1Q2021 CONSOLIDATED EARNINGS RESULTS CALL TRANSCRIPT

GRUPO AVAL ACCIONES Y VALORES S.A.

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Operator: Welcome to Grupo Aval's first quarter 2021 consolidated results conference call. My name is Hilda and I'll be your operator for today's call.

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

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

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

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

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

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. I will now turn the call over to Mr. Luis Carlos Sarmiento Gutierrez, Chief Executive Officer. Mr. Sarmiento Gutierrez, you may begin.

Luis Carlos Sarmiento Gutierrez: Good morning and thank you all for joining our first quarter 2021 conference call. I trust that all of you and your families are keeping healthy.

It is with great pride in our company and its employees that I will share with you our strong financial results for the quarter that ended on March 31st. As I usually do, I will refer to the situation of the economies of the countries in which we operate, I will provide an update on the status of our clients' loan reliefs and on our digitalization program, and I will refer to the main reasons for our financial results.

Let's start with a view of the macro scenario during the quarter. To begin, I will venture to say that for the first time since the pandemic began over a year ago, the global outlook has become more favorable. In fact, the United States has set an example of efficacy in the mass production of the COVID-19 vaccine, in the inoculation of its citizens and citizens of many other parts of the world, and in the distribution of the vaccine to other countries. This has, without a doubt, played a crucial role in the economic recovery of the USA and has set in motion economic recoveries of many other countries and sectors. To be sure, COVID-19 continues to claim lives, especially in some emerging countries where the third wave of the virus has hit strong, as has been the case in India or Brazil. The threat is not over by any means, but hope has advanced exponentially in a short period of time.

In Colombia, the year got off to a slow start associated to the second wave of contagions in January that resulted in new mobility restrictions and lockdowns. However, economic activity picked up significantly during February and continued through March, as evidenced by a strong pickup in industrial production and in retail sales as quarantines were lifted. The beginning of the vaccination campaign on February 17th and the decline in the number of infections during the first few months of the year also contributed to an overall positive sentiment. Vaccinations continue in full force, at a slower pace than most of us would like, but much better than in peer countries.

As a result, on a seasonally adjusted basis, during the first quarter of this year, the economy grew 2%, positively surprising the market consensus that expected a contraction for the quarter.

This growth compares favorably to the contractions of 15.6%, 8.2% and 3.4% recorded during the second, third and fourth quarters of 2020.

Examining the quarter's performance from the supply side, eight of the twelve sectors representing 61% of GDP expanded. The most dynamic relevant sectors were Manufacturing, that grew 8.4%, Financial Services that grew 4.8%, Government services that grew 3.6%, and Agriculture, that grew 3.4%. The remaining sectors contracted, with Mining falling 14,6%; Construction 5.3%; Utility Services 1.3%, and Commercial activities 0.7%.

From the demand side, total consumption increased 1.6% and investment grew 1.0%. Consumption growth was driven by a 5.1% increase in government spending and a 1% increase in household consumption.

Unfortunately, we're now dealing concurrently with a new wave of contagion, albeit with much milder mobility restrictions and with social unrest, which temporarily will dampen a stronger rebound of domestic demand and overall activity. Protests were triggered by the proposal by the government of a fiscal reform but have continued even after the government withdrew its proposal followed by the resignation of the Ministry of Finance. Active negotiations are being carried, as we speak, between the government and the promoters of the demonstrations. In any case, for the rest of the year, we anticipate further improvement in economic activity, supported by stronger business sentiment, increased consumer spending, and a favorable external backdrop.

We have cautiously improved our estimate of the country's GDP growth, and we now believe that it might be as high as 5.5% in 2021. The Central Bank recently raised its growth rate forecast to 6% from 5.2%, while market consensus has increased to close to 5%.

We continue to expect a widening of the current account deficit to 3.5% of GDP by year's end, up from the 3.3% of GDP observed at the end of 2020, mostly driven by a larger trade deficit, with an increase in imports driven by domestic demand, somewhat attenuated by better oil prices.

Regarding the exchange rate, we expect a return to the 3,600 pesos per dollar level in the next few months after overshooting up to 3,800 pesos per dollar, surrounding the uncertainty of the tax reform, the social protests and more generally, the country's fiscal outlook.

As of April, 12-month inflation stood at 1.95%, up from 1.51% a month earlier. In fact, the monthly inflation figure for April was 0.59%, well above the market consensus of 0.34%. The largest contribution to April's inflation came from food, non-alcoholic beverages and housing costs. Going forward, we expect headline inflation to continue to trend up, driven by a statistical base effect, by a pass through of higher commodity prices, and by a short-lived effect of price increases in transportation associated to the ongoing demonstrations. We anticipate that 12-month inflation should reach the 3% area by year's end.

Well anchored Medium-term expectations should give the Central Bank enough room to continue with its current expansionary monetary policy. We expect little action in terms of monetary policy at least until the fourth quarter so the repo rate is likely to remain flat for now at its current level of 1.75%.

