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1Q17 Consolidated Earnings Results

IFRS

Banco de Bogotá · Banco de Occidente · banco popular · Banco AV Villas · BAC | CREDOMATIC · Corficolombiana · porvenir

Grupo AVAL

Disclaimer

Grupo Aval Acciones y Valores S.A. (“Grupo Aval”) is an issuer of securities in Colombia and in the United States, registered with Colombia’s National Registry of Shares and Issuers (Registro Nacional de Valores y Emisores) and the United States Securities and Exchange Commission (“SEC”). As such, it is subject to the control of the Superintendency of Finance and compliance with applicable U.S. securities regulation as a “foreign private issuer” under Rule 405 of the U.S. Securities Act of 1933. Grupo Aval is a not a financial institution and is not supervised or regulated as a financial institution in Colombia.

As an issuer of securities in Colombia, Grupo Aval is required to comply with periodic reporting requirements and corporate governance, however, it is not regulated as a financial institution or as a holding company of banking subsidiaries and, thus, is not required to comply with capital adequacy regulations applicable to banks and other financial institutions. All of our banking subsidiaries (Banco de Bogotá, Banco de Occidente, Banco Popular and Banco AV Villas), Porvenir and Corficolombiana, are subject to inspection and surveillance as financial institutions by the Superintendency of Finance.

Although we are not a financial institution, until December 31, 2014 we prepared the unaudited consolidated financial information included in these quarterly reports in accordance with the regulations of the Superintendency of Finance for financial institutions and generally accepted accounting principles for banks to operate in Colombia, also known as Colombian Banking GAAP because we believe that presentation on that basis most appropriately reflected our activities as a holding company of a group of banks and other financial institutions.

However, in 2009 the Colombian Congress enacted Law 1314 establishing the implementation of IFRS in Colombia. As a result, since January 1, 2015 financial entities and Colombian issuers of publicly traded securities such as Grupo Aval must prepare financial statements in accordance with IFRS. IFRS as applicable under Colombian regulations differs in certain aspects from IFRS as currently issued by the IASB.

The unaudited 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.

Because of our recent migration to IFRS and recent implementation of IFRS accounting principles, the unaudited consolidated financial information for the first quarter of 2017, and the first and fourth quarter of 2016, may be subject to further amendments.

This report may include forward-looking statements, which actual results may vary from those stated herein as a consequence of changes in general, economic and business conditions, changes in interest and currency rates and other risks factors as evidenced in our Form 20-F available at the SEC webpage. Recipients of this document are responsible for the assessment and use of the information provided herein. Grupo Aval will not have any obligation to update the information herein and shall not be responsible for any decision taken by investors in connection with this document. The content of this document and the unaudited figures included herein are not intended to provide full disclosure on Grupo Aval or its affiliates.

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

Grupo AVAL

Highlights (1/2)

The following are the main highlights of our 1Q2017 results under IFRS:

- Attributable net income for the quarter was Ps 587.0 billion or 26 pesos per share, 25.8% higher than the 1Q2016 result. On a consolidated basis we paid Ps 109.3 billion in equity tax (Ps 73.7 billion on an attributable net income basis or 3.3 pesos per share). As a result of the Tax Reform of 2016, this is the last quarter that corporations, including banks, pay equity tax.

- Gross loans, excluding interbank and overnight funds, grew by 6.8% as of March 31, 2017 when compared to March 31, 2016. Excluding the impact of the FX movement in our Central American operation, loans grew by 8% in the last year. However, the Country's GNP slow growth took a toll in our loans' growth during the first quarter of this year; when absent the impact of the appreciation of the Colombian Peso against the USD our loan book grew 0.4%. Including FX movements total loans declined by 0.7% in the first quarter.

- Deposit growth outpaced the growth of our loans during the last twelve months and during the quarter. Total deposits grew by 7.2% with respect to March 31, 2016; excluding FX movements affecting our Central American operation, deposits grew by 8.3% during the last twelve months. When compared to December 31, 2016, deposits grew by 2%; excluding FX movements growth in deposits amounted to 3.1%. Consequently, our deposit to loan ratio improved to 0.97x as of March 31, 2017 from 0.95x as of December 31, 2016.

- We continue to emphasize a strong liquidity position, particularly in Central America, and as a result our consolidated ratio of cash and cash equivalents to deposits improved from 15.4% as of December 31, 2016 to 16.7% as of March 31, 2017.

- The NIM of our consolidated operation improved by 40 bps in 1Q2017 versus 4Q2016, reaching 5.9%. Movements in our total consolidated NIM were influenced by:
  - 5% of our total funding is more expensive funding obtained by the non-financial sector affiliates of Corficolombiana,
  - Our non-financial sector earning assets tripled since 1Q2016 (as a percentage of total interest earning assets) mostly as a result of the entry into service during December, 2016 of Promigas' Natural gas liquefaction facility whose associated concession contract is accounted for as a financial lease;
  - Average yield on total loans (non-financial and financial sectors) remained flat at 11.7%,
  - Average cost of total funds decreased by 40 bps in line with recent contractions in the Central Bank Rate,
  - NIM on loans expanded by 40 bps, driven by lower cost of funds and a sharp increase in our non-financial sector NIM on loans,
  - NIM on total investments expanded by 30 bps driven by the decrease in cost of funds,

Highlights (2/2)

- Our 30 day PDLs and NPLs deteriorated by 60 bps and 20bps respectively during the quarter, primarily driven by our exposure to Electricaribe (approx. USD 185 million); Electricaribe accounted for 56 pbs of deterioration in the Commercial Loan PDL ratio and 44 bps in the Commercial Loan NPL ratio. Electricaribe also accounted for 33 bps of deterioration in the Total PDL ratio and 26 bps in the Total NPL ratio. We also saw 40 bps deterioration in Consumer Loan PDLs (SME's, credit cards and other personal loans); however, in nominal values this deterioration amounted to approximately USD 55 million, a much smaller number when compared to Electricaribe's. Deterioration in general has been driven by the current low economic cycle and the still high (yet decreasing) interest rate scenario.

- Our Cost of Risk was 2.1% before recoveries and 1.9% after provisions, an improvement versus the last quarter of 2016 of 20 bps and 10 bps respectively. Although these numbers reflect necessary provisions for the deterioration in Consumer Loan asset quality, they do not take into account additional provisions for the Electricaribe loans, which should occur between May and December 2017, bringing total provisions to 80% of this exposure (from an existing 13%). Lesser provisions may be required if an agreement is reached between the Colombian Government and Gas Natural of Spain or if the Government implements other plans for the company such as those recently reported in different news media.

- Gross fee Income grew by 7% with respect to the first quarter of 2016 and remained stable when compared to the last quarter of 2016. In absence of FX movements fee income grew by almost 12% in the last twelve months.

- Our consolidated efficiency ratio, measured as cost to income, was 45.9% in 1Q2017, versus 52.2% during 4Q2016. This improvement is partially explained by traditionally lower first quarter expenses but also reflects our efforts to control expenses.

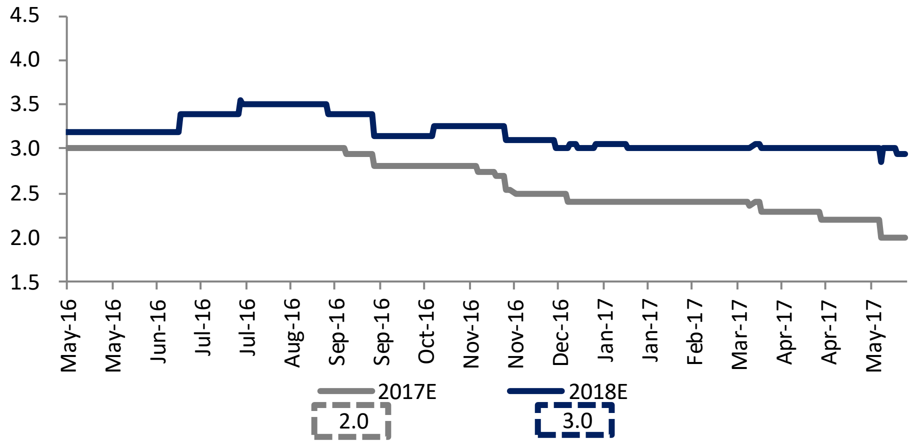
- As of March 31, 2017, all our banks continued to show strong Tier 1 and full solvency levels, between 9.2% and 11.3% and between 11.3% and 13.9%, respectively.

- As of this year we have switched from two shareholder meetings per year to only one, in line with industry practices. Consequently, on the March, 2017 shareholders' meetings we declared dividends for a 12 month period rather than a 6 month period. Therefore, our consolidated attributable equity decreased during the quarter.

- Our ROAE and ROAA for the quarter were 15.4% and 1.6% respectively.

