Balance at the end of the year	**Ps. 541,226**	**Ps. 604,110**	**Ps. 509,022**	**Ps. 242,335**	**Ps. 229,770**	**Ps. 191,112**

The assumptions used to calculate the obligation projected for different post-employment benefits employees are as follows:

Post-Employment Benefits	**December 31, 2018**	**December 31, 2017**
Discount interest rate	7.29 %	6.59 %
Inflation rate	3.00 %	3.50 %
Salary growth rate	3.00 %	3.50 %
Pension growth rate	3.00 %	3.50 %
Employee turnover rate (between service year 1 and 40 for men and women the following is the turnover rate)	Tabla de Rotación SoA 2003 (1)	Tabla de Rotación SoA 2003 (1)

Long-Term Benefits	**December 31, 2018**	**December 31, 2017**
Discount interest rate	6.75 %	6.33 %
Inflation rate	3.00 %	3.50 %
Salary growth rate	3.00 %	3.50 %
Pension growth rate	N/A	N/A
Employee turnover rate (between service year 1 and 40 for men and women the following is the turnover rate)	Tabla de Rotación SoA 2003 (1)	Tabla de Rotación SoA 2003 (1)

(1) For those entities where a sufficiently large statistic is not yet available to support the actuarial bases, the SoA2003 table is used as a reference. With this table, the probability of permanence of personnel in the entity is established, modified according to the population factor of each benefit.

Employee´s life expectancy is calculated based on the mortality tables published by the Superintendency of Finance, which are based on mortality experiences provided to the Superintendency of Finance by several insurance companies operating in Colombia.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The sensitivity analysis for post-employment and long-term benefits liabilities due to defined benefits plans to different actuarial and financial variables is shown below, maintaining other variables at constant values (increase or decrease 0.5%):

At December 31, 2018	-0.50 basic points			
	Post-Employment Benefits		Long-Term Benefits	
Discount interest rate	Ps.	559,740	Ps.	247,726
Salaries growth rate		125,140		234,266
Retirement growth rate		392,518		N/A

At December 31, 2018	+0.50 basic points			
	Post-Employment Benefits		Long-Term Benefits	
Discount interest rate	Ps.	521,812	Ps.	235,544
Salaries growth rate		136,794		249,020
Retirement growth rate		427,272		N/A

Future benefit payments projected, reflecting services, as the case may be, are expected to be paid as follows:

Year		Payments for Post-Employment		Payments for Long-term Benefits
2019	Ps.	65,720	Ps.	39,104
2020		56,847		37,042
2021		57,615		32,194
2022		56,990		33,102
2023		54,812		31,944
Years 2024 – 2028		255,125		159,380

As of December 31, 2018, the participants of the Post-Employment benefits are 47,386 employees and the Long-Term participants are 32,125 employees.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

NOTE 23 – LEGAL AND OTHER PROVISIONS

Roll-forward of legal provisions during the years ended on December 31, 2018, 2017 and 2016 are as follows:

	For Legal	Other Provisions	Total Provisions
Balance as of December 31, 2015	**Ps. 148,314**	**Ps. 451,913**	**Ps. 600,227**
Provisions increase during the year	32,405	363,211	395,616
Use of provisions	(13,143)	(319,592)	(332,735)
Amounts reversed due to provisions not utilized	(12,938)	(30,249)	(43,187)
Reclassifications	1,111	(676)	435
Balance as of December 31, 2016	**Ps. 155,749**	**Ps. 464,607**	**Ps. 620,356**
Provisions increase during the year	32,670	222,349	255,019
Use of provisions	(15,012)	(117,643)	(132,655)
Amounts reversed due to provisions not utilized	(7,870)	(42,459)	(50,329)
Exchange differences	(184)	408	224
Balance as of December 31, 2017	**Ps. 165,353**	**Ps. 527,262**	**Ps. 692,615**
Impact of the adoption of IFRS 9 (1)	—	16,217	16,217
Balance as of January 01, 2018	**Ps. 165,353**	**Ps. 543,479**	**Ps. 708,832**
Provisions increase during the year	98,473	190,686	289,159
Use of provisions	(73,086)	(149,026)	(222,112)
Amounts reversed due to provisions not utilized	(64,562)	(19,852)	(84,414)
Exchange differences	(249)	4,072	3,823
Balance as of December 31, 2018	**Ps. 125,929**	**Ps. 569,359**	**Ps. 695,288**

(1) Grupo Aval has initially adopted IFRS 15 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2.5.

Legal provisions:

Administrative proceedings

At December 31, 2018 and 2017 provisions were recorded for administrative proceedings for Ps. 12,296 and Ps. 68,526 respectively, by way of claims for administrative or judicial processes of a tax nature, initiated by national and local authorities that establish in some cases sanctions in which the subsidiaries of Grupo Aval would incur.

Labor proceedings

At December 31, 2018 and 2017 provisions were recorded for labor proceedings for Ps. 41,618 and Ps. 46,785 respectively. Labor proceedings include labor pursuits, indemnities for ex-employees against of several subsidiaries of Grupo Aval and pensions claims (survivor pensions, invalidity pensions, seniority pensions, return of balances, etc.) in Porvenir, the time expected for resolution is uncertain due to the fact that each proceeding is based on different instances, however, most cases are normally resolved in favor of Grupo Aval.

Other proceedings

At December 31, 2018 and 2017 other legal provisions were recorded for Ps. 72,015 and Ps. 50,042, respectively. The most representative is the litigation against Compañía Hotelera Cartagena de Indias for Ps. 24,815 for both periods, that claims to declare the violation of collective rights and interests of administrative morality, the enjoyment of public space, the enjoyment of a healthy environment and the existence of ecological balance and management and rational use of natural resources property of the State, and that, as a consequence of this violation, will be ordered restitute to the state of 37,018 square meters, result of the illegal occupation of the sea and of the illegal contribution of five lots delivered by the Municipality of Cartagena. In addition, a provision was made in Porvenir to cover claims for estimating payments to the Unidad de Gestión Pensional y Parafiscal for outstanding contributions of the AFP Horizonte to its employees in 2012 and 2013 for Ps. 20,937 and Ps. 20,449, respectively. Likewise, in Promigas S.A., a provision is constituted due to an arbitration demand for noncompliance in favor of Gecelca for Ps. 9,870.

Other provisions:

At December 31, 2018 and 2017 other provisions recorded amounting Ps. 569,359 and Ps. 527,262, respectively, are mainly comprised by a provision of Corficolombiana affiliates for Ps. 242,446 and Ps. 229,447, respectively, associated with the maintenance, restoration and rehabilitation of constructions and buildings, dismantling of assets, professional fees relating to development of concession contracts. Additionally, this caption includes a provision of Porvenir subsidiary for individual savings accounts shortfalls of people, which their retirement pensions are covered by the mandatory fund denominated "Fondo de Pensiones Obligatorias Especial Porvenir del Retiro Programado" managed by Porvenir, pursuant to legal provisions in force requiring they should be assumed by the pensions fund manager. This provision is calculated in accordance with projections performed based on actuarial assumptions that show some people with limited resources in the Fund will not cover their future pension payments. The provisions for this matter at December 31, 2018 and 2017 amounted Ps. 206,786 and Ps. 175,000, respectively.

Other provisions also include provisions of several subsidiaries of Grupo Aval for Ps. 46,868 and Ps. 50,541 for the periods ended on December 31, 2018 and 2017, respectively, corresponding to the dismantling of ATMs and offices; and for Ps. 59,428 and Ps. 26,675 respectively, for provisions of losses on loan commitments (see note 4.1.5 Loan commitments and financial guarantee contracts).

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

NOTE 24 – OTHER LIABILITIES

Accounts payable and other liabilities of December 31, 2018 and 2017 comprise the following:

Items	December 31, 2018		December 31, 2017	
Suppliers and services payable	Ps.	1,846,831	Ps.	1,818,103
Collection on behalf of third parties [3]		1,514,309		272,206
Cashier checks		690,195		697,575
Contract liability related to concessions [1] [4]		535,960		—
Dividends payable		535,311		590,040
Non-financial liabilities		478,833		151,414
Income received for third parties		453,450		140,165
Commissions and fees		430,279		399,155
Withholdings taxes and labor contributions		427,782		456,411
Affiliate establishments		335,078		248,064
Collection service		314,785		285,017
Cash Surplus		167,309		9,272
Customer loyalty programs [1] [2]		154,979		185,238
Tax levies		71,691		73,696
Checks drawn and not paid		48,864		39,624
Insurance payables		48,505		32,410
Financial transactions tax		45,905		37,042
Anticipated income		34,605		23,392
Contributions and affiliations		28,785		23,173
Canceled accounts		26,987		81,841
Promissory buyers		18,371		24,049
Leases		7,347		10,912
Compensation to customers		3,191		778
Deferred credits		938		1,012
Other liabilities		787,663		634,877
Total	**Ps.**	**9,007,953**	**Ps.**	**6,235,466**

(1) Grupo Aval has initially adopted IFRS 15 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Note 2 (2.5) (A).
(2) The amount of unredeemed customer loyalty points. This will be recognized as revenue when the points are redeemed by customers or expires, which is expected to occur over the next two years.
(3) Collection withholdings of tax pending to transfer to tax authority.
(4) Contract liability related principal to the purchase of land for the construction of concessions.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

NOTE 25 – EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

Authorized, issued and outstanding shares as of December 31, 2018 and 2017 consisted of the following:

	December 31, 2018	December 31, 2017
Authorized shares	120,000,000,000	120,000,000,000
Subscribed fully paid shares	22,281,017,159	22,281,017,159
Total outstanding shares	**22,281,017,159**	**22,281,017,159**
The outstanding shares are as follows:		
Common voting shares [(1)]	15,164,816,696	15,173,180,765
Preferred non-voting shares [(2)]	7,116,200,463	7,107,836,394

(1) Common Voting shares with a nominal value of Ps. 1.
(2) Since 2011, Grupo Aval allows its shareholders to convert their common shares into preferred shares. For the years ended December 31, 2018 and 2017, de 8,364,069 and 81,696,058 common shares were converted into preferred shares, respectively. Preferred shares have the right to receive a preferential minimum dividend of one Colombian peso (Ps. 1) per semester per share. This preferential minimum dividend is only applicable when dividends declared for common shares are less than one Colombian peso (Ps. 1). Preferential minimum dividends are not cumulative.