We continue to anticipate a 200 to 300 bps improvement in the labor markets during 2021, after a 557 bps deterioration of the average total national unemployment during 2020 to 16.1%. However, during the first quarter, the second wave of infections slowed down the recovery of jobs and as a result, national unemployment ended the quarter at 14.2%, 155 bps worse than the 12.6% reported 12 months earlier. However, 720 bps lower than the peak of 20.4% recorded in May 2020.

On the fiscal front, Colombia has been no exception, as the country has had to wage battle against the pandemic with more aggressive subsidy programs, increased spending in the health system, a national vaccination program, and different stimulus programs to jumpstart the economy. As a result, after reaching a fiscal deficit of 7.8% of GDP for 2020, the government expects the fiscal deficit for 2021 to approximate 8.6% of GDP. The failed tax reform sought to collect COP 23 trillion or 2% of GDP in order to correct the ongoing upward trend of public debt. Consequently, the government is currently working on a new draft of the tax bill with a lower tax revenue target, which should help it gain support in Congress.

Moving on to Central America, according to the IMF, the region's economy contracted 7.2% in 2020 and should recover to a positive 5.6% during 2021. As you know, Central America greatly benefits from the recovery of the U.S. economy, as certain Central American countries are materially dependent on cash remittances incoming from the United States.

After contracting a whopping 17.9% during 2020, the IMF now expects Panama to rebound to a positive 12% in 2021, as it should be favored by increased usage of the Panama Canal as international trade rebounds, and by an aggressive vaccination program.

GDP for El Salvador and Honduras contracted 8.6% and 8%, respectively, during 2020. For 2021, the IMF expects GDP to grow 4.5% in Honduras and 4.2% in El Salvador, driven by stronger remittances, in line with the recovery of the U.S. economy and by a recovery in their exports.

Costa Rica's GDP contracted 4.8% in 2020, impacted by a decrease in external demand for services, mainly tourism. The IMF expects GDP to grow 2.6% in Costa Rica during 2021.

Guatemala's GDP contracted 1.5% in 2020. Its economy is expected to grow 4.5% during 2021, according to the IMF. As in the case of El Salvador and Honduras, remittances should be a key driver in 2021.

Finally, Nicaragua's GDP contracted 3% during 2020. The IMF now expects its GDP to grow 0.2% during 2021 as construction, transportation and the financial sector recover, while the recovery of sectors related with tourism lags behind.

Regarding the status of our loan relief programs, as of March, we had active reliefs representing approximately 11.8% of our total consolidated loan portfolio, or approximately COP 24.7 trillion in loans.

In Colombia, payment holidays are almost over. As of March 31st, active reliefs amounted to COP 7.9 trillion or 5.9% of the Colombian loan portfolio, including COP 7.3 trillion in structural agreements. In Central America, reliefs amounted to COP 16.8 trillion, representing 22% of the region's portfolio, driven by Panama, which amounted to more than half of the region's active reliefs.

Of all loans that have concluded the relief periods in both geographies, 3.7% are currently past due 90 days or more, representing 1% of our total consolidated loan portfolio, and those currently past due 30 days or more represent 1.7% of our total consolidated loan portfolio. Our cost of risk reflects our estimation of losses related to the complete unwind of these relief programs.

Let's move on to the results of our digital strategy.

Our active digital clients grew almost 30% from 4 million at the end of March 2020 to approximately 5.2 million on March 31st 2021.

We have continued to add digital products to our offer. In fact, in the 12 months ending March 31st, we increased the number of digital products offered by our banks by 45%.

Our banks sold 532,000 products in the first quarter of 2021.

In addition, during the first quarter of 2021, of the total value of monetary transactions conducted through all our channels, almost 70% was transacted through our digital channels, up from 54% in the first quarter of 2020.

Conversely, our branch network decreased its share of monetary transactions during the quarter and now represents only 26% of total amounts transacted, down from 43% in the first quarter of 2020.

Finally, regarding our financial results, Diego will refer next in detail to our financial performance during the first quarter of 2021. However, I would highlight the following:

We are encouraged, albeit cautiously, by our strong financial performance during this first quarter. All in all, we see headwinds and tailwinds, but believe that perhaps the tailwinds are stronger than those against us.

Some of the tailwinds that we see are an improving economy, a resilient loan portfolio, and as a result, cost of risk at levels better than expected, a cost containment program that is yielding good results because of digital initiatives to streamline our operating processes, and from a companywide efficiency and cost reduction culture, a decided effort by Corficolombiana to keep developing its infrastructure programs, including its toll roads, airport concessions, agro industrial initiatives, and gas, transportation and distribution businesses, while minimizing the damage due to the pandemic to its hotel business, and a faster than expected recovery of the banks' revenues from fees, which will be more evident as the year progresses.

There are, however, headwinds that keep us alert. Among the most important, we are keeping a close eye on the current demonstrations of social unrest and their possible repercussions, and on the animosity against the financial system expressed during the first few days of the marches. although in all candor, these expressions, sometimes violent, against banks, have subsided.

We are also vigilant of the current wave of contagion and the elevated number of daily deaths and therefore hope that the vaccination program keeps gaining speed. And finally, we are expectant of the tax reform that will be eventually presented to Congress and especially of any specific provisions that it might contain affecting the financial system.