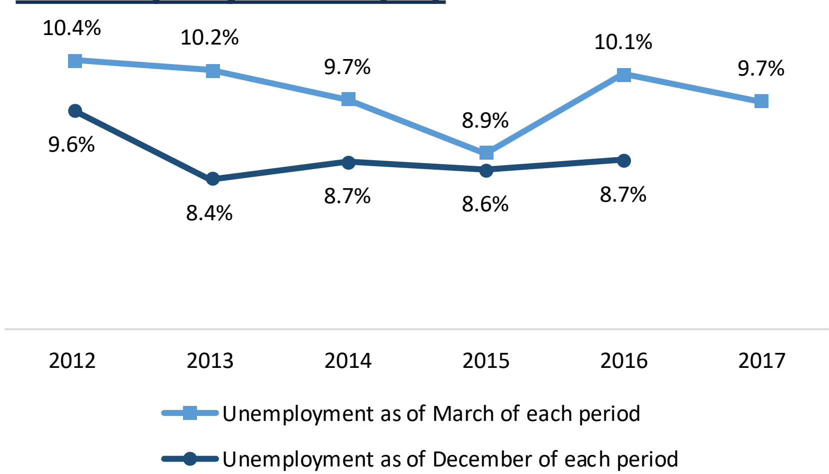
Macroeconomic context – Colombia (1/3)

GDP Growth Expectations (%)



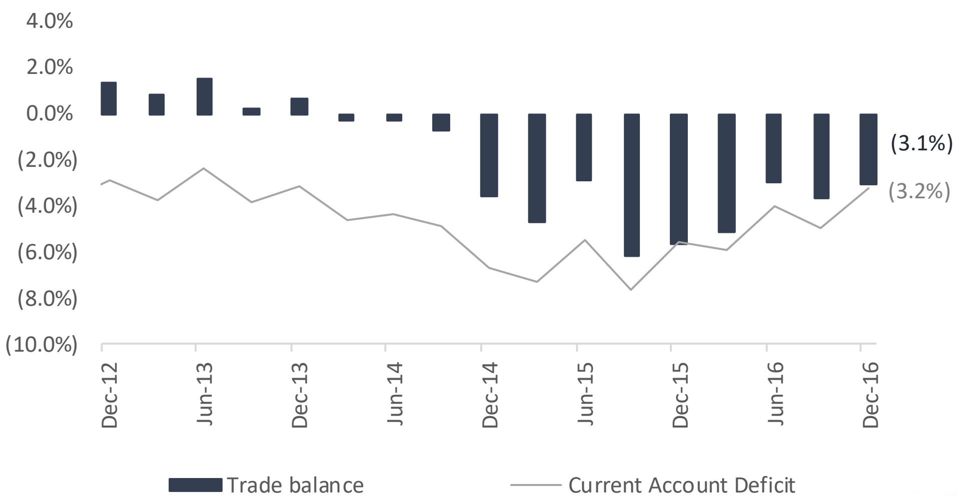
Source: Bloomberg Consensus

Unemployment (%)



Source: DANE.

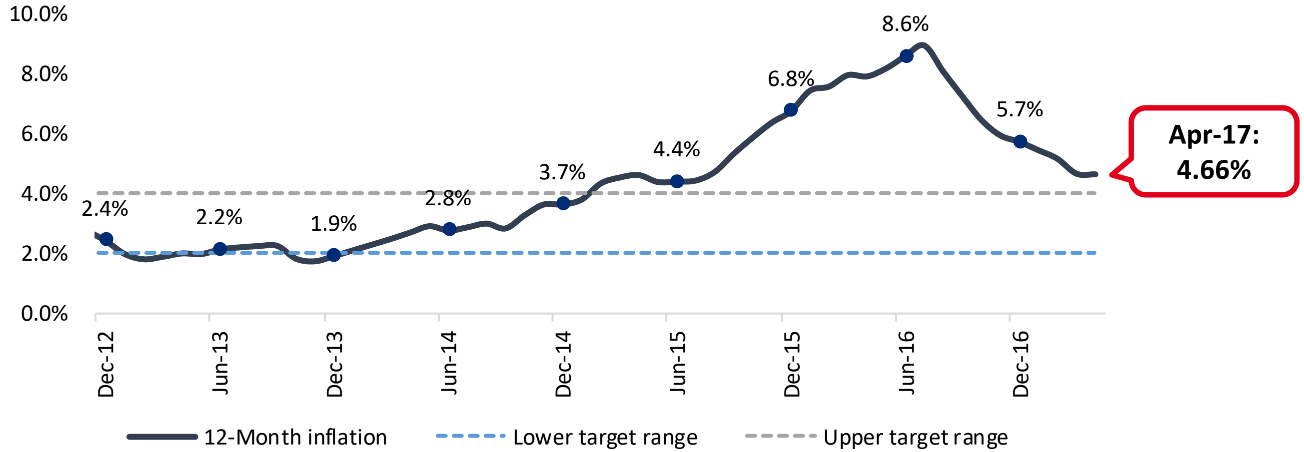
Current Account (% of GDP, quarterly)



Source: Banrep and DANE.

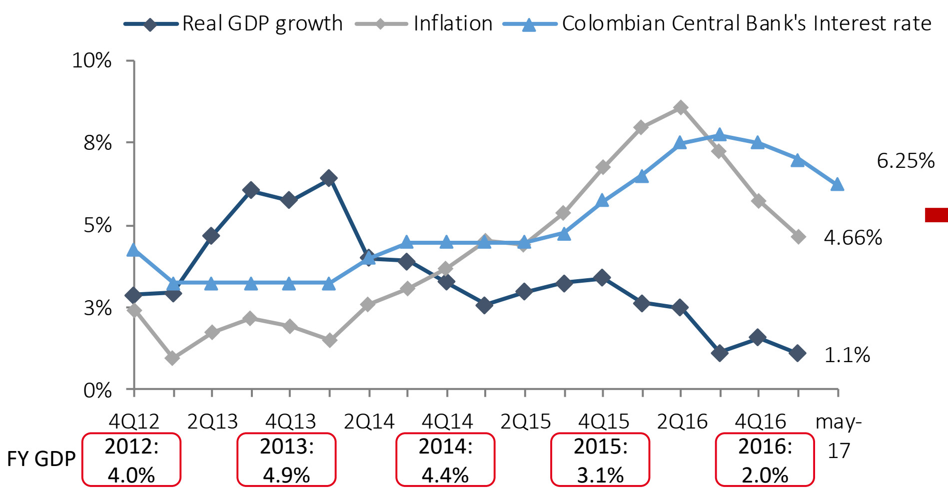
Macroeconomic context – Colombia (2/3)

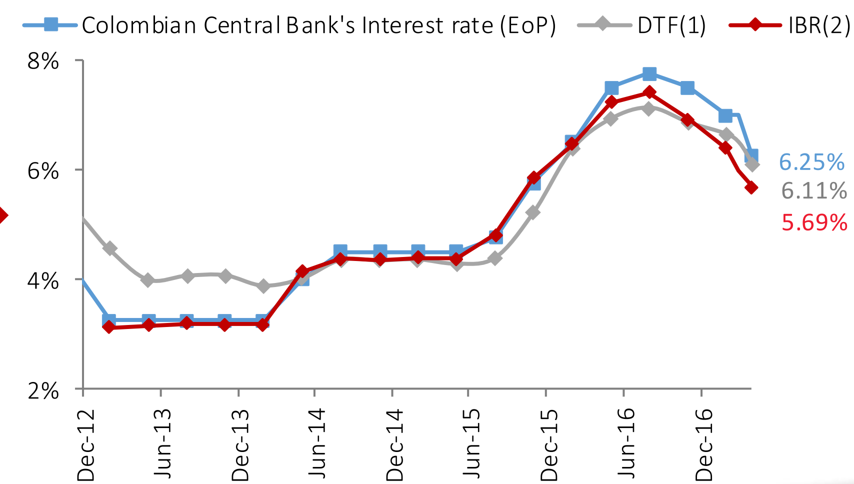
Inflation (%)



Source: Banrep

Central Bank's Monetary Policy



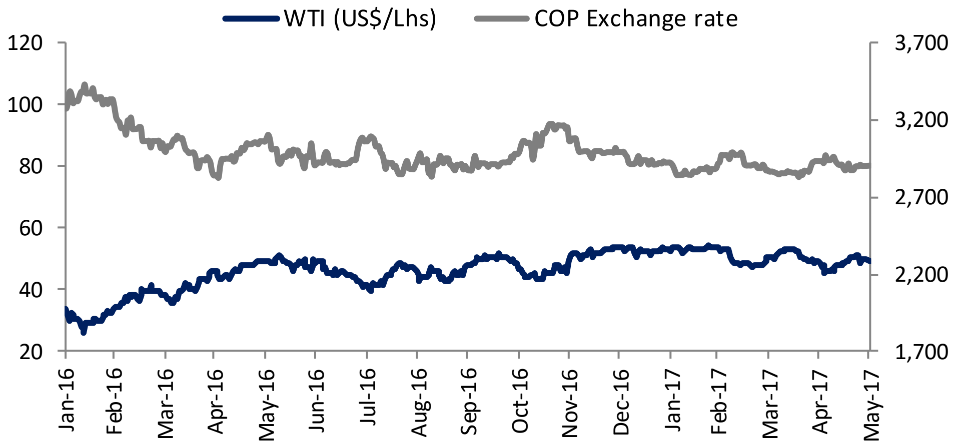


Source: Banrep. (1)End of period DTF rate (2) End of period 3-month interbank (IBR) rate