Appropriated retained earnings

As of December 31, 2018, and 2017 the appropriation of retained earnings is as follows:

	December 31, 2018		December 31, 2017	
Retained earnings	Ps.	2,321,729	Ps.	1,829,515
Legal reserve		11,140		11,140
Statutory and voluntary reserves		6,265,450		5,333,763
	Ps.	**8,598,319**	**Ps.**	**7,174,418**

Legal Reserve

Grupo Aval and its subsidiaries in Colombia shall create a legal reserve through the appropriation of ten percent (10%) of the net profits of each year up to an amount equal to fifty percent (50%) of the subscribed capital stock. This reserve may be reduced below fifty percent (50%) of the subscribed capital stock to stem losses in excess of retained earnings. The legal reserve cannot be less than the percentage aforementioned except to cover losses in excess of retained earnings.

Statutory and Voluntary Reserves

The Statutory and voluntary reserves are determined during the Shareholders Meetings.

Declared Dividends

The dividends are decreed and paid to shareholders based on separate net income under Colombian IFRS for the immediately preceding semester:

On October 25, 2016, The General Meeting of Shareholders of Grupo Aval approved the amendment of the Company's by-laws in order to present the financial statements of the Company for Colombian purposes on an annual basis for the period between the 1st of January and the 31st of December of each year. Prior to such amendment, the Company's bylaws specified the semi-annual presentation of local financial statements for the periods from January 1st to June 30th and July 1st to December 31st of each year.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

	December 31, 2017	December 31, 2016	June 30, 2016
Net income for the periods ended in	2,001,178	1,053,594	1,258,835
Cash dividends declared	Ps In the general assembly held in March 2018, 48.00 pesos per share payable in twelve installments of 4.00 pesos per share, from April 2018 to March 2019.	Ps In the general assembly held in March 2017, 58.80 pesos per share payable in twelve installments of 4.90 pesos per share, from April 2017 to March 2018.	Ps 29.40 per share payable in six (6) installments of P.s. 4.90 per share between October 2016 and March 2017 (based on profits from the first half of 2016)
Common shares outstanding	15,170,666,914	15,240,124,702	15,258,916,143
Preferred shares outstanding	7,110,350,245	7,040,892,457	7,022,101,016
Total outstanding shares	22,281,017,159	22,281,017,159	22,281,017,159
Total dividends declared	**1,069,489**	**1,310,124**	**655,062**

Net income per share

- Basic net income per share

Grupo Aval calculates basic net income per share by dividing net income for the year attributable to controlling interest of Grupo Aval parent company by the weighted average number of shares outstanding during the year (including common and preferred shares).

The following table summarizes the net income per share for the year ended as of December 31, 2018, 2017 and 2016:

		December 31, 2018		December 31, 2017		December 31, 2016
Net income for the year	Ps.	5,184,551	Ps.	3,162,433	Ps.	3,516,936
Less: participation of non- controlling interests		(2,271,857)		(1,200,019)		(1,377,070)
Net income attributable to owners of the parent		**2,912,694**		**1,962,414**		**2,139,866**
Less: preferred dividends declared		—		—		—
Less: Allocation of undistributed earnings to preferred stockholders [(1)(2)]		(929,656)		(622,215)		(674,042)
Net Income allocated to common shareholders for basic and diluted EPS	Ps.	1,983,038	Ps.	1,340,199	Ps.	1,465,824
Weighted average number of common shares outstanding used in basic EPS calculation [(2)]		15,169,502,784		15,216,468,601		15,262,660,115
Basic and Diluted earnings per share to common shareholders (pesos)		130.725		88.076		96.040
Basic and Diluted earnings per ADS in pesos [(3)]		2,614.51		1,761.51		1,920.80
Weighted average of the common and preferred shares used in the calculation of net income for basic shares (common and preferential)		22,281,017,159		22,281,017,159		22,281,017,159
Basic net income of the owners of the parent per share		**130.725**		**88.076**		**96.040**

(1) Based on a weighted average of preferred shares.
(2) Averages based on an end of month number of preferred or common shares.
(3) Each ADS represents 20 preferred shares.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

- Diluted net income per share

At December 31, 2018, 2017 and 2016, Grupo Aval did not have any dilutive instruments.

Consolidated Comprehensive Income:

Components of Accumulated Other Comprehensive Income for the years ended December 31, 2018, 2017 and 2016 are as follows:

	Foreign currency translation differences from hedged foreign operations	Hedging derivative instruments	Hedging non-derivative instruments	Cash flow hedges	Foreign currency translation differences from unhedged foreign operations	Unrealized gains (losses) Debt securities	Unrealized gains (losses) Equity securities	Investments in associates and join ventures	Actuarial gains (losses)	Income tax	Total comprehensive income, net of taxes
Beginning balance 2015	**Ps. 3,733,469**	**Ps. (2,554,257)**	**Ps. (1,239,064)**	**Ps. (10,181)**	**Ps. 50,250**	**Ps. (1,220,428)**	**Ps. 455,375**	**Ps. 111,570**	**Ps. 9,003**	**Ps. 1,641,196**	**Ps. 976,933**
Current-period change	(475,000)	291,506	35,819	17,967	(125,161)	948,212	34,509	(20,061)	(41,228)	(364,356)	**302,207**
Ending balance 2016	**Ps. 3,258,469**	**Ps. (2,262,751)**	**Ps. (1,203,245)**	**Ps. 7,786**	**Ps. (74,911)**	**Ps. (272,216)**	**Ps. 489,884**	**Ps. 91,509**	**Ps. (32,225)**	**Ps. 1,276,840**	**Ps. 1,279,140**
Current-period change	(47,197)	16,832	30,568	(2,340)	(91,497)	284,480	57,245	1,128	(100,232)	(73,617)	**75,370**
Ending balance 2017	**Ps. 3,211,272**	**Ps. (2,245,919)**	**Ps. (1,172,677)**	**Ps. 5,446**	**Ps. (166,408)**	**Ps. 12,264**	**Ps. 547,129**	**Ps. 92,637**	**Ps. (132,457)**	**Ps. 1,203,223**	**Ps. 1,354,510**
Change in politics	—	—	—	—	—	56,198	71,229	(3,691)	—	(19,723)	**104,013**
Current-period change	1,124,732	(547,310)	(576,881)	(19,789)	(299,804)	(107,084)	(134,084)	22,400	18,013	310,056	**(209,751)**
Ending balance 2018	**Ps. 4,336,004**	**Ps. (2,793,229)**	**Ps. (1,749,558)**	**Ps. (14,343)**	**Ps. (466,212)**	**Ps. (38,622)**	**Ps. 484,274**	**Ps. 111,346**	**Ps. (114,444)**	**Ps. 1,493,556**	**Ps. 1,248,772**

	Non -controlling interest	Owners of the parent	Total comprehensive income, net of taxes
Beginning balance 2015	**Ps. 438,804**	**Ps. 538,129**	**Ps. 976,933**
Current-period change	90,719	211,488	302,207
Ending balance 2016	**Ps. 529,523**	**Ps. 749,617**	**Ps. 1,279,140**
Current-period change	38,121	37,249	75,370
Ending balance 2017	**Ps. 567,644**	**Ps. 786,866**	**Ps. 1,354,510**
Change in politics	58,180	45,833	104,013
Current-period change	(73,825)	(135,926)	(209,751)
Ending balance 2018	**Ps. 551,999**	**Ps. 696,773**	**Ps. 1,248,772**

NOTE 26 - NON- CONTROLLING INTEREST

The following table includes financial information regarding each subsidiary of Grupo Aval that has significant non-controlling interests at December 31, 2018 and 2017:

December 31, 2018					
Entity	**Country**	**Non-controlling Interest**	**Non-controlling Interest share of equity**	**Non-controlling interest share of net income**	**Dividends paid to non-controlling interest in the year**
Corporación Financiera Colombiana S.A. [(1)]	Colombia	61.75 %	Ps. 5,071,562	Ps. 1,222,634	Ps. (308,254)
Banco Bogotá S.A.	Colombia	31.26 %	5,851,536	858,253	(332,297)
Banco de Occidente S.A.	Colombia	27.73 %	305,790	110,321	(75,838)
Banco Comercial AV Villas S.A.	Colombia	20.13 %	324,151	43,896	(15,425)
Banco Popular S.A.	Colombia	6.26 %	211,600	36,753	(14,118)
		Total	**Ps. 11,764,639**	**Ps. 2,271,857**	**Ps. (745,932)**

(1) See note 1 Corporación Financiera Colombiana S.A. (dilution effect).