I am sure that these and other similar subjects will come up in future calls later this year.

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

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

Starting on page nine, even though not yet back to historic levels, volume growths are increasing, gaining momentum. Our assets grew 4.3% over the quarter. With this result, we accumulate a 5.1% year-on-year growth.

As mentioned over our last three calls, on May last year we completed the acquisition of MFG, contributing to our 12-month growth. Excluding this effect and that of FX movements of our Central American operations, total assets grew 2.8% year on year. Colombian assets grew 2.7% in the quarter and 0.3% year on year, while Central American assets recorded a 0.3% quarterly growth in dollar terms and a 27% year-on-year growth. MFG contributed with 18,4% percentage points to year-on-year growth of Central America.

A quarterly depreciation of 7.2 % and a 12-month appreciation of 9.3% take quarterly and annual growth in pesos of Central America to 7.5% and 15.2%. The share of Central America of our book increased slightly during the quarter to 36%.

Moving to page ten, loan growth is progressively recovering, mainly driven by a sustained performance of high-quality retail lending products and an incipient uptick in commercial loan growth in Colombia.

Loans grew 3.8% over the quarter, reaching a 4.4% increase year on year. Excluding the acquisition of MFG and FX movements of our Central American operations, consolidated loans grew 1.4% over the quarter. The acquisition of MFG contributed with 6.3% of 12-month consolidated growth in peso terms.

Our Colombian gross loan portfolio increased 1.7% during the quarter, driven by the strong growth of our retail portfolio and an improvement in the dynamics of our commercial portfolio. 12-month growth was 1.5%.

Demand for consumer loans remains strong in Colombia, resulting in a 2.7% increase in the quarter and 8.1% year on year. Competition remains high, particularly on payroll lending. Payroll lending, that accounts for 60% of our Colombian consumer portfolio, grew 5.7% over the quarter. Mortgages remained dynamic in Colombia, expanding 2.6% over the quarter and 10.9% year on year. Auto financing, which accounts for 7%, grew 0.6% over the quarter. In contrast, as has happened over the pandemic, credit cards and personal loans remained soft, contracting 2.9% and 1%, respectively, during the quarter. These products accounts for 12% and 20% of our Colombian consumer portfolio.

Colombian corporate portfolio slightly recovered its dynamics, growing 1% during this quarter after two consecutive periods of contraction. Cumulative 12-month growth was negative at -2.8% with a high comparison base a year ago.

Moving to Central America, our gross loan portfolio increased 0.7% over the quarter and 21,1% year on year in dollar terms. MFG contributed 20 percentage points to year-on-year growth. Quarterly performance resulted from a 1% growth of commercial loans and a 1.2% growth of mortgages. Consumer loans contracted by 0.2% over the quarter after a seasonally high fourth quarter. This performance was driven by a 0.9% and a 1% growth in payroll and auto-lending, respectively, and by a 1.4% contraction in credit cards.

We expect commercial loan growth to continue recovering as economic activity and business confidence improves throughout the year. On the retail-lending front, we expect that the improvement in employment outlook will allow our banks to increase the risk appetites in products that were deemphasized during the shock.

In spite of our year-end view, we may face a temporary deceleration in the speed of recovery during the second quarter associated with the disruption of the normal operation of some of our customers during April and May due to strikes and a new wave of COVID-related mobility restrictions.

On pages 11 and 12, we present several loan portfolio quality ratios.

The COVID-19 credit juncture continued unwinding during the first quarter. In the first phase of the pandemic last year, we booked provisions ahead of observed delinquency, in line with our view on future deterioration, looking beyond the distortions introduced by loan reliefs.

During this second phase, actual delinquencies, which we had already begun to provision during the first phase, materialized once reliefs expired.

This unwind has evolved favorably for our banks up to date. However, we are still cautious, given that a proportion of reliefs remains under payment holidays, particularly in Central America, and that sanitary challenges are not yet behind.

As of March 31st, we had 4.8% of our gross loans under payment holidays, 230 basis points lower than last quarter, and 7% under structural payment programs. This is 120 basis points higher than last quarter. Together, this accounts for 11.8% of our loan portfolio.

At the same date, 6.8% of loans that had returned to active payment schedules and that in the past had benefited either from payment holidays or were restructured, were past due more than 30 days. These represents 1.7% of gross loans. Former numbers are 3.7% and 1% for loans past due more than 90 days.

Payment holidays in Colombia are substantially over, down to 0.4% of gross loans. In addition, 5.5% of our gross loans were under structural payment programs. Together, this adds 5.9% of our loan portfolio.

In Central America, payment holidays have extended longer accounting for

12.4% of gross loans, with Panama extending close to 90% of this figure. In addition, 9.7% of gross loans are under structural payment programs. Together, these two add 22%.

Regarding delinquency metrics, 30-day and 90-day past due loans improved during the quarter explained a PDL formation similar to pre-COVID levels. The ratio of charge-offs to average 90-day PDLs returned to its five-year average. Lower charge-offs during 2020 were associated with relief programs. Our allowance coverage of 30-day and 90-day PDLs slightly improved during the quarter.