Source: Banrep and DANE

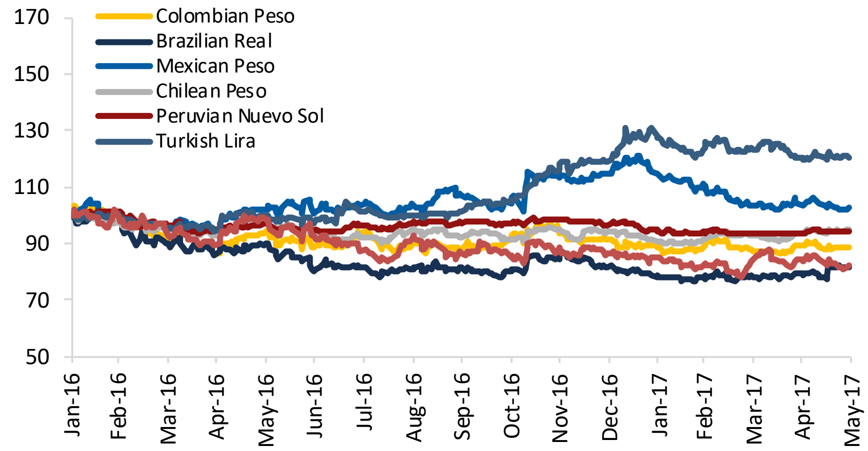
Macroeconomic context – Colombia (3/3)

Colombian Peso vs WTI US$/barrel



Source: Bloomberg

COP vs Emerging markets' currencies



Source: Bloomberg. (100=Jan 31, 2016)

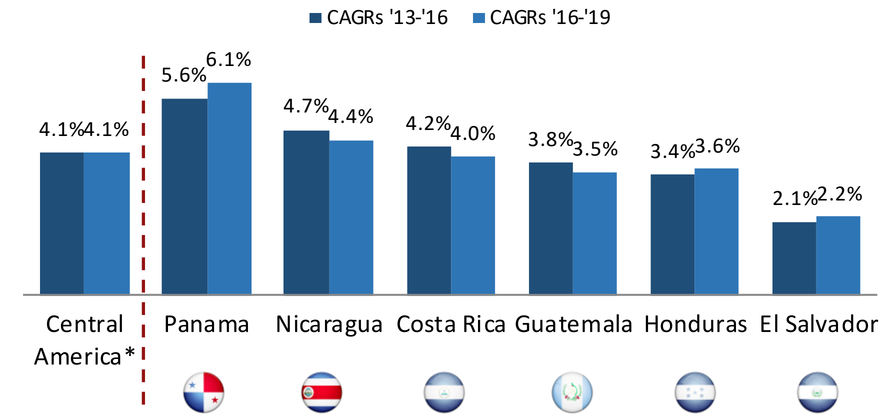
Colombian Peso Exchange Rate

	1Q16	4Q16	1Q17
Average	3,263.49	3,016.07	2,924.26
End of Period	3,000.63	3,000.71	2,885.57

1Q17 vs. 1Q16	1Q17 vs. 4Q16
-10.39%	-3.04%
-3.83%	-3.84%

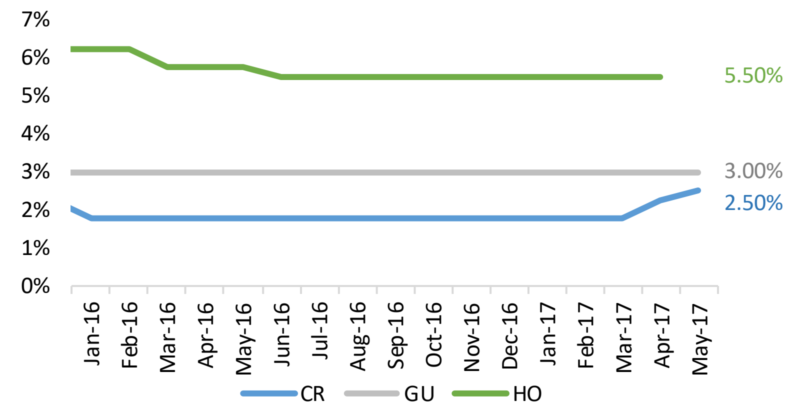
Macroeconomic context – Central America (1/2)

Real GDP CAGR Evolution



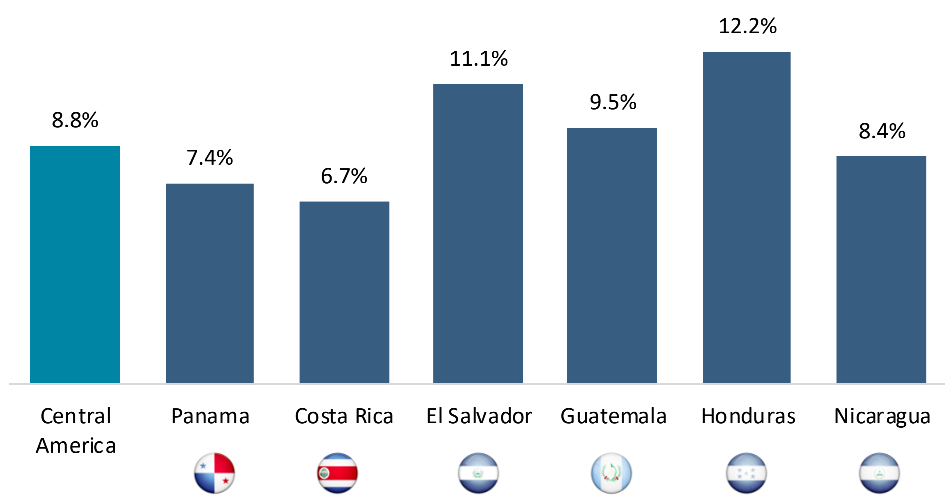
Source: IMF; (*) Average growth of all the Central American countries

Central Banks' Monetary Policies



Source: SECMCA

Oil & gas imports / Total imports (%)



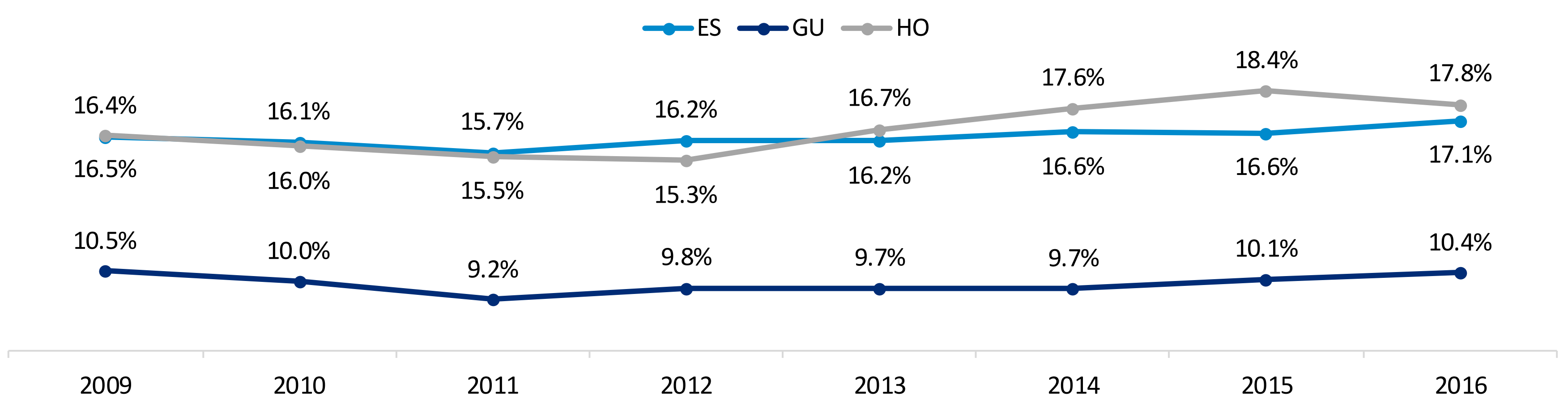
Source: SECMCA, last twelve months as of December 2016

Macroeconomic context – Central America (2/2)

Remittances from USA to North Triangle (2014)

	Illegal Migrants in USA (% Total Origin Country Pop)	Total Illegal Migrants (thousands)	Total Migrants in USA (thousands)	Total Remittances ($MM)	Remittances / Migrant
Guatemala	4.5%	723	916	5,962	6,511
Honduras	4.2%	337	588	3,195	5,431
El Salvador	7.6%	465	1,315	3,912	2,973