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Effect of dilution over Corficolombiana	Equity attributable to owners of the parent	Equity non controlling interest
Change %	Decrease - 6.54%	Increase – 6.54%
Effect equity		
Additional paid - in capital	181,579	(181,579)
Value issuance of shares (see note 1)		**Ps. 988,072**

December 31, 2017					
Entity	**Country**	**Non-controlling Interest**	**Non-controlling Interest share of equity**	**Non-controlling interest share of net income**	**Dividends paid to non-controlling interest in the year**
Corporación Financiera Colombiana S.A.	Colombia	55.21 %	Ps. 3,448,932	Ps. 462,137	Ps. (340,402)
Banco Bogotá S.A.	Colombia	31.26 %	5,395,664	619,515	(322,985)
Banco de Occidente S.A.	Colombia	27.73 %	256,858	65,941	(84,339)
Banco Comercial AV Villas S.A.	Colombia	20.13 %	298,651	27,263	(14,353)
Banco Popular S.A.	Colombia	6.26 %	184,126	25,163	(6,690)
		Total	**Ps. 9,584,231**	**Ps. 1,200,019**	**Ps. (768,769)**

The following table includes information regarding each subsidiary of Grupo Aval that has significant non- controlling interests to December 31, 2018 and 2017 (before eliminations):

December 31, 2018						
Entity	**Assets**	**Liabilities**	**Total Income**	**Net Income**	**OCI**	**Cash Flow from operating activities**
Corporación Financiera Colombiana S.A.	Ps. 26,240,636	Ps. 18,121,948	Ps. 9,159,971	Ps. 2,068,518	Ps. 505,807	Ps. 4,597,371
Banco Bogotá S.A.	163,302,510	143,634,735	17,725,706	3,131,213	853,134	2,868,435
Banco de Occidente S.A.	38,921,610	34,415,453	4,040,260	416,294	29,097	339,411
Banco Comercial AV Villas S.A.	14,207,481	12,587,301	1,724,332	216,468	38,065	858,440
Banco Popular S.A.	Ps. 24,648,668	Ps. 21,757,734	Ps. 2,666,731	Ps. 354,961	Ps. (7,631)	Ps. 1,106,042

December 31, 2017						
Entity	**Assets**	**Liabilities**	**Total Income** (1)	**Net Income** (1)	**OCI**	**Cash Flow from operating activities**
Corporación Financiera Colombiana S.A.	Ps. 21,114,998	Ps. 15,872,265	Ps. 6,891,345	Ps. 563,553	Ps. 615,754	Ps. 3,428,076
Banco Bogotá S.A.	149,389,135	131,197,065	16,635,250	2,132,951	880,565	1,571,203
Banco de Occidente S.A.	37,746,874	33,342,596	4,338,753	377,687	187,037	797,598
Banco Comercial AV Villas S.A.	12,318,124	10,853,638	1,645,948	137,695	788	(1,295,251)
Banco Popular S.A.	Ps. 22,322,103	Ps. 19,651,056	Ps. 2,564,532	Ps. 205,694	Ps. 153,208	Ps. 756,955

(1) See note 2.32 Changes in presentation

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

NOTE 27 – COMMITMENTS AND CONTINGENCIES

Capital Expenses Commitments

As of December 31, 2018, and 2017, Grupo Aval had contractual disbursement commitments of capital expenditures for Ps. 127,367 and Ps. 110,681, respectively.

Operating Lease Commitments

In the normal conduct of its operations, Grupo Aval executes contracts in order to receive property, plant and equipment in the form of operating leases, as well as certain intangibles; the following is the detail of rent payment commitments of operating leases in the forthcoming years:

	December 31, 2018(*)	December 31, 2017
Up to one year	Ps. 234,510	Ps. 246,373
Greater than one year and up to five years	778,015	526,557
More than five years	624,025	233,239
Total	**Ps. 1,636,550**	**Ps. 1,006,169**

(*) During the year 2018 Banco de Bogotá leased 14 properties; Banco Popular and Alpopular leased 1 property each.

Contingencies

As of December 31, 2018, and 2017, Grupo Aval was party to administrative and legal proceedings as defendant; the claims of the proceedings were assessed based on analyses and opinions of responsible lawyers. The following legal contingencies were determined:

Labor Proceedings

As of December 31, 2018, and 2017, labor complaints had been recognized for Ps. 80,113 and Ps. 105,748 respectively. Historically, the majority of these proceedings have been resolved in favor of Grupo Aval and subsidiaries.

Civil Proceedings

As of December 31, 2018, and 2017, the result of the assessment of the claims of legal proceedings for civil suits, not including those with remote probability, reached an amount of Ps. 391,310 and Ps. 453,592 respectively.

Administrative, Tax Proceedings and Other Proceedings

Claims derived from administrative and judicial processes include those of fiscal responsibility over the concession contracts, tax proceedings and others. Filed by national and local tax authorities. These authorities may establish, in some cases, sanctions in which Grupo Aval and its affiliates may incur as a result of: (i) the performance of their duty as a withholder or collector of national and local taxes, and/or (ii) a higher value in their obligations as taxpayers. As of December 31, 2018, and 2017, the amount of the claims reached the sum of Ps. 241,092 and Ps. 81,117 respectively.

Investigation of the Superintendency of Industry and Commerce in relation to the Ruta del Sol Project Sector 2

On September 13, 2018, the Superintendency of Industry and Commerce ("SIC") issued Resolution No. 67837 ordering an investigation and formulating charges against a number of individuals and entities, including Grupo Aval Acciones y Valores S.A. ("Grupo Aval"), Corporación Financiera Colombiana S.A. ("Corficolombiana"), Estudios y Proyectos del Sol S.A.S. ("Episol"), a company 100% owned by Corficolombiana and Concesionaria Ruta del Sol (CRDS), a company in which Corficolombiana participates with 33%. Likewise, the SIC decided to charge some current and former officials of Corficolombiana and Grupo Aval, including José Elías Melo Acosta, Luis Carlos Sarmiento Gutiérrez and Diego Fernando Solano Saravia.

The SIC argues alleged violations of the Colombian legal regime of free economic competition in the bidding process for the awarding of the Ruta del Sol Sector 2 Project. As a result of the above, the SIC formulated two charges against Corficolombiana, two charges against Episol, one charge against CRDS and one charge against Grupo Aval.

The formulation of charges made by the SIC corresponds to the opening of a formal investigation which, after the different stages of the proceeding are conducted, may result in the dismissal of the charges or in the imposition of economic sanctions. In this regard, numeral 15 of article 4 of Decree 2153 of 1992, modified by article 25 of Law 1340 of 2009, provides that for the violation of any of the provisions on protection of competition, the SIC may impose sanctions up to the amount of 100,000 current monthly minimum wages (currently Ps. 82,811 for each charge) or, if it turns out to be greater, up to 150% of the profits derived from the conduct by the offender. In case of an unfavorable decision, the maximum amount of an eventual penalty would impact the net attributable profit of Grupo Aval in Ps. 219,957.

Grupo Aval, Corficolombiana and Episol, as well as their officials subject to the investigation, submitted their respective defenses in October 2018, accompanied by documentary evidence and requests for the practice of evidence to debate the reasons that led the SIC to these accusations. Because the proceeding is yet at an initial stage, it is not possible to establish the time it will take the SIC to make a decision in relation to this case. There is also no certainty about the assessment of this contingency, since it will be the result of the investigation and analysis of the SIC in relation to the various documents of defense that were filed, which will lead to the dismissal of the charges or the possible imposition of a fine and graduation of the same.

Class Action before the Administrative Tribune of Cundinamarca in connection with the Ruta del Sol Project Sector 2

On January 26, 2017, the Procurator-General Office (Procuraduría General de la Nación or “PGN”) filed a class action against CRDS, (a company formed by Construtora Norberto Odebrecht S.A., Odebrecht Investimentos em Infraestructura Ltda., CSS Constructores S.A. and Episol), the National Infrastructure Agency ("ANI") and its members, for the violation of the collective rights of administrative morality, defense of public patrimony and access to public services, action that was conducted before the first section of the Administrative Tribunal of Cundinamarca ("TAC").

On December 6, 2018 the TAC, issued a first instance ruling in the referred class action against CRDS, and its shareholders including Episol, and other individuals and entities, including the former President of Corficolombiana, Jose Elias Melo Acosta. In its ruling, the TAC found the defendants jointly and severally liable for the damages caused to the collective interests and ordered the payment of Ps. 800,156 in favor of the Nation-Ministry of Transportation. Likewise, the TAC debarred the defendants for a term of ten years to contract with the Colombian government and to hold positions in public office. Subsequently, by order of February 8, 2019 alleging arithmetical errors in its ruling, the TAC corrected the amount of the sentence reducing it to an amount of Ps. 715,656.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The aforementioned ruling is not final since several appeals were filed against it by Episol and the other defendants, which were granted by the TAC in the suspensive effect on February 25, 2019. In the case of Episol, the appeal filed argues multiple substantive and procedural defects in accordance with which the decisions against it should be revoked. A final decision will have to be reached by the Consejo de Estado (Colombia's Supreme Court on administrative matters). It is not possible to establish the time it will take for the Consejo de Estado to make a decision in relation to this case. In the event that the decision of the TAC is confirmed and that Episol is compelled to assume the entire amount of the sentence, the maximum impact to the net attributable profit of Grupo Aval would be Ps. 273,720.

Investigations by United States authorities

The Department of Justice of the United States ("DOJ") and the United States Securities and Exchange Commission ("SEC") informed Grupo Aval that they had opened an investigation on matters related to the Ruta del Sol II project. Grupo Aval is cooperating with the DOJ and the SEC in these investigations. It is not possible to predict the decisions that the DOJ or the SEC will take as a result of the issues that are the subject of these investigations, nor the impact that such investigations and their outcome may have on Grupo Aval and / or its subsidiaries entities.