Regarding PDL formation, 69% was explained by retail products, with a wide performance variation across products. Personal loans contributed 24% to PDL formation, despite representing only 5% of our gross loans. Similarly, credit cards contributed 26% to PDL formation, while accounting for 8% of our gross loans. In contrast, payroll lending and mortgages, which weigh 16% and 12% of our total loans, explain 11% and 12% of PDL formation, respectively.

The quality of our loan portfolio on a 30-day PDL basis improved 14 bps to 4.75% in the quarter and 15 bps to 3.41% on a 90-day PDL basis. Our 30-day and 90-day PDLs are now 59 bps and 27 bps higher than they were a year earlier.

Composition of our loan portfolio in terms of stages, as measured by IFRS 9, remained relatively flat over the quarter with a slight increase in stage two loans.

Cost of risk net of recoveries was 2.2%, 129 bps lower than the 3.5% in the previous quarter and 7 bps higher than a year earlier. This incorporates 187 bps and 84 bps improvement in retail and commercial lending, respectively, over the quarter.

Quarterly cost of risk improved by 144 bps in Colombia and by 102 bps in Central America.

In Colombia, cost of risk of retail loans improved 196 basis points, and that of commercial loans improved 114 bps. In Central America, the cost of risk of the retail portfolio improved 179 bps, and commercial loans' cost of risk improved 13 basis points.

On page 13, we present funding and deposit evolution. Funding growth during the quarter continued to reflect the high liquidity environment. As a result, our deposits to net loans remained high, slightly increasing to 110%, while our cash to deposits ratio ended the quarter at 15.8%. Funding structure maintained its concentration on deposits, which account for 78% of total funding. Deposits increased 4.8% in the quarter and 9.3% year on year. Colombia grew 1.6% in the quarter and Central America grew 2.8% in dollar terms. Over the 12-month period, Colombia grew 1.8% and Central America 36% in dollar terms. 17

percentage points of growth in Central America are explained by MFG.

On page 14, we present the evolution of our total capitalization, our attributable shareholders' equity, and the capital adequacy ratio of our banks. Our total equity grew 6.6% year on year, while our attributable equity increased 4,6%, mainly driven by our earnings.

Dividends of COP 1,203 billion and of COP 724 billion were declared to our shareholders and to the minorities of our subsidiaries, respectively, during the quarter. This resulted in a contraction of COP 281 billion in our attributable equity and COP 245 billion in our total equity.

This is the first quarter in which we report our solvency ratios under Basel III. As anticipated, all of our banks increased their solvency ratios as compared to those under previous regulation, bear in mind that March figures are seasonally low, impacted by the dividend distributions of our banks.

On page 15, we present our yield on loans, cost of funds, spreads, and net interest margin.

NIM performance during the quarter was driven by a negative NIM on investments and a slight decrease in NIM on loans.

NIM on investments was -0.4% during the quarter, as a result of a global steepening of yield curves and market concerns on Colombia's sovereign rating. These took a toll on our banks and Porvenir portfolios measured as fair value. This was partially offset by gains in FX and derivatives recognized under other income.

NIM on loans contracted 8 bps to 5.8% during the quarter, mainly due to the repricing pressures in net interest income as the yield on loan decreased 28 bps to 8.4%, while cost of funds decreased 19 bps to 2.4%. A conservative liquidity management appropriate under the current environment has implied a burden on net interest margin. The spread between yield on loans and cost of funds contracted 11 bps to 6%.

On page 16, we present net fees and other income. Gross fee income increased 1% year on year and decreased 2.3% due to a relatively high fourth quarter. Quarterly fees decreased 1.3% in Colombia and 1% in dollar terms in Central America. On a year-on-year basis, gross fees increased 3% in Colombia and decreased 2.8% in Central America.

Income from the non-financial sector reflects the strong performance of infrastructure and energy and gas sectors. The infrastructure sector, that is the largest contributor to our non-financial income, grew 24% over the quarter, mainly explained by construction in progress.

The energy and gas sector income increased as compared to a year earlier, due to higher distribution and transportation volumes. A quarterly decrease is explained by a high mark in fourth quarter 2020 associated with a one-time event in Promigas' Peruvian operations.

Finally, our hospitality business remains underpinned by low occupancy rates during the pandemic.

On the bottom of the page, the year-on-year increase in other income is explained by a better performance in FX and derivatives, partially offsetting the negative performance of fair value investments, described earlier in the discussion.

In addition, this quarter benefited from OCI realization from FVOCI portfolios, and from dividends received from our unconsolidated equity investments.

On page 17, we present some efficiency ratios. All our business units continued implementing cost contention and reduction initiatives during the quarter and capturing the benefits from the digitalization of core processes. Other expenses were materially unchanged, with a slight increase of 0.2% year on year, despite the acquisition of MFG and FX fluctuations. Excluding these effects, our expenses contracted 3.9% year on year. Other expenses decreased 8.8% over the quarter.

As a result, cost to assets improved to 3.1%, down from 3.4% a year earlier. Cost to income improved to 44.7%, down from 47.1% a year earlier.