Total Remittances as % of GDP

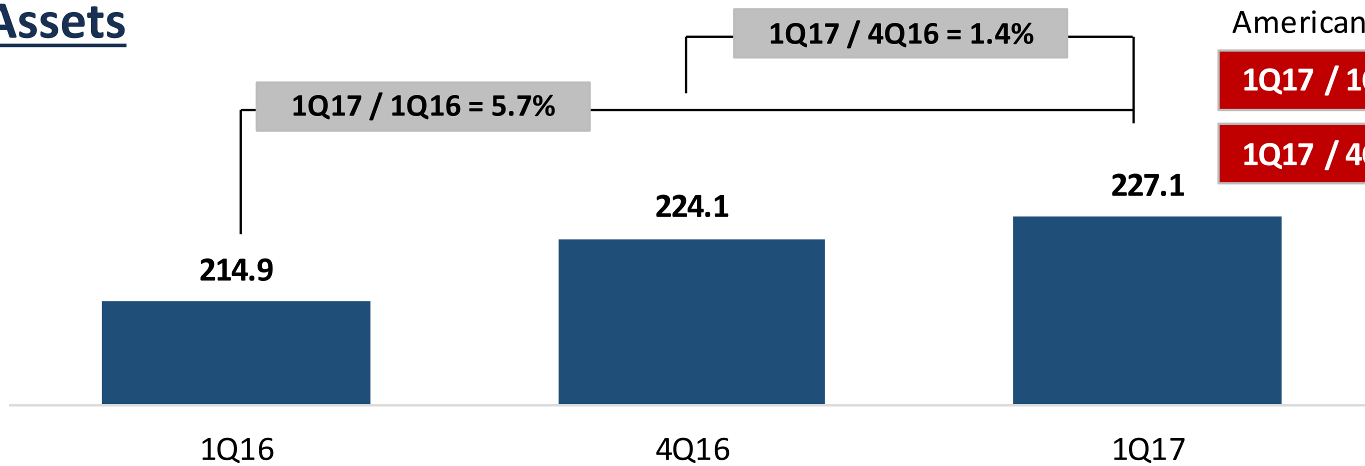


Source: Migration Policy Institute, Banco Mundial, Central Banks and Statistic Institutions of each country

Assets

Figures in Ps. Trillions

Total Assets

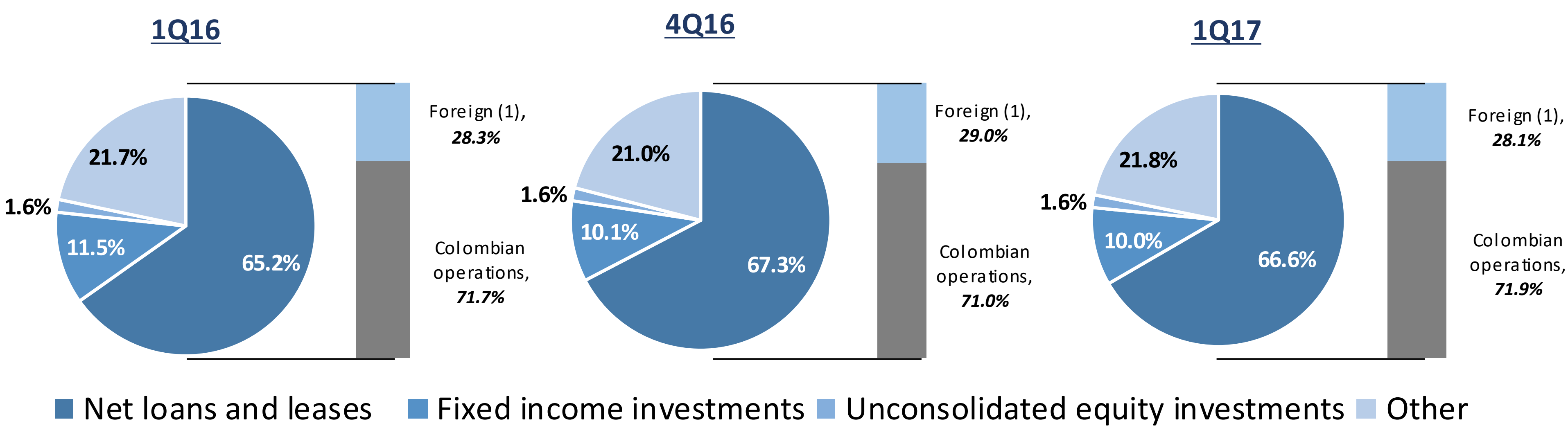


Growth excl. FX movement of Central American Operations

1Q17 / 1Q16 = 6.9%

1Q17 / 4Q16 = 2.5%

Assets Breakdown

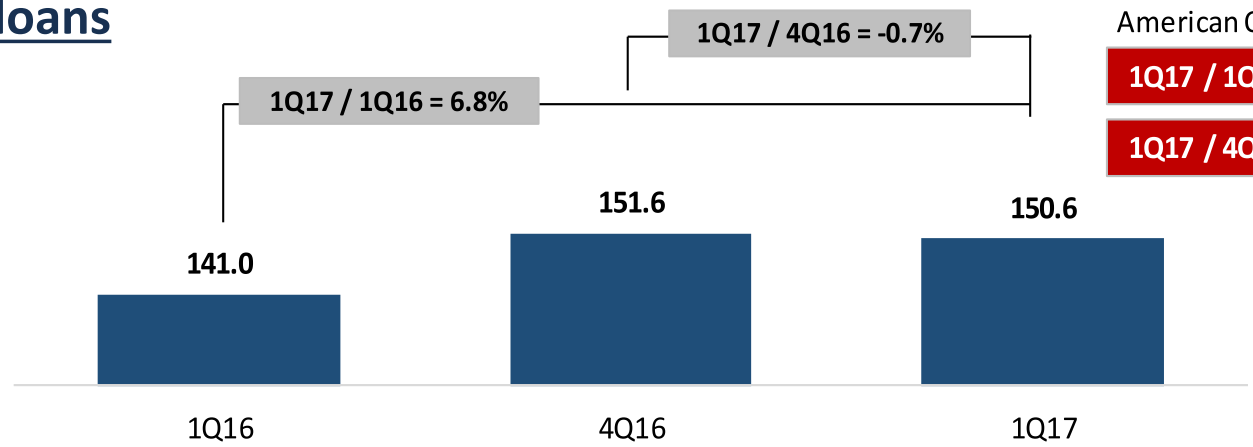


(1) Foreign operations reflect Central American operations. (2) Net loans and leases include interbank and overnight funds.