NOTE 28 – INCOME FROM CONTRACTS WITH CUSTOMERS

Below is a detail of the income and expenses for commissions and fees of contracts with customers for the years ended as of December 31, 2018, 2017 and 2016:

Income from commissions and fees	December 31, 2018	December 31, 2017	December 31, 2016
Commissions on banking services	Ps. 2,718,482	Ps. 2,567,704	Ps. 2,436,692
Fees on credit cards	1,187,716	1,112,319	1,034,763
Pension and severance fund management	987,323	926,771	824,089
Trust activities	312,901	311,837	275,719
Storage services	156,638	169,815	186,068
Commissions on drafts, checks and checkbooks	49,645	60,768	67,832
Office network services	30,220	42,639	43,508
Other commissions	10,457	10,272	10,516
Total	**Ps. 5,453,382**	**Ps. 5,202,125**	**Ps. 4,879,187**

Commissions and Fees Expenses	December 31, 2018	December 31, 2017	December 31, 2016
Banking Services	Ps. (307,191)	Ps. (332,811)	Ps. (318,672)
Sales and Services Commissions	(171,680)	(119,987)	(99,659)
Affiliations to Pension Funds	(75,130)	(74,531)	(68,454)
Offices Network Services	(23,040)	(29,874)	(33,404)
Information Processing Services of Operators	(22,525)	(23,039)	(20,963)
Collection Service of Contributions to Financial Entities	(7,110)	(5,618)	(6,084)
Banks Guarantees	(128)	(88)	(87)
Fiduciary Businesses	(46)	(41)	(256)
Credit Cards	(12)	(2)	(14)
Other	(6,901)	(37,123)	(71,935)
Total	**Ps. (613,763)**	**Ps. (623,114)**	**Ps. (619,528)**
Net commission and fee income	**Ps. 4,839,619**	**Ps. 4,579,011**	**Ps. 4,259,659**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Below is the detail of the income and cost for goods and services for the years ended as of December 31, 2018, 2017 and 2016:

Income from sales of goods and services [2]	**December 31, 2018**	**December 31, 2017** [1]	**December 31, 2016**
Income from goods and services from non-financial sector	Ps. 7,943,420	Ps. 5,656,472	Ps. 6,534,933
Others operating income	182,594	136,378	119,690
Total income	**Ps. 8,126,014**	**Ps. 5,792,850**	**Ps. 6,654,623**

Cost for goods and services	**December 31, 2018**	**December 31, 2017** [1]	**December 31, 2016**
Cost of sales of companies from non-financial sector	Ps. (3,812,993)	Ps. (3,408,808)	Ps. (4,283,588)
Allowance for impairment of loans and receivables	(21,829)	(22,239)	(2,007)
General and administrative expenses	(645,690)	(668,616)	(635,930)
Personnel expenses	(499,750)	(481,892)	(434,145)
Amortization	(317,035)	(300,325)	(223,929)
Depreciation	(100,388)	(79,981)	(83,991)
Bonus payments	(34,503)	(34,436)	(27,555)
Commissions and fees expenses	(32,876)	(24,361)	(19,384)
Donations expenses	(14,320)	(12,604)	(12,081)
Labor severances	(2,718)	(2,565)	(2,718)
Total costs for goods and services	**Ps. (5,482,102)**	**Ps. (5,035,827)**	**Ps. (5,725,328)**
Net, income from non-financial sector	**Ps. 2,643,912**	**Ps. 757,023**	**Ps. 929,295**

(1) See note 2.32. Changes in presentation
(2) Grupo Aval has initially adopted IFRS 15 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Note 2 (2.5) (A).

NOTE 29 – NET TRADING INCOME

Net trading income includes income from client driven trading activities primarily conducted in markets, including foreign exchange, credit, rates and equities trading, as follows:

	December 31, 2018	**December 31, 2017** [1]	**December 31, 2016** [1]
Trading investment income [2]			
Fixed income securities	Ps. 98,024	Ps. 218,994	Ps. 369,184
Equities	57,477	177,448	127,431
Total trading investment income	**Ps. 155,501**	**Ps. 396,442**	**Ps. 496,615**
Derivatives income			
Net income (loss) on financial derivatives [3]	Ps. 247,880	Ps. (75,224)	Ps. 10,593
Other trading income [4]	179,328	240,144	217,490
Total derivatives income	**Ps. 427,208**	**Ps. 164,920**	**Ps. 228,083**
Total net trading income	**Ps. 582,709**	**Ps. 561,362**	**Ps. 724,698**

(1) Grupo Aval has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Note 2 (2.5) (B).
(2) Includes net trading income from investment securities held for trading, that reflects the interest from investment in debt securities, gains/losses from mark-to-market valuation from investment in equity and debt securities and net income from trading activities.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

(3) Includes net trading income from derivatives, which reflects the gains/losses from mark-to-market valuation on trading derivatives.
(4) Includes gains/losses from: (i) Net changes in the valuation of hedging derivatives from mark-to-market valuations from unhedged, (ii) the ineffective portion of the hedge, (iii) Transfers of due hedging derivatives from OCI to the statement of income.

NOTE 30 – OTHER INCOME AND EXPENSE

Below is a detail of the other income and expense in the years ended December 31, 2018, 2017 and 2016:

Other Income	**December 31, 2018**	**December 31, 2017**	**December 31, 2016**
Foreign exchange gains (losses), net	Ps. 283,440	Ps. 424,483	Ps. 517,902
Share of profit of equity accounted investees, net of tax	197,715	171,964	140,765
Dividends	71,487	50,439	28,027
Gain on the sale of non-current assets held for sale	20,062	13,568	28,392
Net gain on sale of debt and equity securities	1,104	51,712	210,373
Gain on sale of assets [(1)]	390,472	10,581	21,148
Other income	394,401	428,998	729,499
Total other income	**Ps. 1,358,681**	**Ps. 1,151,745**	**Ps. 1,676,106**

(1) For the year 2018, it includes the recognition of the sale profit with subsequent leasing of assets by Banco de Bogotá in Ps. 312,316 and Ps. 60,474 by Banco Popular.

Other Expense	**December 31, 2018**	**December 31, 2017**	**December 31, 2016**
Personnel expenses	Ps. (3,877,584)	Ps. (3,671,117)	Ps. (3,531,087)
Taxes and fees	(757,936)	(731,316)	(633,260)
Depreciation and amortization	(539,751)	(521,408)	(471,608)
Consultancy, audit and other fees	(569,276)	(460,978)	(355,590)
Affiliation contributions and transfers	(511,811)	(429,825)	(428,581)
Wealth tax [(1)]	—	(101,988)	(267,627)
Leases (Rent)	(476,590)	(431,507)	(440,777)
Maintenance and repairs	(378,433)	(392,271)	(317,170)
Insurance	(375,611)	(351,745)	(316,852)
Marketing	(327,539)	(314,657)	(344,423)
Warehouse services	(270,223)	(277,849)	(288,491)
Transportation services	(181,687)	(166,429)	(160,002)
Impairment losses other assets	(166,300)	(174,255)	(47,537)
Outsourcing services	(128,495)	(128,656)	(184,330)
Cleaning and security services	(126,822)	(131,451)	(138,693)
Supplies and stationary	(85,128)	(82,113)	(23,722)
Data processing	(81,426)	(73,872)	(81,682)
Adaptation and installation	(55,815)	(62,809)	(67,938)
Travel expenses	(52,584)	(48,193)	(54,275)
Other	(408,022)	(450,652)	(413,664)
Total other expense	**Ps. (9,371,033)**	**Ps. (9,003,091)**	**Ps. (8,567,309)**

(1) Grupo Aval and its subsidiaries in Colombia were subject to wealth tax for the years 2015, 2016 and 2017 by Law 1739 of 2014, based on their fiscal net asset value as of January 1, 2015, 2016 and 2017, greater or equal to Ps. 1,000, less the exclusions expressly provided for in the tax regulation, including the net asset value of the shares held in national companies. The wealth tax was calculated at progressive rates depending on the amount of liquid equity, and rates range between 0.20% and 1.15% in 2015, 0.15% and 1% in 2016, and 0.05% and 0.40% in 2017.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

NOTE 31 – ANALYSIS OF OPERATING SEGMENTS

Operating segments are components of Grupo Aval responsible for developing commercial activities that can generate revenue or incur expenses and whose operating profit or loss are regularly reviewed by the Board of Directors of Grupo Aval, and for which financial information is available:

31.1 Description of products and services from which each reportable segment derives its income

Grupo Aval is organized into five business segments comprised by the four main banks of Grupo Aval: Banco de Bogotá, Banco de Occidente, Banco AV Villas, Banco Popular and Corficolombiana. All these banks and Corficolombiana, provide services relating to banking activities in Colombia and others countries in commercial, consumer, mortgage housing and microcredit banking. Corficolombiana´s core business is the active management of an equity portfolio.

31.2 Factors used by management to identify reportable segments

Operating segments identified above are based on the strategic organization of Grupo Aval in order to serve different sectors of the economy in Colombia.

31.3 Measurement of net income, assets and liabilities of operating segments

The Board of Directors of Grupo Aval reviews the financial information of each of its operating segments and assesses the performance of each segment based on Statements of Financial Position and the Statement of Income of each of them, and on certain credit risk indicators, as described in note 2.31.

31.4 Information on net income, assets and liabilities of reportable operating segments

The following is the detail of the reportable financial information summarized for each segment as of December 31, 2018, 2017 and 2016:

Statement of Financial Position

December 31, 2018

	Banco de Bogotá S.A.	Banco de Occidente S.A.	Banco Popular S.A.	Banco AV Villas S.A.	Corficolombiana S.A.	Other segments [1]	Eliminations	Total
Assets								
Trading assets	Ps. 3,086,060	Ps. 1,670,934	Ps. 235,283	Ps. 302,226	Ps. 1,987,205	Ps. 212	Ps. (77,608)	Ps. 7,204,312
Investment securities	11,238,754	5,070,964	2,900,778	1,225,551	3,189,297	—	(595,185)	23,030,159
Hedging derivatives assets	32,981	—	—	—	43	—	(2,886)	30,138
Investments in associates and joint ventures	4,157,015	1,247,935	396,289	2,347	759,222	—	(5,580,065)	982,743
Loans and receivables	111,018,238	26,996,654	18,287,166	11,027,826	2,575,561	—	(1,219,791)	168,685,654
Other Assets	33,769,462	3,935,123	2,829,152	1,649,531	17,729,308	3,924,117	(4,094,546)	59,742,147
Total Assets	**Ps. 163,302,510**	**Ps. 38,921,610**	**Ps. 24,648,668**	**Ps. 14,207,481**	**Ps. 26,240,636**	**Ps. 3,924,329**	**Ps. (11,570,081)**	**Ps. 259,675,153**
Liabilities								
Customer Deposits	108,404,522	25,592,232	17,571,388	11,425,400	3,805,028	—	(2,439,119)	164,359,451
Financial Obligations	28,560,065	6,881,717	3,139,013	647,872	9,673,342	4,376,021	(2,066,040)	51,211,990
Other Liabilities	6,670,148	1,941,504	1,047,333	514,029	4,643,578	443,591	(710,819)	14,549,364
Total Liabilities	**Ps. 143,634,735**	**Ps. 34,415,453**	**Ps. 21,757,734**	**Ps. 12,587,301**	**Ps. 18,121,948**	**Ps. 4,819,612**	**Ps. (5,215,978)**	**Ps. 230,120,805**