Colombian other expenses decreased by 2.1% year on year and 10.3% over the quarter. Central American expenses contracted 4.2% over the quarter and increased 2.7% year on year in dollar terms. Excluding MFG, Central American other expenses fell 6.4% year on year in dollar terms.

Consolidated quarterly personnel expenses decreased 1.5% both over the quarter and year on year. When excluding the effects of MFG and FX fluctuations, consolidated personnel expenses decreased 5.2% year on year.

Over the year, personnel expenses fell 0.8% in Colombia and 2.9% in dollar terms in Central America. Excluding MFG, personnel expenses fell 10.6% year on year in dollar terms in Central America.

Quarterly general and administrative expenses fell 1.7% year on year and 12.1% over the quarter. Year-on-year G&A expenses reduction reached a 4,1% decrease when excluding the effect of MFG and FX fluctuations, with reductions of 1.8% in Colombia and 7.5% in dollar terms in Central America.

Finally, on page 18, we present our net income and profitability ratios. Attributable net income for the first quarter was COP 792 billion, with COP 35.5 per share. This result was 24.7% and 13.1% higher than a quarter and a year earlier respectively. ROAA and ROAE were 15.4% and 1.8% respectively.

I will summarize our guidance for 2021. We expect loan growth to be in the 9% to 10% area, cost of risk to be between 2.3% and 2.4%, Fees to grow in line with our loan portfolio. Expenses growth will be in the 4.5% area. Return on average equity will be in the 13.5% area.

We are now available to address your questions.

Q&A

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

We have a question from Jason Mollin, from Scotiabank. Please go ahead.

Jason Mollin: Thank you. Hello, everyone. You mentioned there's lots of uncertainty in the region in Colombia specifically, but everywhere it seems these days. One question I haven't asked in a while is about what you typically refer to and I think the market does is the double leverage at the group level. And the debt at the group level is serviced with, I believe, the majority interest income on loans to subsidiaries in cash and cash equivalents. We saw a pickup, a tiny bit in the quarter and a little bit more year-on-year. If you can talk about that strategy. From our perspective, we like the returns it gives to the shareholders as long as things go ok. So, I just wanted to hear about your views on that strategy. Any change? Should we expect the move up to reverse itself? Do you feel comfortable here? And any other comments on this would be helpful. Thank you.

Luis Carlos Sarmiento Gutierrez: Alright, Jason. Let me take the first part of your question and then Diego will take the double leverage part of it.

As far as the debt at the holding company, we have kept the debt down to two strategies, if you will. On the peso side, we've kept the debt constant maybe for the last three years or so, and that debt in pesos is composed of some peso-denominated bonds and some bank financing. And because we distribute in cash dividends an equal amount to the cash dividends that we receive at Grupo

Aval, then there hasn't been any necessity to increase the pesos-denominated debt.

As far as dollar-denominated debt, we have two bond issues outstanding, each one for USD 1 billion. The first one is coming due in 2022 and our intention is to pay that one. And then the second one is coming due in the year 2030. Both issues are, as I said, they add up to about USD 2 billion and the money that we received as a result of those two bond issues, we have on-lent them to our own entities. Those of our entities, subsidiaries of Aval or subsidiaries of subsidiaries of Grupo Aval that, one, can't get financing in the capital markets because of their sizes, or two, if they could get financing, it would be more expensive that the financing that Aval could borrow the money for, or three, that size of the financing they need is not material enough to issue a bond in the capital markets. So what we do is we take that financing in Aval and then we on-lend it to those entities at rates that are equal or superior to the ones that we borrow at in Aval, therefore creating a positive spread and guaranteeing that Aval will always have the liquidity to pay the coupons. And then when the bonds come due, we make sure that those entities in turn have the ability to pay down the loans that they receive from Aval in order for Aval to have the liquidity when the bonds come due, which is, for example, what we're going to do with the 2022 maturity.

By that time, we will have received the USD 1 billion and we will pay that one down and then our total debt will drop by USD 1 billion early next year. I think it's February when it comes due. No, sorry, that one is due in September. September is when it comes due, next year.

So that's the strategy at the Aval level and that's what we've shared with our bondholders. And so, as you can see, we keep, just to summarize and to finish, in terms of pesos, we pay cash dividends equal to the cash dividends that we receive so that we never have a cash shortage in pesos. And in terms of dollars, the dollars that we take in, we lend to our own entities and then collect them so that we can pay down our own debt. That's as far as the debt strategy. And then about double leverage, Diego will give you an idea.

Diego Fernando Solano Saravia: Regarding double leverage, Jason, what we've been doing over time has been basically maintaining our double leverage stable. What increased our double leverage last year was the issuance by Central America and the acquisition by Grupo Aval of an AT1 bond that is dollar denominated. That brought slightly off our double leverage at that point and the projection based on organic growth or organic generation of equity through net income was that we should be seeing that number falling down in time. Particularly, when you look at that first quarter, given that this AT1 is dollar denominated and our equity is peso denominated, you have a slight increase in double leverage. So that's the explanation, but from the strategic standpoint, we continue seeing exactly what we saw in the past and basically it is that we should be seeing that number trending down as retained earnings increase our equity.