Loans

Figures in Ps. Trillions – Excluding interbank and overnight funds

Gross loans

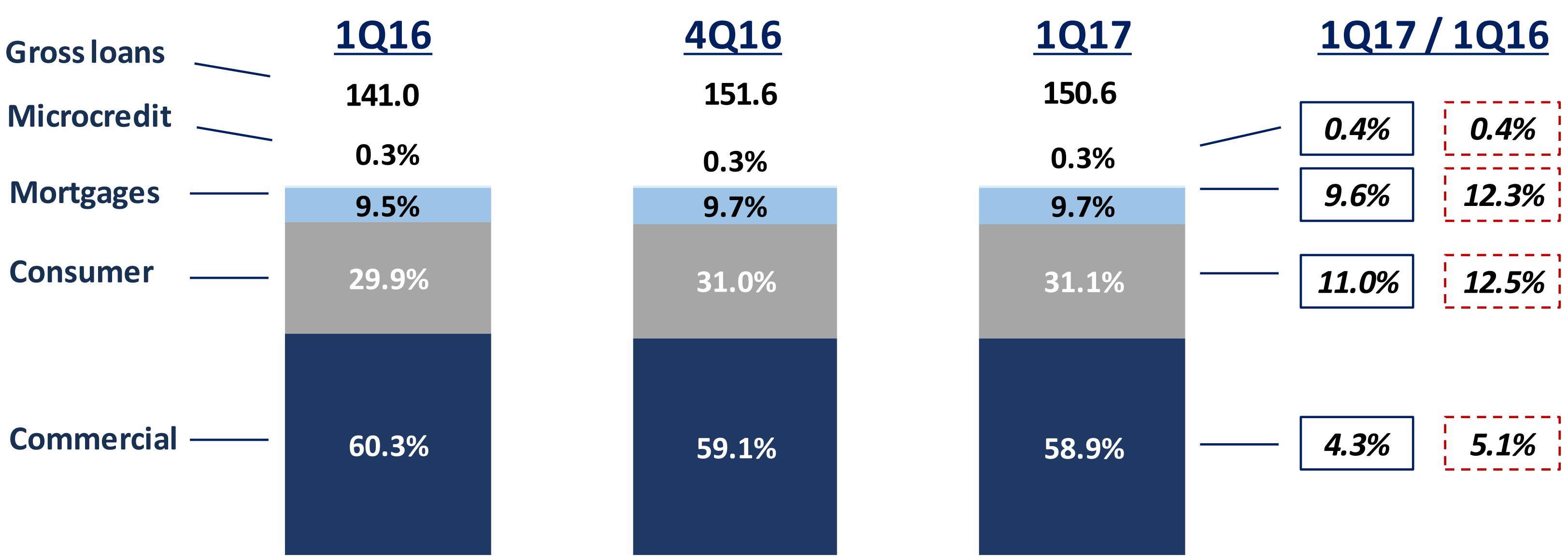


Growth excl. FX movement of Central American Operations

1Q17 / 1Q16 = 8.0%

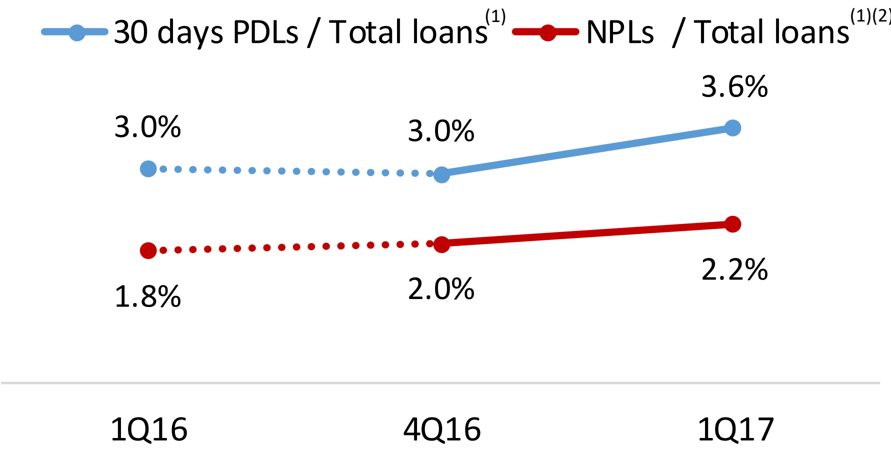
1Q17 / 4Q16 = 0.4%

Gross loans Breakdown



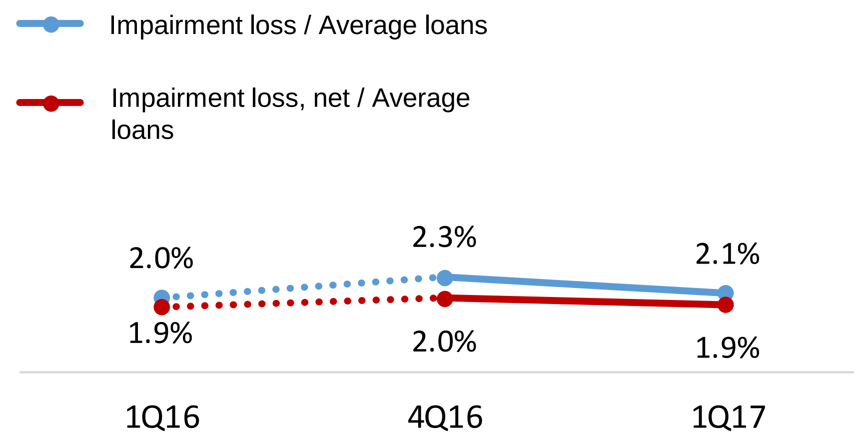
% **Growth excluding FX movement of Central American Operations**

Loan portfolio quality

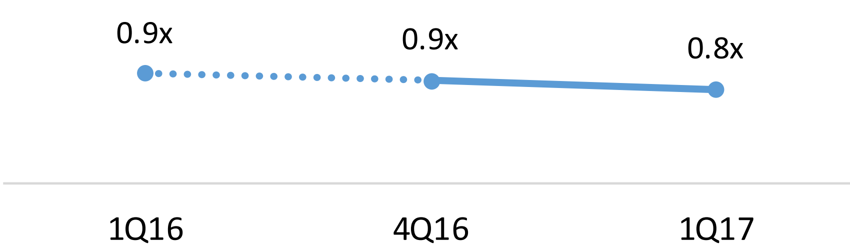


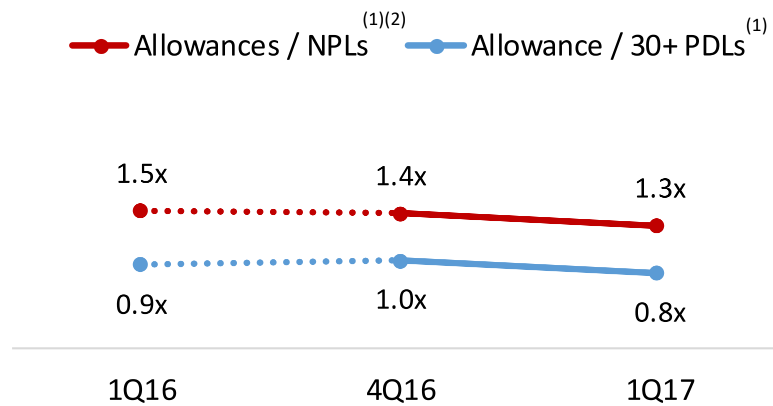
(1) 30 days PDLs and NPLs include interest account receivables.

Cost of Risk



Charge offs / Average NPLs[1][2]





	1Q16	4Q16	1Q17
Allowance / Gross loans	2.7%	2.8%	2.9%

(2) NPL defined as loans more than 90 days past due

(1) 30 days PDLs and NPLs include interest account receivables.

Loan portfolio quality

Figures in Ps. Billions

	Past due loans (1)			Non-performing loans (2)		
	1Q16	4Q16	1Q17	1Q16	4Q16	1Q17
Commercial	2.3%	2.1%	2.9%	1.7%	1.8%	2.2%
Consumer	4.3%	4.4%	4.8%	2.1%	2.3%	2.3%
Mortgages	3.2%	3.1%	3.4%	1.7%	1.7%	1.7%
Microcredit	12.1%	14.1%	14.5%	7.8%	9.4%	10.0%
Total loans	**3.0%**	**3.0%**	**3.6%**	**1.8%**	**2.0%**	**2.2%**

	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17
Initial PDLs	3,865	3,761	4,252	4,203	4,432	4,484
New PDLs	191	1,064	620	716	678	1,537
Charge-offs	(295)	(573)	(669)	(487)	(627)	(629)
Final PDLs	**3,761**	**4,252**	**4,203**	**4,432**	**4,484**	**5,393**

(1) Past Due Loans + 30 / Total Loans including interest accounts receivable
(2) NPL defined as loans more than 90 days past due including interest accounts receivable

Funding

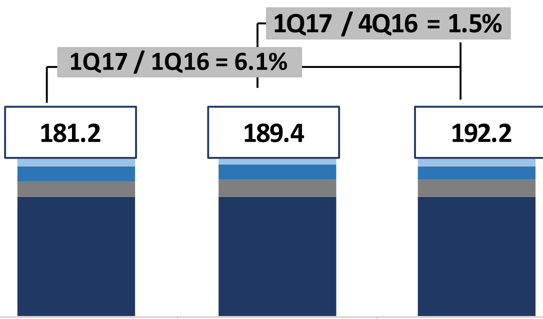
Figures in Ps. Trillions

Total funding

Growth excl. FX movement of Central American Operations

1Q17 / 1Q16 = 7.2%

1Q17 / 4Q16 = 2.6%



Funding composition

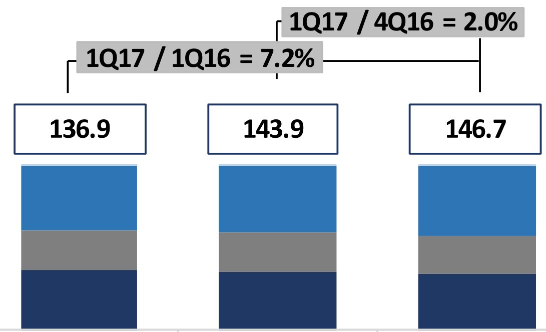
	1Q16	4Q16	1Q17
Interbank borrowings	5.1%	3.3%	4.2%
Long term bonds	8.7%	9.8%	8.5%
Banks and others	10.6%	10.9%	11.0%
Deposits	75.6%	76.0%	76.4%

Total deposits

Growth excl. FX movement of Central American Operations

1Q17 / 1Q16 = 8.3%

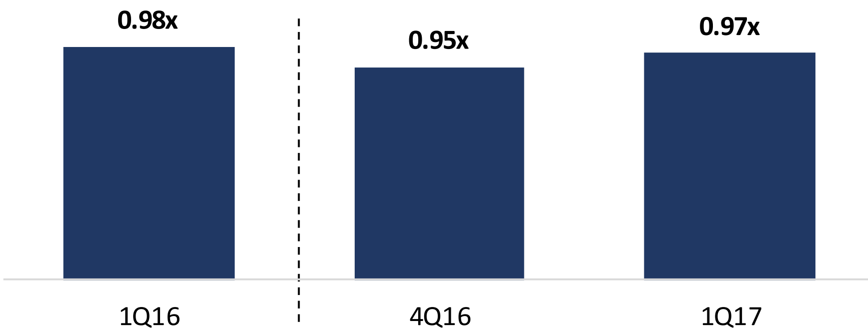
1Q17 / 4Q16 = 3.1%



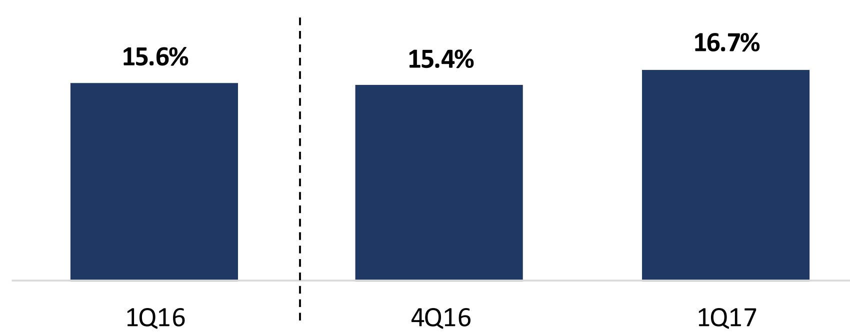
Deposit composition

	1Q16	4Q16	1Q17
Others	0.3%	0.2%	0.4%
Time deposits	39.1%	40.3%	42.4%
Checking accounts	24.0%	24.3%	22.9%
Savings accounts	36.7%	35.1%	34.4%

