2Q2018 CONSOLIDATED EARNINGS RESULTS CALL TRANSCRIPT

GRUPO AVAL ACCIONES Y VALORES S.A.

SECOND QUARTER 2018 CONSOLIDATED EARNINGS RESULTS CALL TRANSCRIPT

Operator

Welcome to Grupo Aval Second Quarter 2018 Consolidated Results under IFRS Conference Call. My name is Silvia and I will be your operator for today's call. At this time, all participants are in a 'listen only' mode, later we will conduct a 'Question and Answer' session.

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 regulations as a "foreign private issuer" under Rule 405 of the U.S. Securities Act of 1933.

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, as a result of the enactment of Law 1870 of 2017 also known as "Law of Financial Conglomerates", starting on 2018, Grupo Aval will be subject to the supervision and regulation of the Superintendency of Finance. Grupo Aval as the holding company of its financial conglomerate will become responsible for the compliance with capital adequacy requirements, corporate governance standards, financial risk management, and internal control framework and criteria for identifying, managing and revealing conflicts of interest, applicable to its financial conglomerate.

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.

The results for 1Q2018 and 2Q2018 are not comparable to previous quarters due to the prospective adoption in Colombia of IFRS 9 and IFRS 15 starting in January 1, 2018. Although the adoption of this accounting standards had no impact in net income, figures for impairment loss on loans and accounts receivable and interest income on loans for 1Q2018 have been slightly adjusted to reflect the full effect of netting out of Stage 3 interest income and its impairment, both on the Statement of Financial Position and the Statement of Profit or Loss.

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 contents 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.

Today's conference will now be conducted by Mr. Luis Carlos Sarmiento President and CEO, Mr. Diego Solano Chief Financial Officer and Mrs. Tatiana Uribe Financial Planning and Investor Relations Officer

I will now turn the call over to Mr. Luis Carlos Sarmiento, Mr. Sarmiento you may begin.

Luis Carlos Sarmiento Gutiérrez

Chief Executive Officer

Thank you Silvia. Good morning all and thank you very much for joining our 2018 2Q results call. I will start by saying that our net income and profitability results for the quarter were strong. These results were boosted by a stable net interest margin on loans, a much better cost of risks' expense, arising from a positive shift in the trend of consumer loans deterioration, particularly in the formation of 30-day past due loans.

It is appropriate to note that this trend ship was partly a consequence of digital innovations designed in our digital labs to streamline our collection processes. Results were also boosted by a corporate-wide effort to control costs and to optimize our branch network and by a come-back performance from Corficolombiana. Having said this, partly it's a result of our efforts to focus on profitability the growth of our commercial loan portfolio continues to be sluggish given the recent news on the economic front we expect to see profitable growth in this portfolio during this third quarter. In fact, let me address the latest political, economic and regulatory developments.

First, we have a new market-friendly president in office, and from what we have already heard from president Duque and his newly appointed cabinet, we feel the government understands that the private sector has carried the heavier part of the effect of the oil crisis in the fiscal front and that this situation needs to be corrected in order to improve competiveness and boost foreign direct investment in our country. We are supporters of Mr. Duque and believe he will help our country grow at a faster pace than in the last few years. Second, on the Colombian economic front, a GDP growth trend has started to consolidate, this proven by two consecutive quarters of seasonally adjusted growth of 2.6% and 2.5% respectively, which is 2.2% and 2.8% unadjusted for seasonality and calendar days in a month.

Needless to say, we are not there yet, but it is safe to say that a recovery of the oil crises years continues in an orderly fashion supported in higher private consumption and higher more stable prices of oil. We currently expect the year to grow at 2.5% to 2.6% versus the 1.8% observed in 2017. Inflation continues to be within the acceptable range of the Central Bank and it is now at 3.12% in the last twelve-month basis. We expect inflation to pick up a bit and finish the year at approximately 3.25% as food prices might still be impacted by a forecasted (El Niño) climate period and naturally by a faster growing economy.