(1) Includes Grupo Aval Holding, Grupo Aval Limited, Grupo Aval International Limited and ATH Negocio Conjunto.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Statement of Income for the year 2018

	Banco de Bogotá S.A.	Banco de Occidente S.A.	Banco Popular S.A.	Banco AV Villas S.A.	Corficolombiana S.A.	Other segments [1]	Eliminations	Total
External Income								
Interest income	Ps. 11,136,903	Ps. 3,087,525	Ps. 2,192,941	Ps. 1,383,023	Ps. 556,068	Ps. 176	Ps. —	Ps. 18,356,636
Commission and fee income	4,394,989	399,785	245,721	261,769	77,936	73,182	—	5,453,382
Income From Sales of Goods and Services	130,007	65,916	12,124	—	7,917,967	—	—	8,126,014
Participation in profit or loss associates and joint business	6,126	2,688	3,083	2,550	183,268	—	—	197,715
Dividends	4,855	286	2,314	1,399	62,633	—	—	71,487
Other Income	1,211,601	152,866	132,562	53,724	324,524	2,714	—	1,877,991
	Ps. 16,884,481	**Ps. 3,709,066**	**Ps. 2,588,745**	**Ps. 1,702,465**	**Ps. 9,122,396**	**Ps. 76,072**	**Ps. —**	**Ps. 34,083,225**
Intersegment Income								
Interest income	Ps. 58,463	Ps. 10,971	Ps. 3,681	Ps. 1,726	Ps. 30,590	Ps. 144	Ps. (105,575)	Ps. —
Commission and fee income	5,977	9,395	6,760	19,992	1,350	80,403	(123,877)	—
Income From Sales of Goods and Services	580	109,927	—	—	5,767	—	(116,274)	—
Participation in profit or loss associates and joint business	562,070	180,142	57,340	(3,230)	1,151	—	(797,473)	—
Dividends	12,894	2,414	9,355	1,614	1,211	—	(27,488)	—
Other Income	201,241	18,345	850	1,765	(2,494)	53,808	(273,515)	—
	841,225	**331,194**	**77,986**	**21,867**	**37,575**	**134,355**	**(1,444,202)**	**—**
Total income	**Ps. 17,725,706**	**Ps. 4,040,260**	**Ps. 2,666,731**	**Ps. 1,724,332**	**Ps. 9,159,971**	**Ps. 210,427**	**Ps. (1,444,202)**	**Ps. 34,083,225**
Expenses								
Interest expense	Ps. 4,328,845	Ps. 1,135,189	Ps. 850,707	Ps. 370,015	Ps. 781,037	Ps. 222,519	Ps. (203,471)	Ps. 7,484,841
Impairment loss on loan and other accounts receivable	2,610,893	1,014,420	186,622	297,265	40,772	—	—	4,149,972
Depreciations and amortizations	363,264	77,174	50,819	33,438	7,750	7,306	—	539,751
Commission and fee expense	362,810	71,570	89,515	107,759	13,322	2,511	(33,724)	613,763
Costs and expenses of sales goods and services	254,904	242,943	13,962	—	5,011,808	(5,409)	(36,106)	5,482,102
Administrative Expenses	3,171,147	699,653	564,289	408,079	95,338	206,690	(504,736)	4,640,460
Other expense	2,552,588	418,471	402,933	190,005	233,165	(283,719)	324,752	3,838,195
Income tax expense	950,042	(35,454)	152,923	101,303	908,261	70,145	2,370	2,149,590
Total Expenses	**14,594,493**	**3,623,966**	**2,311,770**	**1,507,864**	**7,091,453**	**220,043**	**(450,915)**	**28,898,674**
Net income for the year	**Ps. 3,131,213**	**Ps. 416,294**	**Ps. 354,961**	**Ps. 216,468**	**Ps. 2,068,518**	**Ps. (9,616)**	**Ps. (993,287)**	**Ps. 5,184,551**

(1) Includes Grupo Aval Holding, Grupo Aval Limited, Grupo Aval International Limited and ATH Negocio Conjunto.

Statement of income for 2018

	Banco de Bogotá S.A.	Banco de Occidente S.A.	Banco Popular S.A.	Banco AV Villas S.A.	Corficolombiana S.A.	Other segments [1]	Eliminations	Total
External Income								
Revenue from contracts with customers [2]	**Ps. 4,530,757**	**Ps. 582,571**	**Ps. 262,703**	**Ps. 281,761**	**Ps. 7,770,108**	**Ps. 437,292**	**Ps. (285,796)**	**Ps. 13,579,396**
Timing of revenue recognition								
At a point in time	3,374,159	456,047	190,613	122,614	7,602,668	595	91,964	11,838,660
Over time	1,156,598	126,524	72,090	159,147	167,440	436,697	(377,760)	1,740,736

(1) Includes Grupo Aval Holding, Grupo Aval Limited, Grupo Aval International Limited and ATH Negocio Conjunto.
(2) Income from contracts with customers, see note 28.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Statement of Financial Position

Statement of Financial Position December 31, 2017 [2]

	Banco de Bogotá S.A.	Banco de Occidente S.A.	Banco Popular S.A.	Banco AV Villas S.A.	Corficolombiana S.A.	Other segments [1]	Eliminations	Total
Assets								
Trading assets	Ps. 2,590,371	Ps. 584,470	Ps. 217,354	Ps. 328,070	Ps. 1,577,734	Ps. 1,075	Ps. (170,986)	Ps. 5,128,088
Investment securities	11,316,584	5,215,334	2,655,936	670,278	2,626,170	—	(971,103)	21,513,199
Hedging derivatives assets	51,376	—	—	—	5,154	—	(1,269)	55,261
Investments in associates and joint ventures	3,417,702	672,169	10,965	1,597	820,125	—	(3,879,544)	1,043,014
Loans and receivables	104,243,806	27,480,881	17,034,186	9,977,597	2,785,100	—	(767,275)	160,754,295
Other Assets	27,769,296	3,794,020	2,403,662	1,340,582	13,300,715	3,737,676	(4,301,268)	48,044,683
Total Assets	**Ps.149,389,135**	**Ps. 37,746,874**	**Ps.22,322,103**	**Ps.12,318,124**	**Ps. 21,114,998**	**Ps. 3,738,751**	**Ps. (10,091,445)**	**Ps. 236,538,540**
Liabilities								
Customer Deposits	100,947,244	26,169,109	15,968,499	10,086,106	4,095,692	—	(2,381,426)	154,885,224
Financial Obligations	25,294,735	5,802,728	2,778,675	212,914	8,875,171	4,947,839	(2,636,026)	45,276,036
Other Liabilities	4,955,086	1,370,759	903,882	554,618	2,901,402	581,996	(761,690)	10,506,053
Total Liabilities	**Ps.131,197,065**	**Ps. 33,342,596**	**Ps.19,651,056**	**Ps.10,853,638**	**Ps. 15,872,265**	**Ps. 5,529,835**	**Ps. (5,779,142)**	**Ps. 210,667,313**

(1) Includes Grupo Aval Holding, Grupo Aval Limited, Grupo Aval International Limited and ATH Negocio Conjunto.
(2) See note 2.32. Changes in presentation.

Statement of Income for the year 2017 [2]

	Banco de Bogotá S.A.	Banco de Occidente S.A.	Banco Popular S.A.	Banco AV Villas S.A.	Corficolombiana S.A.	Other segments (1)	Eliminations	Total
External Income								
Interest income	Ps. 11,241,897	Ps. 3,450,056	Ps. 2,196,753	Ps. 1,305,784	Ps. 547,028	Ps. 315	Ps. —	Ps. 18,741,833
Commission and fee income	4,187,221	396,658	224,233	250,824	95,086	48,103	—	5,202,125
Income From Sales of Goods and Services	104,277	62,294	58,184	—	5,568,095	—	—	5,792,850
Participation in profit or loss associates and joint business	5,847	2,402	2,622	2,043	159,050	—	—	171,964
Dividends	1,321	370	1,991	1,514	45,243	—	—	50,439
Other Income	954,355	194,155	63,157	62,642	423,255	3,077	—	1,700,641
	Ps. 16,494,918	**Ps. 4,105,935**	**Ps. 2,546,940**	**Ps. 1,622,807**	**Ps. 6,837,757**	**Ps. 51,495**	**Ps. —**	**Ps. 31,659,852**
Intersegment Income								
Interest income	Ps. 72,910	Ps. 1,818	Ps. 1,047	Ps. 4,797	Ps. 62,097	Ps. 277	Ps. (142,946)	Ps. —
Commission and fee income	2,988	5,171	4,133	15,065	1,339	95,312	(124,008)	—
Income From Sales of Goods and Services	15	78,286	—	—	6,992	14,060	(99,353)	—
Participation in profit or loss associates and joint business	36,782	139,555	(376)	132	159	—	(176,252)	—
Dividends	3,101	5,494	6,810	1,170	1,244	—	(17,819)	—
Other Income	24,536	2,494	5,978	1,977	(18,243)	62,335	(79,077)	—
	140,332	**232,818**	**17,592**	**23,141**	**53,588**	**171,984**	**(639,455)**	**—**
Total income	**Ps. 16,635,250**	**Ps. 4,338,753**	**Ps. 2,564,532**	**Ps. 1,645,948**	**Ps. 6,891,345**	**Ps. 223,479**	**Ps. (639,455)**	**Ps. 31,659,852**
Expenses								
Interest expense	Ps. 4,594,100	Ps. 1,388,144	Ps. 977,441	Ps. 423,069	Ps. 852,501	Ps. 216,694	Ps. (224,250)	Ps. 8,227,699
Impairment loss on loan and other accounts receivable	2,459,293	993,350	258,926	327,833	79,932	—	—	4,119,334
Depreciations and amortizations	361,621	69,255	45,417	29,897	5,881	9,337	—	521,408
Commission and fee expense	351,073	94,089	86,228	108,572	10,772	2,550	(30,170)	623,114
Costs and expenses of sales goods and services	238,836	206,532	26,764	—	4,577,538	(5,901)	(7,942)	5,035,827
Administrative Expenses	3,035,346	703,106	520,204	375,522	119,271	229,821	(470,122)	4,513,148
Other expense	2,491,823	390,812	334,944	180,186	241,854	(311,137)	375,613	3,704,095
Income tax expense	970,207	115,778	108,914	63,174	440,043	51,957	2,721	1,752,794
Total Expenses	**14,502,299**	**3,961,066**	**2,358,838**	**1,508,253**	**6,327,792**	**193,321**	**(354,150)**	**28,497,419**
Net income for the year	**Ps. 2,132,951**	**Ps. 377,687**	**Ps. 205,694**	**Ps. 137,695**	**Ps. 563,553**	**Ps. 30,158**	**Ps. (285,305)**	**Ps. 3,162,433**