Deposits / Net loans (%)



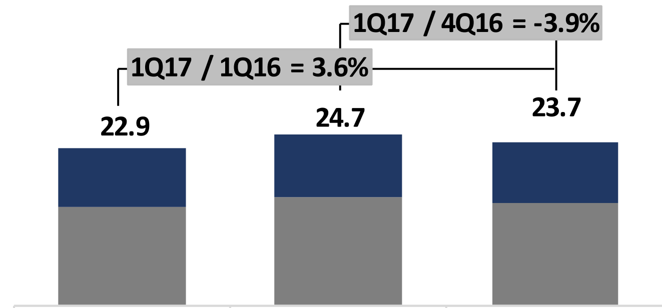
Cash / Deposits (%)



Capital

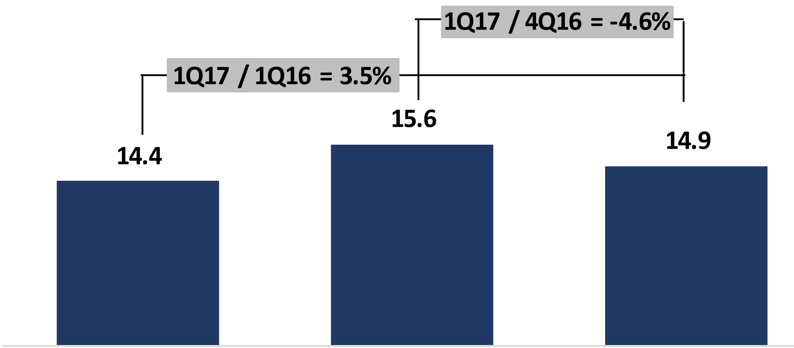
Figures in Ps. Trillions

Attributable Equity + Minority Interest



	1Q16	4Q16	1Q17
Minority interest	8.5	9.1	8.8
Attributable equity	14.4	15.6	14.9

Attributable Shareholders Equity



	1Q16	4Q16	1Q17
Total equity / Assets	10.7%	11.0%	10.4%
Tangible capital ratio (1)	7.4%	7.9%	7.4%

Consolidated Capital Adequacy of our Banks (%)

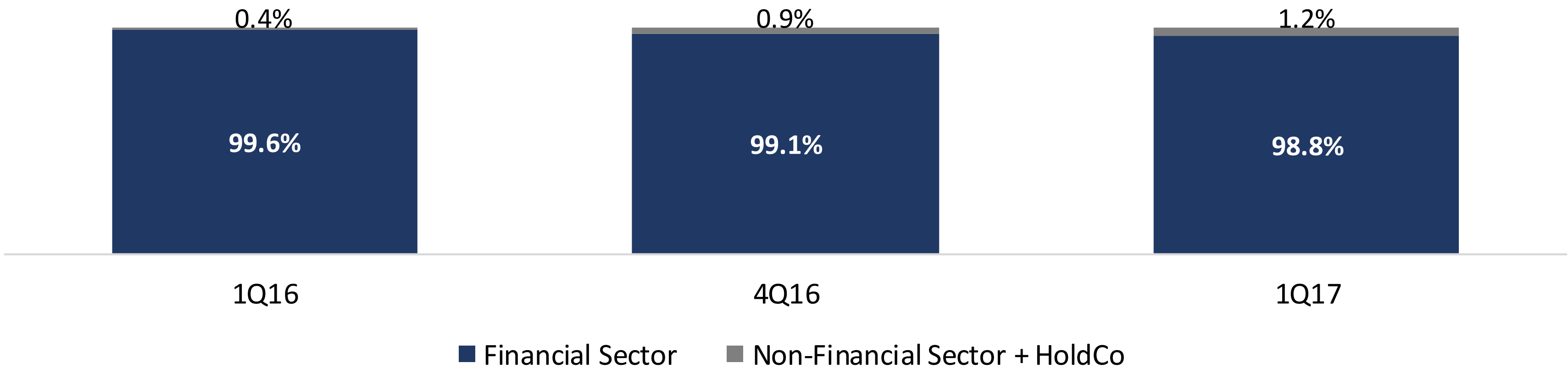
	Banco de Bogotá			Banco de Occidente			banco popular			Banco AV Villas		
	1Q16	4Q16	1Q17	1Q16	4Q16	1Q17	1Q16	4Q16	1Q17	1Q16	4Q16	1Q17
Primary capital (Tier 1)	10.0	9.0	9.2	9.9	10.2	10.6	10.7	9.3	9.5	10.2	10.3	11.3
Solvency Ratio	13.7	13.9	13.9	11.2	12.8	12.9	11.4	11.1	11.3	10.7	11.5	12.4

(1) Tangible Capital Ratio is calculated as Total Equity minus Goodwill and other Intangibles divided by Total Assets minus Goodwill and other Intangibles.

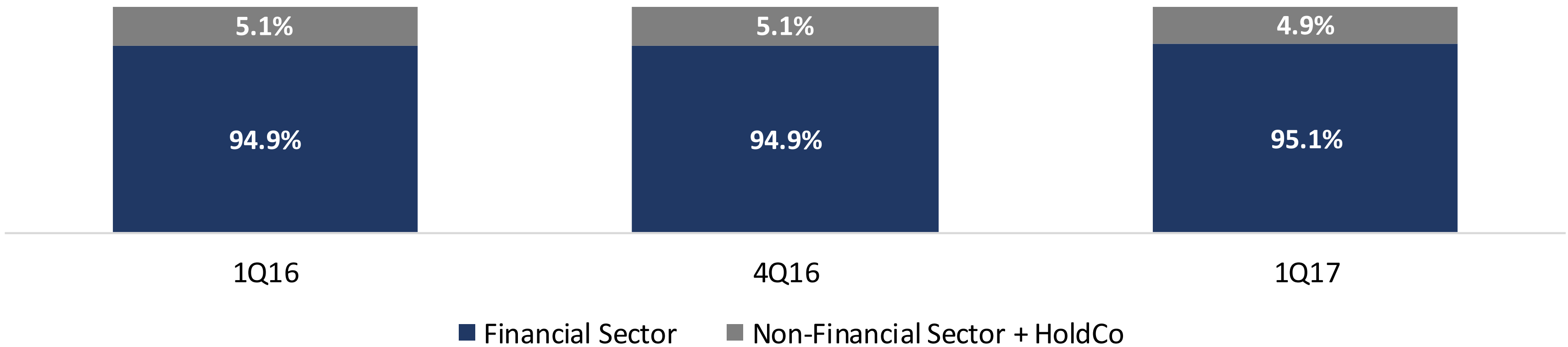
Grupo AVAL

NIM – Net Interest Margin (1/3)