I just want to reiterate on what Luis Carlos mentioned before. The way we pay our bonds that are dollar denominated is based on dollar-denominated interest earning assets. What we do is we have at the Grupo Aval Limited level, we have these two bonds that Luis Carlos mentioned, and most of that is backed by dollar-denominated assets that are mainly either deposits or loans to our own entities. At this point, we actually have a positive carry. Therefore, it's not only from the principal standpoint, but also from the interest service side that Grupo Aval somehow is self-sufficient. Therefore, up to date, since we began issuing bonds in 2012, there has been no need to send a single peso from Colombia to Grupo Aval Limited, based on the dividends that we receive to be able to service our bonds.

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

Yuri Fernandes: Thank you, Luis Carlos, Diego. I have a first question regarding asset quality. I guess you slightly revised the cost of risk guidance. This was about 2.5% and now we are seeing 2.3%–2.4%. The results were very good in the first Q regarding asset quality, but my question is, how should we think about this? Because we still see a lot of uncertainty in Colombia, post protests, the 20+ percent loans in Central America still in dispute. So is 2.3% or 2.4% not much higher than previous levels had for this crisis? What could be the negative surprises here? Maybe, I don't know, mass transportation companies? Some big corporations? My question is basically how confident you are with those levels and if we could not see a negative surprise. That's the first one.

And my second question is regarding the S&P downgrade. It's pretty clear the rate effects. But should we expect any kind of more direct impact for the company? Or it's mostly indirect macro-related effects for Grupo Aval? Thank you.

Diego Fernando Solano Saravia: Ok. If you will, I will start with your last question first. There has already been a decision from S&P basically to maintain Banco de Bogotá's rating stable and that would be the direct effect that you might worry about. So short answer is we will have that macro indirect effect because the direct effects are already clear as of this time.

Then, regarding cost of risk. I think the way to think about cost of risk at this point is we had already guided into a cost of risk that was superior than what a standard cost of risk for Aval would be. Aval should be running at a 2% or lower cost of risk under normal circumstances. However, built into our guidance, we already had a lot of these possible downsides that you might have seen materializing. However, what we're seeing from the macro standpoint is the positive surprise that we had this year and actually, a milder but also positive surprise on how we closed 2020 are giving us a better environment in which to face this kind of potential downgrades than what we had included in our expectations when we guided at the very beginning. So, yes, you're absolutely right. We're facing this headwind that actually, Luis Carlos mentioned some of those in his introductory words. But we're starting from a higher ground to face those than what we were thinking in the past. That's the reason why we're improving our view on cost of risk.

Operator: Thank you. Our next question comes from Brian Flores, from Citi.

Brian Flores: Hi, thank you for the opportunity to ask questions. Some follow-ups on asset quality, particularly regarding charge-offs, because we have seen them increasing as a percentage of gross loans. So could you elaborate a bit on what particular segments are these focused on? And should we expect this base to continue? That is my first question.

And my second one is if you could remind us of your coverage of Avianca and if it has somehow evolved over the last quarters. Thank you.

Diego Fernando Solano Saravia: Ok. Avianca remains as was said in our last call. Avianca is slightly above USD 188 million and we've provisioned that at 45%. That's the coverage. The reason why that coverage seems reasonable is around 73% of those loans are backed by international receivables and the 20% remaining, or most of the remaining part that is 20%, is backed by the headquarters building in Bogota. So that's the reason why we believe that is the right number and that should be representative of where we stay at.

Regarding charge-offs. Yes, relative to the numbers you saw last year, these numbers are higher. However, if you strip out this quarter and take a five-year average, you'll come up to 0.75x. And that's the number that we had been running over the past five years and that includes last year, that was actually a low number. A question perhaps is why was that a low number? And the reason is with reliefs, mechanically, loans never get past due, therefore charge-offs get delayed and the numbers that are actually up the cycle are those that we saw last year. 0.75–0.8x is the kind of numbers you should expect to see.

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

Carlos Gomez: Yes. Thank you very much. You may have already commented on that. I missed the early part of the call. What are your prospects in terms of your tax rate and what possible tax reform can come out from the current discussion?

And then, longer term, we notice how Central America becomes a bigger and bigger portion of your business. It's now actually bigger than the domestic part of Banco de Bogotá. So I was wondering if, in the long run, does it make sense for the Central American business to continue to be at Bogotá? Or could you put it directly at the Aval holding company level? And that might actually improve the ratios for Bogotá. Thank you.

Diego Fernando Solano Saravia: Regarding tax rates, the way we think about it is we have a blended rate between what we have in Colombia that includes, actually, at this point, a surcharge to taxes, plus what we get from Central America and that number is somewhere between 28% and 30% when you get that blended number. Moving forward, at this point it's very tough to forecast what to look into. And basically, we're facing three different scenarios and sorry perhaps to be so qualitative here, but there's a scenario that was the base case in the past and it was reduction of our tax rate. I would say the probability of that has substantially fallen. Then, something that looks relatively feasible and it is to maintain the same kind of levels that actually implies a 4 percentage points increase to what we should be paying. And that's to remain at the current level. And then there is a downside scenario where we not only lose what we were expected to gain in this process, but also get further taxed. So the only thing I can say at this point is that it is unlikely that taxes will fall as they were due. Perhaps the most probable scenario at this point is that taxes should remain at the same level. And then there is also a downside that I can't qualify the probability at this point of increasing those.