(1) Includes Grupo Aval Holding, Grupo Aval Limited, Grupo Aval International Limited and ATH Negocio Conjunto.
(2) See note 2.32. Changes in presentation.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Statement of Income of the year 2016 [3]

	(1) Banco de Bogotá S.A.	Banco de Occidente S.A.	Banco Popular S.A.	Banco AV Villas S.A.	Corficolombiana S.A.	Other segments (2)	Eliminations (1)	Total
External Income								
Interest income	Ps. 10,481,965	Ps. 3,363,556	Ps. 2,042,878	Ps. 1,193,544	Ps. 442,398	Ps. 22,629	Ps. —	Ps. 17,546,970
Commission and fee income	3,957,774	387,986	219,717	237,762	63,763	12,185	—	4,879,187
Income from sales of goods and services	4,037	56,109	31,704	—	6,577,127	(14,354)	—	6,654,623
Participation in profit or loss associates and joint business	(4,275)	(484)	388	729	144,407	—	—	140,765
Dividends	1,779	1,150	3,112	2,941	18,973	72	—	28,027
Other Income	1,527,712	233,645	183,730	99,701	363,491	4,715	—	2,412,994
	Ps. 15,968,992	**Ps. 4,041,962**	**Ps. 2,481,529**	**Ps. 1,534,677**	**Ps. 7,610,159**	**Ps. 25,247**	**Ps. —**	**Ps. 31,662,566**
Intersegment Income								
Interest income	Ps. 219,995	Ps. 2,893	Ps. 848	Ps. 6,223	Ps. 75,641	Ps. —	Ps. (305,600)	Ps. —
Commission and fee income	900	4,386	2,282	13,170	2,115	—	(22,853)	—
Income from sales of goods and services	89,030	72,075	—	—	(82,407)	—	(78,698)	—
Participation in profit or loss associates and joint business	116,488	118,109	(1,206)	(1,923)	100	—	(231,568)	—
Dividends	—	20,336	25,293	—	944	—	(46,573)	—
Other Income	1,907,706	(9,116)	115	1,610	2,915	—	(1,903,230)	—
	2,334,119	**208,683**	**27,332**	**19,080**	**(692)**	**—**	**(2,588,522)**	**—**
Total income	**Ps. 18,303,111**	**Ps. 4,250,645**	**Ps. 2,508,861**	**Ps. 1,553,757**	**Ps. 7,609,467**	**Ps. 25,247**	**Ps. (2,588,522)**	**Ps. 31,662,566**
Expenses								
Interest expense	Ps. 4,568,469	Ps. 1,455,389	Ps. 995,070	Ps. 451,224	Ps. 947,603	Ps. 312,113	Ps. (337,463)	Ps. 8,392,405
Impairment loss on loan and other accounts receivable	1,897,902	579,471	229,948	236,434	59,176	1,253	—	3,004,184
Depreciations and amortizations	352,618	64,252	40,449	24,787	4,513	997	(16,008)	471,608
Commission and fee expense	347,612	99,804	83,857	98,738	8,970	219	(19,672)	619,528
Costs and expenses of sales goods and services	195,564	195,894	31,503	—	5,292,651	(5,779)	15,495	5,725,328
Administrative Expenses	2,943,832	632,153	501,664	324,787	138,626	57,536	(189,399)	4,409,199
Other expense	2,414,696	363,398	293,930	158,243	104,944	(331,792)	463,050	3,466,469
Income tax expense	1,150,393	232,292	151,365	79,994	381,647	3,111	58,107	2,056,909
Total Expenses	**13,871,086**	**3,622,653**	**2,327,786**	**1,374,207**	**6,938,130**	**37,658**	**(25,890)**	**28,145,630**
Net income for the year	**Ps. 4,432,025**	**Ps. 627,992**	**Ps. 181,075**	**Ps. 179,550**	**Ps. 671,337**	**Ps. (12,411)**	**Ps. (2,562,632)**	**Ps. 3,516,936**

(1) Includes Ps. 2,208,053 of income resulting from the desconsolidation of Corficolombiana.
(2) Includes Grupo Aval Holding, Grupo Aval Limited, Grupo Aval International Limited and ATH Negocio Conjunto.
(3) See note 2.32. Changes in presentation.

Main eliminations of total income, expenses, assets and liabilities between segments with the corresponding consolidated entries at the level of Grupo Aval are:

- Loans with financial obligations of entities mainly from non financial sector.
- Investments in term deposits and outstanding bonds of in other segments.
- Investments in subordinates elimination and record of non- controlling interests.
- Expenses and incomes from commissions.

31.5 Analysis of Revenues by Products and Services

Grupo Aval's revenues are analyzed by products and services, in the statement of income.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

31.6 Income by Country

Grupo Aval's revenues for each individual country for which revenues are significant, are the following during the years ended December 31, 2018, 2017 and 2016:

	December 31, 2018		December 31, 2017		December 31, 2016	
Colombia	Ps.	25,611,992	Ps.	23,824,994	Ps.	24,273,358
Panamá		1,527,626		1,410,766		1,333,843
Costa Rica		3,065,997		2,752,109		2,598,446
Guatemala		1,273,570		1,132,646		1,084,436
Other countries		2,604,040		2,539,337		2,372,483
Total Consolidated Revenues	**Ps.**	**34,083,225**	**Ps.**	**31,659,852**	**Ps.**	**31,662,566**

During the years ended December 31, 2018, 2017 and 2016, Grupo Aval's reported no concentration of revenue in customers with more than a 10% share of revenue from ordinary activities.

The foregoing analysis is based on the customer's domicile. Income from off- shore entities of Colombian customers are reported as income from Colombia. The revenues include income from interest, fees, commissions and other operating income.

31.7 Non-current assets by Country

Grupo Aval's non-current assets for each individual country for which non-current assets are significant, are as follows as of December 31, 2018 and 2017:

December 31, 2018	Own – use Property, plant and equipment, net		(*) Intangible assets	
Colombia	Ps.	4,450,061	Ps.	8,625,595
Panamá		213,090		3,979,443
Costa Rica		378,554		100,631
Guatemala		108,167		15,988
Other countries		513,871		1,145,302
Total	**Ps.**	**5,663,743**	**Ps.**	**13,866,959**

(*) see notes 15 to 18.

December 31, 2017	Own – use Property, plant and equipment, net		(*) Intangible assets	
Colombia	Ps.	4,635,899	Ps.	5,868,867
Panamá		203,824		3,657,236
Costa Rica		366,800		89,343
Guatemala		98,778		16,714
Other countries		494,696		1,231,744
Total	**Ps.**	**5,799,997**	**Ps.**	**10,863,904**

(*) see notes 15 to 18.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

NOTE 32 – UNCONSOLIDATED STRUCTURED ENTITIES

The term "unconsolidated structured entities" refers to all structured entities that are not controlled by Grupo Aval. Grupo Aval enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities.

The table below shows the total assets of unconsolidated structured entities in which Grupo Aval had an interest at the reporting date and its maximum exposure to loss in relation to those interests.

Nature and risks associated with Grupo Aval's interests in unconsolidated structured entities

December 31, 2018		**Securitizations**		**Grupo Aval's managed funds**		**Total**
Grupo Aval's interest-assets						
Investments at fair value through profit or loss	Ps.	13,733	Ps.	2,181,725	Ps.	2,195,458
Other account receivables		—		34,431		34,431
Total assets in relation to the Grupo Aval's interests in the unconsolidated structured entities		**13,733**		**2,216,156**		**2,229,889**
Grupo Aval's maximum exposure (*)	**Ps.**	**13,733**	**Ps.**	**2,216,156**	**Ps.**	**2,229,889**

(*) Represent 1.35%, respectively of the Grupo Aval's managed funds total assets.

December 31, 2017		**Securitizations**		**Grupo Aval's managed funds**		**Total**
Grupo Aval's interest-assets						
Investments at fair value through profit or loss	Ps.	19,602	Ps.	3,030,499	Ps.	3,050,101
Other account receivables		—		37,606		37,606
Total assets in relation to the Grupo Aval's interests in the unconsolidated structured entities		**19,602**		**3,068,105**		**3,087,707**
Grupo Aval's maximum exposure (*)	**Ps.**	**19,602**	**Ps.**	**3,068,105**	**Ps.**	**3,087,707**

(*) Represent 1.92%, respectively of the Grupo Aval's managed funds total assets.

Grupo Aval invests in asset-backed securities issued by securitization entities for which underlying assets are mortgages granted by financial institutions. Grupo Aval does not have a significant exposure to sub-prime securities. The asset-backed securities are denominated in local market TIPS and accounted for as investment at fair value through profit or loss. These asset-backed securities have different maturities and are generally classified by credit ratings. Also, Grupo Aval retains beneficial interests in the form of servicing fees on the securitized receivable and manages funds.