Composition of Interest Earning Assets



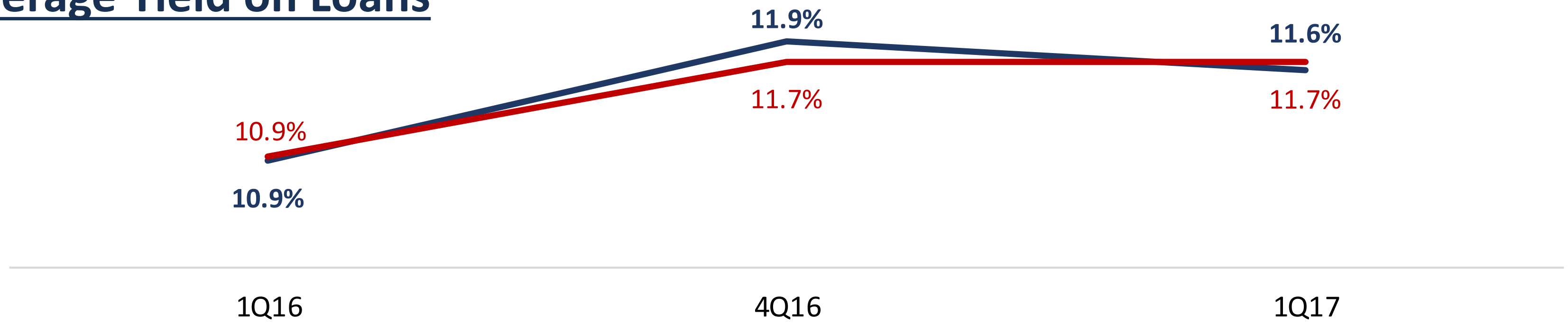
Composition of funding



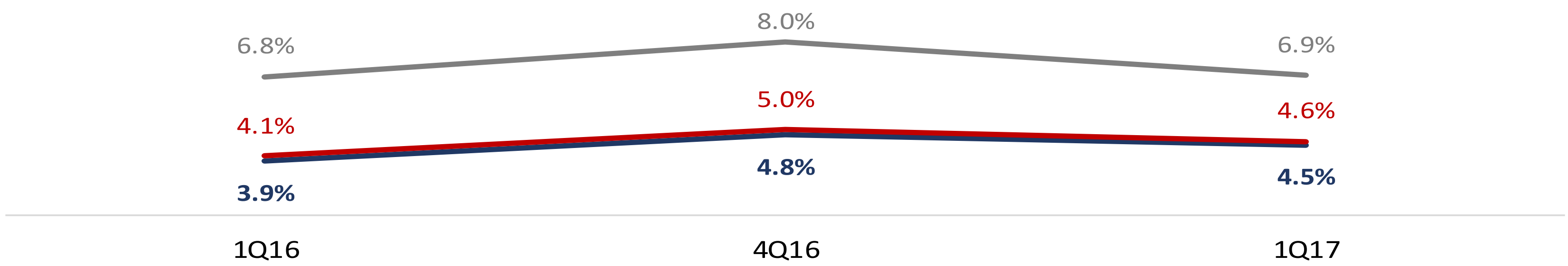
Calculated as composition of average balance for the period. Non-Financial Sector + HoldCo refers to companies from the non financial sector and the sum of Grupo Aval Acciones y Valores S.A. + 100% owned and guaranteed subsidiaries, net of eliminations.

NIM – Net Interest Margin (2/3)

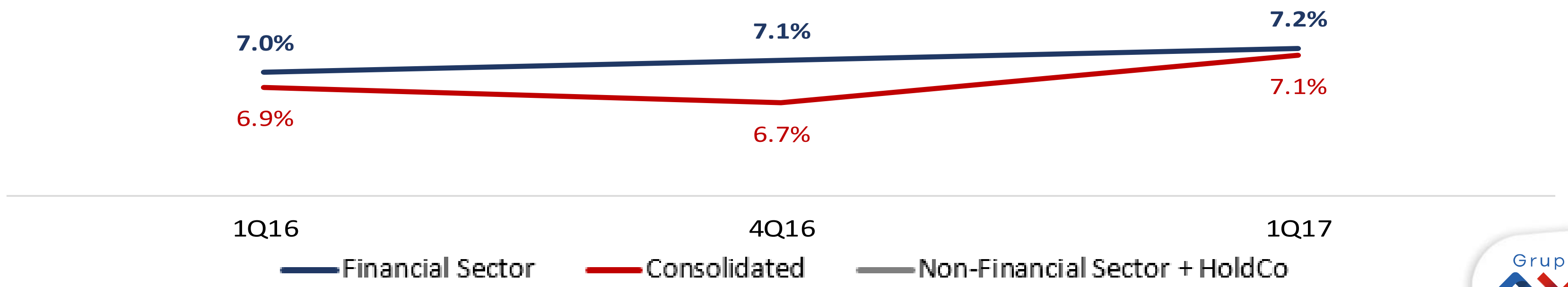
Average Yield on Loans



Average Cost of Funds



Average Spread (Yield on Loans – Cost of Funds)

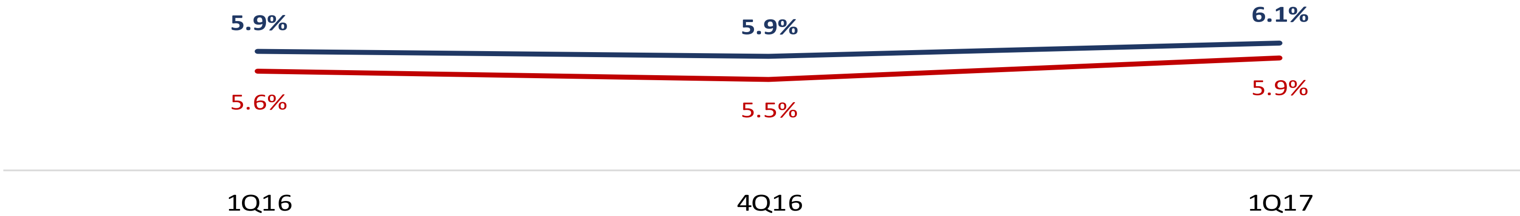


NIM – Net Interest Margin (3/3)

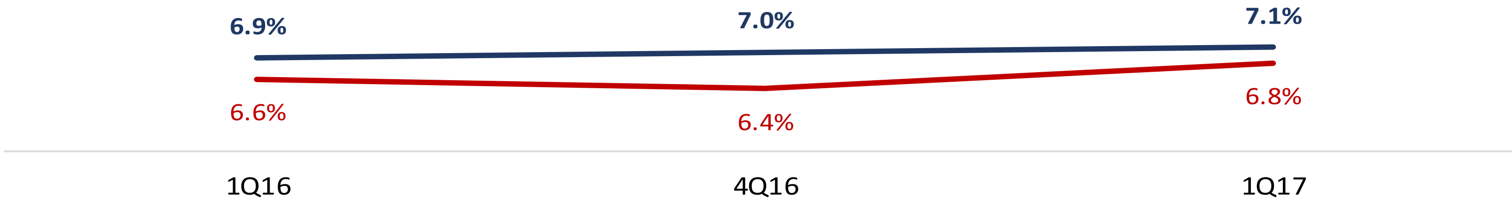
Net interest income(1) (trillions)

1Q16	4Q16	1Q17	1Q17 / 1Q16	1Q17 / 4Q16
2.4	2.4	2.6	9.6%	9.4%

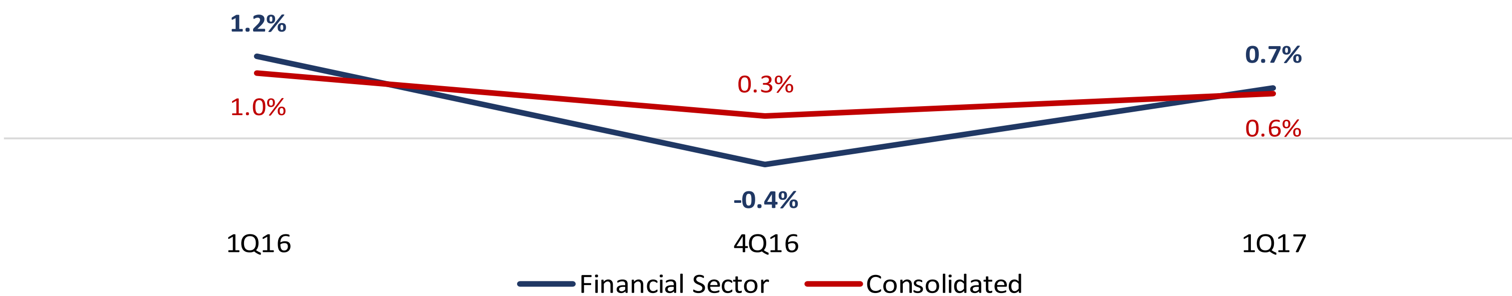
Net Interest Margin(1)



Loans Interest Margin(2)



Net Investments Margin(3)