Inflation could end-up higher than our current expectation if we continue to see the (U.S.) dollar strengthening as a consequence of the trade wars in the international markets. On the labor front, we continue to see average unemployment to be around 10% and we expect it to continue to be at around those levels and it will only improve and go down to single-digits after the economy grows close to the 3% area. We foresee that the Central Bank will maintain, at least for the remainder of the year, its intervention rate at 4.25%, which is somewhat its expansionary rate given the expected inflation level. We believe that eventual and slow hikes might begin at some point during the first or second quarter of next year. Finally, we also expect that 3.1% fiscal deficit target for 2018 will be met. In the next few days, the government will present to Congress its fiscal reform proposal.

Although, we have not officially seen it, we do know that it is a corporation-friendly proposal. We expect that the reform will lower the base of corporate taxes, which currently stands close to 50% if you add up the income tax, the value added tax, the ICA and the tax of monetary transactions. On the external accounts front, the level of current account deficit continues to be favored by both the higher price of oil and somewhat of a pickup in non-traditional exports. We expect the current account deficit to finish the year at 3.0 to 3.2% which is very healthy, a very healthy level compared to the 7.3% level a few years back. On the regulatory front, important new decrees were issued in the last few months. First and foremost, decrees which specially impact the Colombian financial system were published to regulate the Law of Conglomerates.

To start with, conglomerates and the companies that conform them have been identified and we expect within a few weeks an official list of conglomerates will be published by the Superintendence of Finance. Additionally, decree 1486 of 2018 defined which companies are considered as related to conglomerates and established procedures to define limits of exposure to those related parties. This decree also defines how conflicts of interest must be addressed and communicated by the holding company of conglomerates to the ruling organisms. Finally, this decree included very positive news related to new more expansive investment criteria by pension fund administrators.

Overall, we feel very positive about this decree, since we believe that it will level the deal for everybody, contribute to activate the capital markets and give more transparency about direct and indirect ownership of Colombian financial institutions. Another very important published decree was 1477 of 2018 virtually moves Colombia to adopt Basel III. Just as in the previous decree we were very supportive of this initiative as we believe that it is very important that the rating agencies, the investors and the community of research analysts are able to compare in a better way our capital levels to the ones of our international peers. Bear in mind that full comparison is highly unlikely, as it is clear that every Basel III compliant country has customized to some extent this regulation to adapt to its own situation. What I can say for sure, is that this decree fully incorporates post-crisis Basel III principles.

The main changes contained in the decree with respect to current capital adequacy regulations are that: First, it implements capital adequacy buffers, conservation and systemic risk. Also establishes specific markets for hybrids, additional to Tier 1. Also it fully deducts intangibles in common equity Tier 1 including previously grandfathered goodwill. It adjusts weighing of risk-weighted assets to international standards applying the standardized approach and counterparty risk model. It also implements leverage […] of defining Basel III, and finally it establishes capital contribution of full CI accounts, net income and capital reserves. As far as the final adoption of this decree after an 18-month period of adjustment which starts now to allow for preparation, banks will have to fully utilize the new Basel III measuring standards for capital adequacy contained in the decree.

And four years later, banks will have to comply with the following metrics: First, a minimum core Tier 1 of 4.5%, a minimum core Tier 1 plus additional Tier 1 of 6%, a minimum Tier 1 plus Tier 2 of 9%, this last measure is more stringent even than universal Basel III which calls for 8%. A conservation buffer made up of 51 of 1.5% and a systemic risk buffer of 1.0% for systemic relevant banks. In full effect, systemic risk banks will need to show capital adequacy measurements of at least 11.5% when all is done. It is not my intention to boggle you down with details, so therefore we have included the slides and an appendix in which we show the levels of minimum capital required for the banks based on the new decree.