In the normal course of operations, Grupo Aval has trust companies that manage collective investment funds and assets of third parties whose the managing trustees receive commissions. Additionally, Grupo Aval has the subsidiary Fondo de Pensiones y Cesantias Porvenir that manages mandatory pension funds and defined contribution plans. For management services provided by the trust and Porvenir, commissions vary according to the conditions of each fund or asset managed are received.

The obligations of these entities in the administration of these assets are of means and do not guarantee the results. The maximum exposure risk of loss is determined by the possible failures in the administration of the funds by the amount of the returns that manages and the return of the results of assets the clients.

NOTE 33 - TRANSFERS OF FINANCIAL ASSETS

Grupo Aval enters into transactions in the normal course of business by which it transfers financial assets to third parties. Depending on the circumstances, these transfers may either result in these financial assets being derecognized or continuing to be recognized in Grupo Aval´s financial statements.

A. Transferred financial assets not qualifying for full derecognition

i. Sale and repurchase agreements

Sales and repurchase agreements are transactions in which Grupo Aval sells securities and simultaneously agrees to repurchase them (or assets that are substantially the same) at a fixed price on a future date. Grupo Aval continues to recognize the securities in their entirety in the statement of financial position because it retains substantially all of the risks and rewards of ownership. The cash consideration received is recognized as a financial asset and a financial liability is recognized for the obligation to pay the repurchase price. Because Grupo Aval sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred assets during the term of the arrangement. As of December 31, 2018, the financial investments debt securities available-for-sale that are being used as collateral in repo operations amounted Ps. 4,029,816 (December 31, 2017 Ps. 2,878,772) see Note 9.5, and financial assets held for trading that are being used as collateral in repo operations amounted Ps. 1,139,782 (December 31, 2017 Ps. 843,075) see Note 8.4.

ii. Securities lending

As of December 31, 2018, and 2017 Grupo Aval has not recorded securities lending.

B. Transfer of financial assets that are derecognized in their entirety.

i. Securitizations

Certain securitization transactions undertaken by Grupo Aval result in the derecognizing transferred assets in their entirety. This is the case when Grupo Aval transfers substantially all of the risks and rewards of ownership of financial assets to unconsolidated securitization vehicle and retains a relatively small interest in the vehicle or a service arrangement in respect of the transferred financial assets. If the financial assets are derecognized in the entirety, then the interest in unconsolidated securitization vehicles that Grupo Aval receives as part of the transfer and the service arrangement represent continuing involvement with those assets.

During the years ended at December 31, 2018, 2017 and 2016, Grupo Aval did not transfer financial assets to special purpose vehicles. However, before 2014, a subsidiary bank made a transfer of mortgage loans to unconsolidated special purpose vehicles as the bank did not have control over them. As a result, the mortgages loans were derecognized of the financial statements as of January 1, 2014, taking the exception under IFRS 1. In the securitization process, Grupo Aval received investment securities as payment for the transferred assets classified as investments at fair value adjusted in profit or loss at December 31, 2018, 2017 and 2016. At present, the subordinate bank collects the accounts receivable transferred to the vehicle, and such collected amounts are immediately transferred to the special purpose vehicle in charge of such accounts. For collecting the payments, Grupo Aval receives 1% as commission fee based on the collected accounts receivable. A loss can potentially occur if the costs incurred in the execution of the collecting service exceed the commission fee revenue received.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

The table below explain in detail the assets at December 31, 2017, 2016 and 2015 that represent the continuing involvement of Grupo Aval with the accounts receivable transferred and revenue obtained during the collecting process of such loans.

At the end of the year	**December 31, 2018**	**December 31, 2017**	**December 31, 2016**
Financial assets [(1)]	Ps. 13,733	Ps. 19,602	Ps. 27,377
Income for commission and fees	79	136	96

(1) Includes investments held for trading through profit or loss and available-for-sale investments.

The financial assets held for trading through profit or loss securities in the special purpose vehicle which managed the loans and receivables represents Grupo Aval´s maximum exposure to loss from its continuing involvement in the form of notes issued by unconsolidated securitization vehicles is their carrying amount.

NOTE 34 – RELATED PARTIES

To verify the correct identification of relationships and transaction with related parties, Grupo Aval has established a specific formal *Procedure for the Identification and Disclosure of Balances and Transactions with Related Parties*. Such procedure is communicated and made available to our personnel through Grupo Aval's intranet. In application of this procedure, our members of the board of directors and our key management personnel are periodically required to identify close family members and entities over which such persons have significant influence. Such process is conducted by a written request containing the criteria that such person must consider in order to provide information on close family members and entities that must be disclosed as their related parties.

In addition, Grupo Aval Vice-Presidency of Accounting Consolidation periodically performs an evaluation of its controlling and non-controlling investments in other entities to identify if such entities should be treated as a related entity.

The following are some of the guidelines included in the abovementioned corporate framework:

- Grupo Aval and its subsidiaries shall permanently carry out the registration of the operations performed with related parties, identifying the type of operation, its purpose, economic conditions and authorizations received when applicable.

- Grupo Aval and its subsidiaries shall establish limits of indebtedness or exposure and perform constant monitoring of the intragroup operations, complying for such purpose with the restrictions set forth under applicable regulations.

- All intragroup operations shall be fully identified by accounting areas of the respective entities.

- Authorization levels are defined within the governance and control structure, assigned as may be deemed adequate as a function of the magnitude and type of transaction, keeping the evidence of such authorizations.

- It should be verified that related party transactions are carried out for a good and valuable consideration, at market conditions, maintaining a financial equilibrium in the relationships between the entities participating in the operation.

This *Reference Framework for Institutional Relations* was also submitted to the consideration and approval of the Board of Directors of our subsidiaries and has been made available in the web sites of Grupo Aval and its subsidiaries.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Balances as of December 31, 2018 and 2017, with related parties, are detailed in the following tables:

	Individuals		Entities		
December 31, 2018	**Individuals with control over Grupo Aval (*)**	**Key management personnel (*)**	**Associates and joint ventures**	**Entities controlled by individuals**	**Entities with significant influence by individuals**
Assets					
Cash and equivalents	Ps. —	Ps. —	Ps. —	Ps. —	Ps. —
Financial assets in investments	—	—	920,170	—	—
Financial assets in credit operations	2,680	17,062	1,443,476	1,513,218	102,958
Accounts receivable	9	58	8,105	3,329	17
Other assets	—	—	20,348	5,030	—
Liabilities					
Deposits	Ps. 100,199	Ps. 21,726	Ps. 70,960	Ps. 570,558	Ps. 23,470
Accounts payable	38	686	10,114	291,328	1
Financial obligations	1	3	102	7	—
Other liabilities	—	—	25,040	194	3

(*) Include family members

	Individuals		Entities		
December 31, 2017	**Individuals with control over Grupo Aval (*)**	**Key management personnel (*)**	**Associates and joint ventures**	**Entities controlled by individuals**	**Entities with significant influence by individuals**
Assets					
Cash and equivalents	Ps. —	Ps. —	Ps. 11	Ps. —	Ps. 67
Financial assets in investments	—	—	910,310	1,249	—
Financial assets in credit operations	3,066	10,665	1,492,067	1,301,697	3,385
Accounts receivable	11	33	59,588	4,421	—
Other assets	—	—	156,636	3,661	18
Liabilities					
Deposits	Ps. 21,257	Ps. 20,192	Ps. 2,535,339	Ps. 1,566,160	Ps. 1,275
Accounts payable	103	700	15,353	322,275	18,671
Financial obligations	4	10	16,435	1,249	—
Other liabilities	—	4	7,424	49	—

(*) Include family members

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Transactions during the years ended as of December 31, 2018, 2017 and 2016, with related parties are as follows:

a. Profit or loss

		Individuals		Entities		
December 31, 2018		**Individuals with control over Grupo Aval (*)**	**Key management personnel (*)**	**Associates and joint ventures**	**Entities controlled by individuals**	**Entities with significant influence by individuals**
Income						
Interest income	Ps.	216	907	101,539	131,368	4,789
Fee income and commissions		5	58	6,664	65,615	5
Leases		—	—	45	315	—
Other income		4	243	241,797	4,252	—
Expenses						
Financial expenses		(216)	(740)	(735)	(17,322)	(22)
Fee expenses and commissions		(4)	(1,549)	(14,741)	(1,796)	(5)
Operating expenses		—	(25,808)	(53)	(4,013)	—
Other expenses		(16)	(496)	(30,250)	(27,034)	—

(*) Include family members

		Individuals		Entities		
December 31, 2017		**Individuals with control over Grupo Aval (*)**	**Key management personnel (*)**	**Associates and joint ventures**	**Entities controlled by individuals**	**Entities with significant influence by individuals**
Income						
Interest income	Ps.	164	757	155,690	123,671	543
Fee income and commissions		5	48	26,249	57,180	—
Leases		—	—	321	301	—
Other income		4	59	236,871	6,391	—
Expenses						
Financial expenses		(243)	(1,197)	(129,335)	(30,431)	(6)
Fee expenses and commissions		(4)	(1,510)	(24,039)	(3,276)	(1)
Operating expenses		—	(9,706)	(3,572)	(1,892)	(113)
Other expenses		—	(1,635)	(32,691)	(34,400)	—

(*) Include family members

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

		Individuals		Entities		
December 31, 2016		**Individuals with control over Grupo Aval (*)**	**Key management personnel (*)**	**Associates and joint ventures**	**Entities controlled by individuals**	**Entities with significant influence by individuals**
Income						
Interest income	Ps.	28	321	81,646	64,299	789
Fee income and commissions		4	28	12,717	33,659	—
Leases		—	—	66	290	30
Other income		440	—	171,405	2,957	9,915
Expenses						
Financial expenses		(84)	(656)	(88,800)	(19,064)	—
Fee expenses and commissions		(333)	(931)	(15,451)	(2,674)	(143)
Operating expenses		—	(5,588)	(75)	(2,060)	(1)
Other expenses		(11)	(1,390)	(193,762)	(15,159)	(811)

(*) Include family members

Outstanding amounts are not guaranteed and shall be liquidated in cash. Guarantees have not been granted or received. No expense has been recognized during the current period nor in previous periods with respect to uncollectable or accounts of doubtful collection relating to amounts in debt by related parties.

b. Compensation of Key Management Personnel

The compensation received by the key personnel of the management comprises the following:

	Year ended as of					
Items		**December 31, 2018**		**December 31, 2017**		**December 31, 2016**
Salaries	Ps.	18,123	Ps.	17,073	Ps.	15,731
Short term benefits for employees		3,244		3,167		10,664
Total	**Ps.**	**21,367**	**Ps.**	**20,240**	**Ps.**	**26,395**

Transactions with our related parties correspond primarily to the normal course of banking business activities made under market conditions. Such transactions include demand and saving deposits, time deposits, commercial, consumer and mortgage loans, financial leases, payment of dividends and or interest.