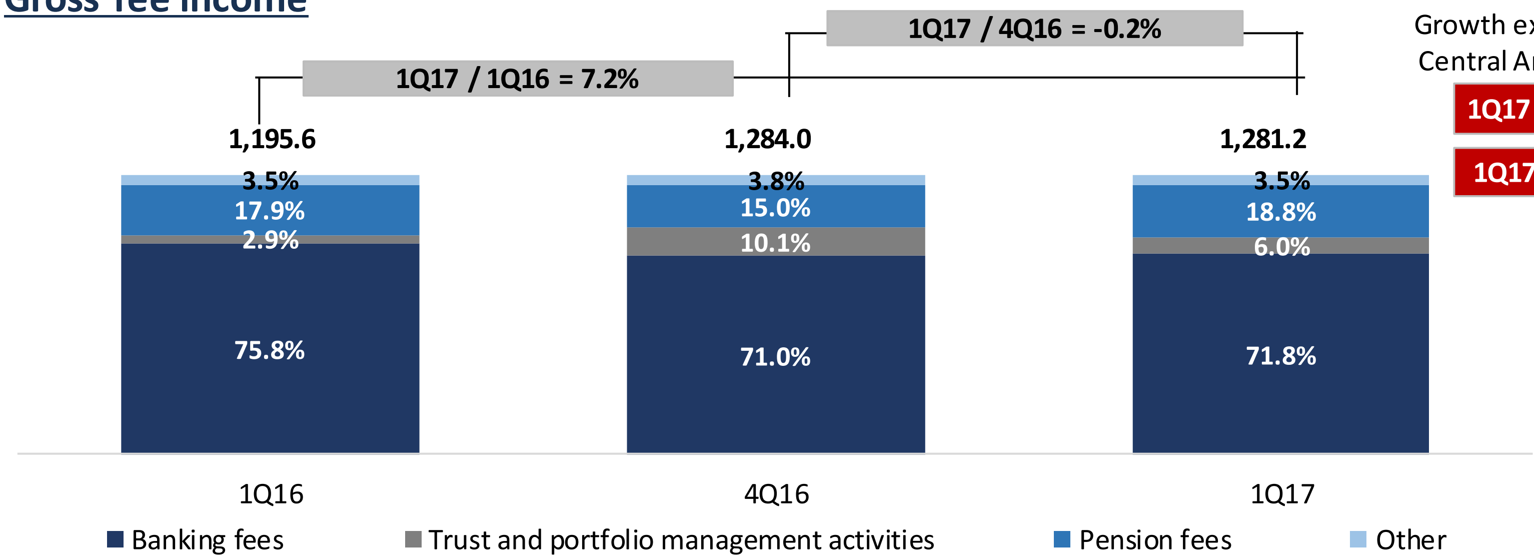


(1) Net Interest Income and Net Interest Margin: Includes net interest income plus net trading income from investment securities held for trading through profit or loss divided by total average interest-earning assets.
(2) Loans Interest Margin: Net Interest Income on Loans to Average loans and financial leases.
(3) Net Investments Margin: Net Interest income on fixed income securities, net trading income from equity and fixed income investment securities held for trading through profit and on interbank and overnight funds to Average securities and Interbank and overnight funds.

Fees and other operating income

Figures in Ps. Billions

Gross fee income



Growth excl. FX movement of Central American Operations

1Q17 / 1Q16 = 12.0%

1Q17 / 4Q16 = 1.1%

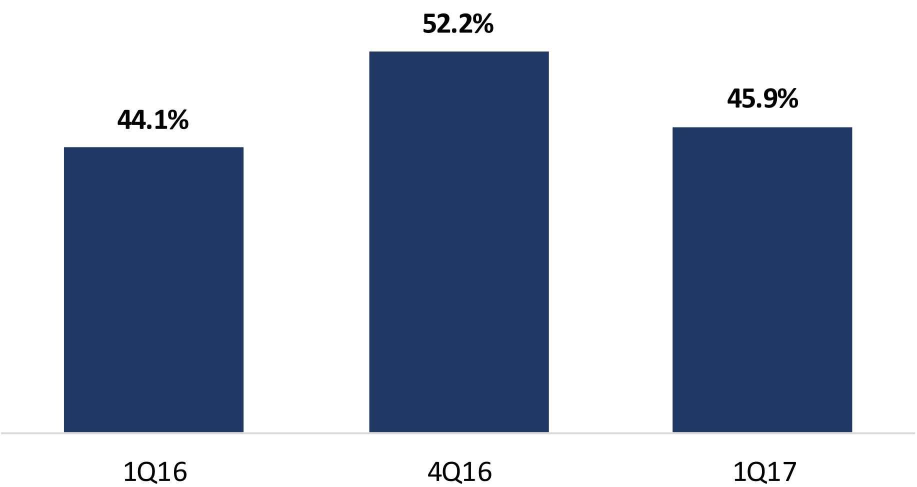
Other operating income

	1Q16	4Q16	1Q17
Income from non-financial sector, net	212.9	279.7	172.1
Gains on valuation of assets	0.0	53.9	-1.0
Net income from financial instruments designated at fair value	41.7	50.5	44.2
Derivatives and foreign exchange gains (losses), net (1)	251.2	132.6	138.5
Income from non-consolidated investments and other (2)	338.9	262.6	179.4
Total other operating income	**844.6**	**779.3**	**533.1**

(1) Includes income from trading and hedging derivatives reflected as part of the net trading income on the Statement of Profit or Loss.
(2) Includes equity method income, dividend income and other income.

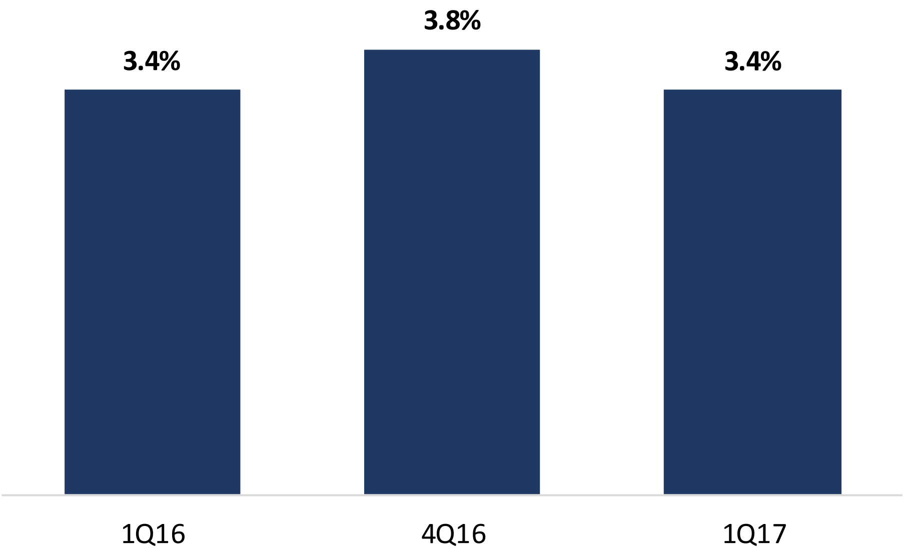
Efficiency ratio

Operating expenses / Total Income



Efficiency Ratio is calculated as personnel plus administrative and other expenses excluding wealth tax divided by net interest income plus net trading income, other income and fees and other services income, net (excluding others).

Operating expenses / Average Assets

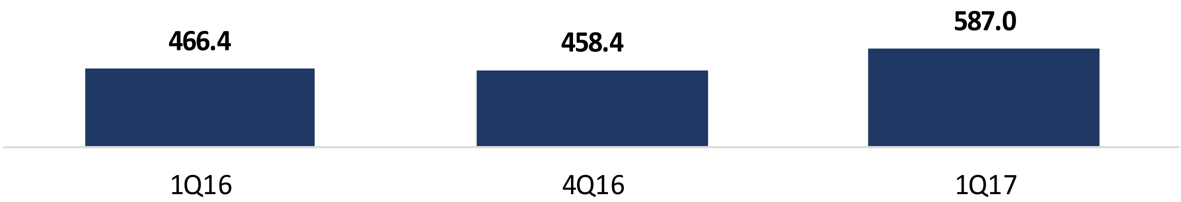


Efficiency Ratio is calculated as annualized personnel plus administrative and other expenses excluding wealth tax divided by average of total assets.

Profitability

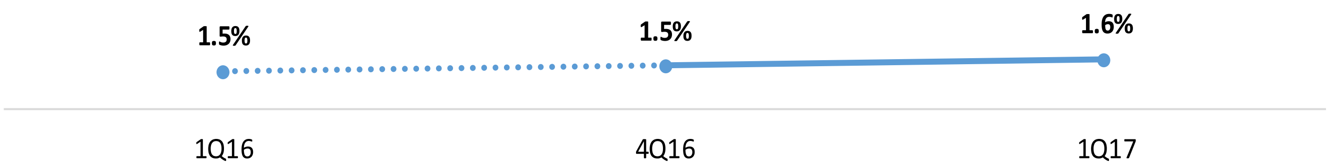
Figures in Ps. Billions

Net income attributable to controlling interest

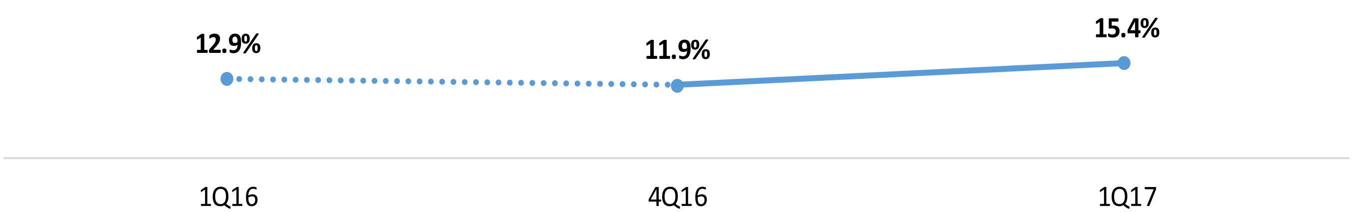


	1Q16	4Q16	1Q17
EPS	**$20.9**	**$20.6**	**$26.3**
Avg shares	**22,281**	**22,281**	**22,281**

ROAA [1]



ROAE [2]



[1] ROAA for each quarter is calculated as annualized Net Income divided by average of total assets.
[2] ROAE for each quarter is calculated as annualized Net Income attributable to Aval's shareholders divided by average attributable shareholders' equity.

Grupo AVAL