As it might interest you in the […] of interest we have ran our numbers for the four banks and we can comfortably say that currently we are fully compliant with the new regulation in all respects. This is partly the consequence of a material decrease in risk-weighted assets for the Colombian financial system. Just as we have explained to the market current regulations in Colombia in terms of risk weighting is very severe and thus demands far more capital than required. Now that the standardized model is applied, our banks will see a relief that offsets the impact of the net deductions to CT1 including the full deduction of previously grandfathered goodwill. Our risk-weighted assets were reduced by approximately 15% due to a lesser demand of capitally retailed loans and in-guarantee loans.

As it stands, the first quarter in which we will report Basel III figures is the first quarter of 2020. The banks in Central America continue to perform well. Obviously our main focus concern in the region is the current social and political situation in Nicaragua. We are following the situation closely and are conducting estimates of the possible effects on the country's economy. We also keep a very high level of liquidity in the Nicaraguan bank to manage any unforeseen circumstances. However, based on recent news we are hopeful that this difficult situation will be resolved without any further bloodshed and in a diplomatic way. If the conditions worsen, we will make sure that the market is properly informed. To give a bigger magnitude of the 80 billion dollars of assets that we have in our consolidated Balance Sheet less than 1.75 billion is Nicaragua exposure.

Our digital strategy continues on track. These are a few examples: last month, digital savings accounts in 'Banco de Bogotá' represented 19% of the total savings accounts openings for the bank with a compound monthly growth rate of 40% since December 2017. Digital credit cards sales have grown exponentially and have demonstrated a better credit quality than the bank's average. This month, we expect digital to represent more than 15% of the monthly credit card sales for 'Banco de Bogotá' and become the bank's second largest issuing channel. We launched our first to market fully digital auto-loan product that guarantees a client's response in less than three (3) minutes. We also launched a fully digital payroll loan product that guarantees responses in five (5) minutes and more important is connected to 80% of all public sector entities.

We designed a methodology to create independent digital products for each of our banks which run identically in the back-office thus expectedly reducing our times to market by as much as one (1) year in certain cases. In data analytics we have started to achieve important milestones. For example, we built-out an internal data strategy team to increase cross-selling and reduce turn through algorithms that predict product demand turn in next product to buy. We have also improved our credit collection standards through digital [...]. Concrete results in reduced cost-of-risk have been attained and we are very excited at the opportunities we have also identified in terms of gaining client share of wallet.

As a result of our continuing improvement in migration of sales to lower-cost channels we have been able to generate cost savings illustrating our philosophy, that digital is not only important to improve client's experience but also as a financially accrued play for the group. These savings have concretely manifested themselves this year in the form of being able to optimize 71 branches and reduce the corresponding head-count. With respect to our consolidated performance during the quarter, these are the main highlights: First, we were able to maintain our NIM both due to a solid performance of our NIM in investments and due to our ability to cut cost-of-deposits both CDs and savings accounts, our NIM for the quarter was 5.6%. Second, our cost-of-risk at 1.7% for the quarter started to show signs of recovery. About 10 basis points of improvement is due to less cost-of-risk related to the big corporate names such as: Electricaribe, CRDS and SITP even after increasing our coverage on these loans. Additionally, LED provisions were required as a result of low amounts of new loans coming into the books. Our 30-day past due loans figure shows improvement and we expect the 90-day past due loan figure to follow in the coming quarters. Third, we continue to work hard at income initiatives both on the asset and the liability side and thus we continue to grow this line at a slightly higher pace than the loan portfolio itself.