NOTE 35 – SUBSEQUENT EVENTS

At the General Meeting of Shareholders that took place on March 29, 2019, it was declared a dividend of Ps. 5.00 per month for the preferred and common shares, during period of twelve-month between April, 2019 and March 2020, for a total dividend of Ps. 1,336,861 according to the following:

Net income for period ended December 31, 2018 included in the unconsolidated financial statements of Grupo Aval	2,887,749
Occasional reserve release at the disposal of the General Meeting of Shareholders	6,265,450

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Total Income available for disposal of the General Meeting of Shareholders		**9,153,199**
Cash Dividends		Ps. 60 per share payable in twelve monthly installments of Ps. 5.00 per share, from April 2019 to March, 2020.
Total shares outstanding		22,281,017,159
Total dividends declared	**Ps.**	**1,336,861**
To Occasional reserve at the disposal of General Meeting of Shareholders		**7,816,338**

In a meeting held on March 29 2019, Grupo Aval's Board of Directors approved the presentation of the consolidated financial statements under Colombian IFRS and the accompanying notes for the period ended December 31, 2018, for consideration of the General Meeting of Shareholders.

NOTE 36 – PARENT COMPANY INFORMATION

Condensed separate statement of financial position

The following are the condensed separate (alone) statements of financial position of Grupo Aval Acciones y Valores S.A., at December 31, 2018, and 2017 and condensed separate statements of income and statement of cash flows for the fiscal year ended December 31, 2018, 2017 and 2016.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Condensed separate Statement of Financial Position

	December 31, 2018	December 31, 2017
Current Assets		
Cash and cash equivalents	Ps. 38,667	Ps. 35,478
Trading securities	1,543	453
Accounts receivable from related parties	267,640	274,323
Other assets	517	513
Total current assets	Ps. **308,367**	Ps. **310,767**
Non current Assets		
Investments in subsidiaries	19,932,376	18,589,623
Property plant and equipment	2,414	2,851
Deferred tax	476	—
Total non current assets	Ps. **19,935,266**	Ps. 18,592,474
Total assets	Ps. **20,243,633**	Ps. **18,903,241**
Current liabilities		
Borrowings at amortized cost	2,808	290,101
Outstanding bonds at amortized cost	284,758	5,725
Accounts payable	405,372	440,318
Other non-financial liabilities	1,214	1,233
Total current liabilities	Ps. **694,152**	Ps. **737,377**
Long-term liabilities		
Borrowings at amortized cost	541,924	253,503
Outstanding bonds	824,520	1,104,080
Deferred tax liabilities	—	33
Total non current liabilities	Ps. **1,366,444**	Ps. **1,357,616**
Total liabilities	Ps. **2,060,596**	Ps. **2,094,993**
Equity		
Shareholders’ equity	18,183,037	16,808,248
Total liabilities and shareholders’ equity	Ps. **20,243,633**	Ps. **18,903,241**

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Condensed separate Statement of Income	December 31, 2018	December 31, 2017	December 31, 2016
Operating revenue			
Equity method income, net	2,893,435	2,005,155	2,330,814
Other revenue from ordinary activities	285,218	234,502	77,387
Total operating revenue	**Ps. 3,178,653**	**Ps. 2,239,657**	**Ps. 2,408,201**
Expenses, net			
Administrative expenses	75,348	89,823	98,130
Other expenses	166	274	168
(Losses) gains from exchange differences	(1,601)	98	(1,085)
Operating income	**Ps. 3,101,538**	**Ps. 2,149,658**	**Ps. 2,308,818**
Financial expenses	118,892	133,171	125,585
Net income before taxes	**Ps. 2,982,646**	**Ps. 2,016,487**	**Ps. 2,183,233**
Income tax expense	66,662	51,568	5,620
Net income	**Ps. 2,915,984**	**Ps. 1,964,919**	**Ps. 2,177,613**

Condensed separate Cash flow	December 31, 2018	December 31, 2017	December 31, 2016
Net income	Ps. 2,915,984	Ps. 1,964,919	Ps. 2,177,613
Adjustments to reconcile net income to net cash used by operating activities	(1,773,713)	(867,042)	(1,726,296)
Net cash provided by operating activities	**1,142,271**	**1,097,877**	**451,317**
Net cash provided (used in) by investing activities	(11,185)	(8,830)	(55,374)
Net cash (used in) provided by financing activities	(1,127,897)	(1,100,849)	(360,827)
Increase (decrease) in cash and cash equivalents	**3,189**	**(11,802)**	**35,116**
Cash and cash equivalents at beginning of year	35,478	47,280	12,164
Cash and cash equivalents at end of year	**Ps. 38,667**	**Ps. 35,478**	**Ps. 47,280**

Basis for presenting and summary of significant accounting policies

The attached separated financial statement of Grupo Aval have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and their interpretations from the International Financial Reporting Standards Committee (IFRIC), currently in force and on the basis of historic cost, except for financial assets at fair value through profit or losses.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with IFRS have been condensed or omitted.

The separated financial statements of Grupo Aval have been prepared using the same IFRS basis and principles that Grupo Aval used to prepare it consolidated financial statements described in Note 2, except as provided below for its investments in subsidiaries.

Commitments and contingencies

In the normal course of business, certain subsidiaries of Grupo Aval are defendants in various tax and legal proceedings. Grupo Aval is not aware of any pending legal proceedings which could have a significant effect on its financial position or the results of its operations.

Investment in subsidiaries companies

Based on the IAS 27, when an entity prepares separate financial statements it shall account for investments in subsidiaries either: a) at cost or b) at fair value, in accordance with IFRS 9 or c) using the equity method. Accordingly Grupo Aval accounts its investments in subsidiaries using the equity method.

The equity method is an accounting method according to which the investment is initially recorded at cost, and they are periodically adjusted due to changes in the interest of the parent company over the net assets of the subsidiaries. Grupo Aval records on the result of the period its participation in the profit or loss of the subsidiaries, and in OCI its participation in the "Other comprehensive income account" of the subsidiary. In applying equity method Grupo Aval uses the subsidiaries consolidated financial statements at the end of the period prepared under IFRS.

Gain and losses resulting from transactions between Grupo Aval and its subsidiaries are recognized in the Grupo Aval´s financial statement only to the extent of Grupo Aval interest in the subsidiaries, unless the transaction provides evidence of an impairment in the book value of transferred assets.

Additionally, in a business combination process, to acquire some subsidiaries any difference between the cost of investment and Grupo Aval's share on the net fair value of the subsidiary identifiable acquired assets and assumed liabilities is accounted as follows:

Goodwill relating to the acquisition is included in the carrying amount of the investment. Amortization of goodwill is not permitted.

Appropriate adjustments to Grupo Aval's investments in the subsidiary after acquisition are made to account for example for depreciation of assets acquired in the business combination process based on their fair value at the acquisition date and for the impairment losses in such assets.

(Amounts expressed in millions of Colombian pesos, except convenience translation, which is expressed in millions of U.S. dollars)

Investment in Subsidiaries

Investment in subsidiaries as of December 31, 2018 and 2017 comprise the following:

Subsidiary	December 31, 2018 Ownership interest held by Grupo Aval	December 31, 2018 Book Value	December 31, 2017 Ownership interest held by Grupo Aval	December 31, 2017 Book Value
Banco de Bogotá S.A.	68.74 %	Ps. 11,905,815	68.74 %	Ps. 11,000,669
Banco de Occidente S.A.	72.27 %	3,183,351	72.27 %	3,174,228
Banco Comercial AV Villas S.A.	79.87 %	1,290,056	79.87 %	1,190,740
Banco Popular S.A.	93.74 %	2,923,562	93.74 %	2,710,218
Corporación Financiera Colombiana S.A.	38.25 %	674,484	44.79 %	504,962
Sociedad Administradora de Fondos de Pensiones y Cesantías Porvenir S.A.	75.69 %	440,707	75.69 %	401,341
Grupo Aval Limited	100.00 %	(347,082)	100.00 %	(315,227)
Grupo Aval International Limited	100.00 %	(138,517)	100.00 %	(77,308)
		Ps. 19,932,376		**Ps. 18,589,623**

Outstanding bonds

Bonds at December 31, 2018 and 2017 comprise the following:

Issuance date	Tranches	Maturity	Coupon rate	Amounts outstanding 2018	Amounts outstanding 2017
June, 2017	Ps. 100,000	June, 2020	IPC + 2.69 %	Ps. 100,065	Ps. 100,074
June, 2017	300,000	June, 2042	IPC + 3.99 %	300,237	300,264
November, 2016	93,000	November, 2026	IPC + 3.86 %	93,690	93,758
November, 2016	207,000	November, 2036	IPC + 4.15 %	208,597	208,750
December, 2009	279,560	December, 2019	IPC + 4.84 %	281,341	281,528
December, 2009	124,520	December, 2024	IPC + 5.20 %	125,348	125,431
Total Bonds	**Ps. 1,104,080**			**Ps. 1,109,278**	**Ps. 1,109,805**

The scheduled maturities of bonds as of December 31, 2018 are as follows

Period	Amount
2019	284,758
2020	100,000
2021 and thereafter	724,520
Total	**Ps. 1,109,278**