Luis Carlos Sarmiento Gutierrez: I've got to say, though, that conversations with government representatives have all resulted in the government stating that they won't agree to an increase to be included in the tax reform that eventually they'll pass by Congress, an increase of taxes over and above those that were already paid in the financial system. So at least we have that "guarantee." We'll see what happens when it goes through Congress.

And regarding your second observation, it's a very good observation. And obviously, it's one that we also keep a very close eye on, and regarding the size of BAC relative to the size of Banco de Bogotá, yes, we agree with you. We have to be very, very watchful of that and then decide what to do with that.

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

Julian Ausique: Hi, everyone, and thank you for having us for the question session. I would like to know if you can give us more color about the situation that is coming right now in Colombia and if you have been seeing any impact, particularly in Banco de Occidente due to the exposition that this bank has to Departamento del Valle.

And I don't know if you're really mentioned because I had some connection problems, but the reduction in provision in quarterly terms was due to the restructuration or the new model of expected losses, like the macroeconomic outlook in each geography? Thank you.

Diego Fernando Solano Saravia: Let me take the cost of risk question first and then I'll pass it to Luis Carlos for the situation question.

No, actually not. The reason why the numbers fell is because actually we're seeing our numbers improve and we mentioned that actually in the call, as you said, regarding the reduction or the expiration of reliefs. n Colombia we've brought reliefs down to around 0.4% of our portfolio and a substantial portion of those that have gone away haven't gone into restructuring. So the numbers for Colombia are already telling us a lot of how the story will look like.

We mentioned that during the call that perhaps the difference of what we might be seeing compared to other players in the market is that there's a huge variation in PDL formation, depending on the product you're looking into. When you look at installment loans or less degree credit cards, you could be seeing five to six times the PDL formation rates that you see in payroll lending. Given that payroll lending is close to two thirds of our Colombian portfolio, then we benefit from having those that are running at around one fifth, one sixth of what you might be seeing in other portfolios. So that's actually the reason why you see those numbers coming down. Something else that we mentioned, just to reiterate, is the reason why we are not more bullish on what cost of risk looks like is that we still have...

Operator: Please standby. We're experiencing technical difficulties. Please standby. We will resume shortly.

Thank you for your patience. Mr. Sarmiento, you may resume.

Diego Fernando Solano Saravia: Could you help us where we dropped out? We were going through the answer on the question regarding why cost of risk was lower during the quarter. Just to summarize, what we mentioned was there's been a substantial difference across products in new PDL formation and we're seeing new PDL formation going back to numbers similar to pre-pandemic. And the reason for that is that a very substantial portion, around two thirds of our Colombian portfolio, is payroll lending, and payroll lending is generating around 20% of PDL formation in proportion to what you're getting off from more risky products such as installment loans and credit cards. So that's in summary the reason why we're seeing that and we said we're not overoptimistic at this point, given that there are still some reliefs that need to expire, particularly in Central America and Panama.

Luis Carlos Sarmiento Gutierrez: Regarding your first observation concerning the demonstrations in the Valle del Cauca region, you are right. As you yourselves have noticed, I'm sure, the financial system was hit hardest in Cali specifically, where vandalism was probably at the most during the beginning of the social unrest demonstrations. But it has fortunately subsided, number one. Secondly, all the banks were hit hard. It so happens that one of our banks, Banco de Occidente, as you mentioned, is headquartered in Cali. And as such, the headquarter building was also hit. Vandalism was perpetrated at the lobby level, but that's all material damages and it's all fortunately covered by insurance.

Regarding the exposure of that bank to the Valle del Cauca debtors, one has to remember that Banco de Occidente is, as the other banks of ours, a national bank and as such, its own exposure to the Valle del Cauca region is really not significant or materially larger than the exposure of all the other banks to the region. So the difference really of Banco de Occidente with the other banks is that it's headquartered in Cali, but its exposure is not really that much bigger to the Valle del Cauca region and as such, its portfolio will only be affected as much as the portfolio of all the other financial system banks to the Valle del Cauca region. We expect -- we hope that will be the case.

Operator: Thank you. Our next question comes from Sebastian Gallego, from Credicorp Capital.

Sebastian Gallego: Hi, good morning. Thanks for the presentation. I have three questions today. The first one: you provided the new numbers on capital ahead of the Basel III implementation and I'm just wondering if you feel comfortable with the current position of CET1 ratio on Banco de Bogotá particularly. It seems that it might be lower than other banks and when you compare to a potential minimum requirement of 7% or a little bit higher, if you add some management buffer, it seems a little bit tight, particularly when compared to peers and when compared to other banks of Aval. So I'm just wondering how comfortable you are with the actual CET1 ratio of Banco de Bogotá despite the improvement.

The second question is probably on loan growth and appetite. As you described, your strategy is focused on payroll and auto lending. But we have seen some better numbers on credit cards and the commercial portfolio on a quarterly basis. Do you have a high-risk appetite as of now, both in Colombia and Central America?