. Fourthly, we continue to emphasize our cost control initiatives, via the head-count reduction, branches being closed or reconfigured to optimize productivity, migration of transactions to ATM and digital channels among others. Finally, in the process of fiscal optimization, that we began some years back, during the quarter we were able to recover a marginal amount of taxes paid the previous year. However, during the second half of this year our implicit tax rate should go back to historical levels. We made a slight change to our first quarter results related to the adoption of IFRS 9. As explained in the last call, interest income of stage-three loans is now presented made up of its provisions which means that net interest income is lower and also the cost-of-risk is lower by such amount. Therefore, our first quarter NIM appears 13 basis points lower than previously reported and our cost-of-risk appears 16 basis points lower than previously reported. Second quarter effects on these two metrics were similar. With regards to our guidance, we now believe that our loan portfolio will grow during the year at a 5 to 7% range, mainly driven by the consumer book but with better performance expected from our corporate book in the second half of the year. Our NIM should remain in the same 5.6% area. Our cost-of-risk should finish the year at around 1.9%, our […] should grow at about 3% year on year, our NIM should continue to slightly outperform our loan growth and our tax rate should normalize. All in all we are looking at an ROI of approximately 15% for the year.

With that, let me pass it to Diego who will address in more detail our results for the quarter. Thank you.

Diego Solano Saravia, Chief Financial Officer

Thank you Luis Carlos. I will now move to the consolidated results of Grupo AVAL under IFRS, starting on page 9, the Asset evolution. Assets grew 1% during the quarter. […] loan growth in Colombia and a contraction in dollar terms of our fixed income investments in Central America brought this result. Currency movements favored the contribution of our Central American operation to overall growth. The impact of foreign exchange fluctuations and balance sheet growth was brought into our growth dynamics during this period, as we experienced a 5.4% depreciation of the Colombian peso during the quarter and a 3.9% appreciation relative to a year earlier. During the quarter, our Colombian assets decreased by 0.6% and our Central American assets decreased by 0.5% in dollar terms, a 4.9% growth when translated into Colombian pesos. On the 12-month period ended on June 30th our Colombian assets increased 1.5%, while the Central American assets grew 6% in dollar terms, 1.10% when translated into Colombian pesos. Assets structure remains substantially unchanged during the quarter, with loans representing 67.5% of our assets and fixed income investments 10.5%. Finally, our Central American operation increased its share of our assets by 110 basis points to 29.4% in line with the depreciation of the Colombian peso.

On page 10 we present the evolution of our loan portfolio. Gross loans excluding repos grew 2% during the quarter and 2.8% over the last twelve months both in peso terms. The performance during the quarter resulted from a 0.1% growth of our Colombian book and a 1.3% growth in U.S. dollar terms of our Central American book. A 6.8% expansion when translated into pesos. Colombian operations account for 71% of our gross loan book. In Colombia, commercial loans […] growth dynamics as mentioned in our recent calls the modest GDP dynamics and the presidential election had dampened commercial loan growth and the tightening of the consumer […] underwriting policies have reduced the retail loan growth. In addition we have focused on capital growth. We expect growth to pick up over the second half considering the positive macro trends and as president Duque in office since last week advances with his economic and tax agenda. Colombian consumer and mortgage business continues to lead the growth of our

Colombian operations expanding 2.0% and 4.8% respectively during the quarter and 7.7% and 19.6% respectively over the last twelve months. On our Colombian corporate loan portfolio contracted 1.3% during the quarter and 1.1% over the year. Central American countries continue to be more dynamic than Colombia growing 7.6% and 1.3% in dollar terms over the twelve-month and three-month periods respectively these are 3.4% and 6.8% when translated into Colombian pesos. Broken down by type of loan quarterly growths in Central America in dollar terms were 2.2%, 0.6% and 9.0% for commercial consumer and mortgage loans respectively. These growths were 7.7%, 6.0% and 6.4% respectively when translated into Colombian pesos. We expect 2018 loan growth to be in the 5.0% to 7.0% area.

On pages 11 and 12 we present several loan portfolio quality ratios. Positive trends that signal that the worst of the Colombian credit cycle is behind us continue to consolidate. A 30-days PDL ratio was stable incorporating an improvement in the quality of consumer and mortgage loans and a slight deterioration in commercial loans. New 30-days PDLs formation was lower, particularly that of the consumer loan portfolio, recorded a slight deterioration on the 90-days PDLs reflecting the aging of the up-pick in 30-days PDLs reported on our last call, particularly in commercial loans. As mentioned in the past, caution is still due as GDP dynamics, even though strengthening, are still soft in absolute terms and unemployment has not recovered yet. Quarterly cost-of-risk net up recoveries of charge of assets improved by 44 basis points to 1.72%, this improvement incorporates a positive performance in the 30-days PDLs formation, a lower impact of the large corporate cases that we have discussed on our last calls and a contraction of the Colombian corporate portfolio. 30-days new PDLs formation is particularly irrelevant to cost-of-risk under IFRS 9 given that this event has a strong impact on loan-loss reserves for consumer loans. The three corporate cases that we have been following on our last calls: 'Electricaribe', 'Ruta del Sol' and 'SITP' accounted for 10 basis points of cost-of-risk reduction. These three corporate cases explain 14 basis points during the quarter down from 24 basis points a quarter earlier. It is worth mentioning that we have increased our coverage of SITP from 15% to 21% and still expected to take it up to 30%. Coverage ratios for 'Electricaribe' and 'Ruta del Sol' stand at 80% and 13% respectively.

Cost-of-risk in Colombia and Central America decreased from 2.3% to 1.6% and increased from 1.8% to 2.1% respectively over the quarter. We expect 2018 cost-of-risk net up recoveries to be in the 2.0% area. Finally, our charge-offs to average 90-days PDLs ratio was substantially stable at .67% times, allowance to PDLs coverage ratio was close at a 147% on a 90-days base and 103% on a 30-days base. Allowance covered 4.3% of our gross loans.

On page 12, you will find further detail in the quality of our loan portfolio. As mentioned in the previous page, our 30-days PDLs ratio was stable at 4.2%, this performance incorporates an improvement in the performance of our consumer portfolio resetting back to a level close to that observed a year ago. New 30-days PDLs formation fell during this quarter. Lower 30-days PDLs formation in Colombia was the driver of this positive result, not only Colombian consumer PDLs formation was the lowest since June 2016. The aging of up-pick in commercial 30-days PDLs formation reported in our last call affected our 90-days PDLs formation during this quarter.

On page 13, we present funding and deposits evolution. Funding dynamics were consistent with loan growth. Our funding structure remains stable with deposits representing 77% of total funding in addition our cash to net loans ratio was 58%. Our deposits to net-loan ratio was 96%, we maintain our strong liquidity previous position with cash-to-deposits ratio of over 14%. The structure of our funding has enabled us to capture the benefits of the Central Bank rate reductions in Colombia in cost-of-funds. Deposits grew by 1.2% during the last twelve months and 0.1% in the quarter. Our twelve-month growth excluding the impact of FX movements in Central America was 2.4%. By region, Colombia accounted for 72% of funding and 70% of total deposits. Deposits in Colombia decreased 0.3% over the last twelve months and 1.8% during the quarter, consistent with our asset dynamics. Our total funding grew 1.1% over the last twelve months and decreased by 0.3% during the quarter. Central American deposits grew 9.4% in dollar terms over the last twelve months and contracted 0.3% during the quarter, a 5.1% increase in Colombian pesos in terms of over both periods. Total funding grew 5.9% in dollar terms over the last twelve months and decreased 1.1% over the last quarter, 1.8% and 4.2% in Colombian peso terms. We expect deposits to grow at a similar pace to our loan portfolio during 2018.

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 4.8% while our true equity grew 5.9% over the quarter mainly driven by earnings during the quarter. All of our banks showed appropriate Tier 1 and total solvency ratios. Consolidated Tier 1 ratios at the end of the period ranged between 8.3% for Banco Popular to 10.6% for AV Villas. Total solvency ratios ranged between 10% for Banco Popular to 13.3% for Banco de Bogotá. As mentioned by Luis Carlos in his introduction we estimate that all of our banks are fully compliant with the new solvency regulation.