And the third question is probably an unusual one but given the current trends in Colombia and the social tensions, I have to ask or I would like to ask also if you, Mr. Luis Carlos, are currently active on the ongoing negotiations, helping the government or whether you are meeting with even some other people just to get consensus on what we need to do as a country and putting together actual solutions as a country? Thank you very much.

Diego Fernando Solano Saravia: So let me take the first couple of questions regarding CET1. Yes, we feel comfortable with the performance and something that is actually helping the bank is that return on equity of the bank is outperforming the return of equity of most of the system and substantially some of the larger banks. Therefore, it's getting an advantage in being able to internally generate capital. In addition, from the quality standpoint, the bank did a very good job last year provisioning what we thought could go sour from the pandemia. So, we see less downside in capital consumption in that sense moving forward. You're right, numbers are relative to others. We feel comfortable in absolute values. Perhaps the question for other banks is why a much higher number might be required.

Regarding appetite, what our banks are actually doing is slowly migrating into a higher risk kind of products. You know that Aval has traditionally been laggard jumping into changes. However, we do look at numbers and numbers, as you said, even though they're evolving positively, there is still some down risk in some of the riskier products. So we've been shyer than others coming into the products. And we are, in addition, being quite careful on pricing and loans. That is not as important for the consumer side, but on the corporate side, we're making sure that we're getting the right prices. So part of what you might be seeing is not risk aversion of not being ready to go into some of the corporate segments, but just it's not cutting what our minimum expected returns for loans could look like. Having said so, even though we've discussed many of the downsides of the economy, we're positive on how we see recovery trending throughout the year, and that will pull us into being much more aggressive into these kinds of products.

Luis Carlos Sarmiento Gutierrez: And regarding your third question, which had to do with my own involvement in the ongoing negotiations, you actually made me think of something that my mom always says, which is "Never to waste an opportunity to say nothing." And so no, I try to be as helpful as I can whenever I'm asked to participate or to contribute or to opine. If I'm not asked, I do not participate and obviously I keep a very apolitical posture on everything that happens. I spend enough time managing this big company, so I don't really have a lot of time to do other things. And then, thirdly, we try to express our thoughts through Asobancaria, which is the association that combines all the banks' views. And so I think that's the extent that I can answer that question. But thanks. Thanks for the question anyhow.

Operator: Thank you. Once again, for any questions you can press star (*) one (1). The next question comes from Andres Soto, from Santander.

Andres Soto: Good morning, everybody, and thank you for this presentation. I would like to pick your brains regarding Colombia's macro and political challenges. Also, considering that the country will hold elections in 2022. A downgrade by S&P was probably a surprise, as most people expected rather Fitch to be the first one to downgrade. In this context, it now looks even more challenging for Colombia to regain its investment grade rating. Considering this, do you still believe that the government should pursue and increase taxation as a way of rebalancing? Or should it rather prioritize growth to achieve these rebalancing over the medium term?

Luis Carlos Sarmiento Gutierrez: Yeah, that's a great observation. We're getting to territories where I don't really think we can contribute so much in a call like this. But yeah, you're right, it was sort of surprising to see S&P downgrade. Maybe the surprise was, as you said, not that S&P downgraded, but that it was the first one to downgrade. We'll see how Fitch and Moody's feel about it. If you have seen the markets today, they are not really showing too much volatility and it probably had to do with the downgrade was sort of a factor into what's been happening in the last couple of weeks.

And to your specific point, yeah, I tend to agree, I think it takes off the pressure on the government at least because there's been so much anticipation in the last few weeks, in the last month, regarding the downgrade, that now that it happened, maybe it's time to regroup and not to force through a tax reform that won't be at its best. The tax reform that the government is trying to put together, which is one that is consensuated by everybody, that's a tough way to try to come up with a tax bill. So hopefully the government is sitting down right now as we speak and thinking about the convenience of forcing a tax reform through, whose supposed objective was to avoid the downgrading. Downgrading already happened. Markets seem to have factored it in already. So, yeah, maybe it's not the time to try to force things, something that won't be at its best.

Diego Fernando Solano Saravia: Perhaps something to bear in mind is when you add fiscal deficit for last year with this year's, you're talking about around 16% of GDP. In that time, under normal circumstances, that should have been around 4% or 5% of GDP. So we do have 10% of GDP bill to pay at some point in time. So it doesn't need to be something that solves the problem overnight. It might be something that takes much more time to be adjusted. But we actually have, as basically the rest of the world has, around 10% of GDP to pay the bill for.

Operator: Thank you. And at this moment, we show no further questions. I would like to return the call to Mr. Sarmiento for closing remarks.

Luis Carlos Sarmiento Gutierrez: Well, thank you, Hilda and everybody, for being on the call. Thanks for your good questions once again and all that I can promise is we'll keep on working on trying to bring forth the results and hopefully we'll keep on trucking and we'll see you in the next call. Until then, as always, anything we can share with you, we will. Thank you, Hilda. Thank you, everybody in the call.

Operator: Thank you. This concludes today's conference. We thank you for participating. You may now disconnect.