On page 15 we present our yield on loans, cost of funds and spreads. Yield on loans and cost of funds dynamics were driven by the Central Bank's intervention rate evolution. The end of period Central bank rate fell 25 basis points to 4.25% as of June 30th 2017, while the average rate fell 25 basis points from 4.58% in 1Q18 to 4.33% in 2Q18. In addition, the quarter average DTF rate fell 36 basis points to 4.73%. During the quarter, the average yield on loans fell 20 basis points to 10.4% mainly driven by a lower yield on our Colombian commercial portfolio that incorporated the change in Central Bank's intervention rate and DTF, experienced throughout the recent months. An 18 basis points contraction in spread between loans and cost of funds resulted from the movement this prior…this quarter. Even though we expect some additional pressure on spreads to continue as a yield on commercial loans fully incorporates the Central Bank rate cuts we expect the downward part of the cycle to be close to an end consistent with the change in monetary policy guided by the Central Bank. With regards to our consumer portfolio we could see increase pricing competition as the improvement in quality of consumer loans consolidates and a more dynamic growth increases the share of newly priced loans in our mix.

On page 16 we present our NIMs for the financial sector and Grupo Aval's consolidated operations. Our net interest income for the quarter was COP$ 2.7 trillion pesos remaining stable when compared to the previous quarter. The net interest margin of our consolidated operation including net trading income from investment held for trading through profit and loss for the quarter remained stable at 5.6%. Our NIM excluding net trading income from investments held for trading through profit or loss decreased 12 basis points from 5.7% to 5.6 %. These results incorporate a pressure on Neiman loans described in the previous chart and a recovery in the NIM on investments to a level more consistent with historic performance. Our consolidated Neiman loans for the first quarter decreased 16 basis points to 6.6% compared to a quarter earlier while our net interest margin on investments increased by 68 basis points to 0.9%. Non-financial activities had a negative impact of 20 basis points on our NIM. As guided in the previous call, we expect our NIM to be in the 5.6% area for the full year.

On page 17 we present net fees and other income. Gross fee income expanded faster than our assets at 2.6% compared to a quarter earlier and 3.7% 12 months earlier. Excluding the effect of FX movements on our Central American operation, growth would have been 2.9% in the quarter and 4.8% over the last 12 months. Broken down by geography, Colombia accounted for 60% of total gross fees for 2Q18. Domestic fees increased by 2.0% compared to a quarter earlier, for Central American fees increased by 4.2% in dollar terms, a 3.5% Increase in Colombian peso terms. We expect fee income to continue growing at a slightly higher rate than our balance sheet through 2018. On the right of the page, you can find our non-financial sector broken down by sector. Its contribution increased 25.8% as compared to a quarter earlier with a strong performance from energy and gas and Infrastructure companies. At the bottom of the page we present other operating income. Other operating (income) for the quarter was COP$ 375 billion pesos, materially unchanged from a quarter earlier.

On page 18 we present some efficiency ratios. Cost control initiatives continue to deliver positive results. Personnel and administrative expenses increased 3.5% during the quarter and 3.3% when compared to a year earlier. Cost control in Colombia was a key contributor to the positive result. Our efficiency ratio measured as operating expense to total income showed a slightly deterioration of 44 basis points to 47% compared to the previous quarter and 15 basis points versus 2Q17. Central America and Colombia reported ratios of 52.6% and 44.4% respectively for 2Q18. Our efficiency measured as operating expenses to average assets of 3.6% for 2Q18, remained relatively stable compared to 2Q17 and up 14 basis points from 3.4% compared to a quarter earlier. Central America and Colombia reported ratios of 4.5% and 3.2% respectively for 1Q18. Regarding efficiency, as we will continue our costs control initiatives including head-count reduction, reformatting and closure of inefficient branches, migration of transactions to ATM and digital channels. As a result, we expect to maintain a 3.5% on our cost to assets basis for the full year 2018 in spite of the low asset grow that we have experienced so far.

Finally, on page 19 we present our net income and profitability ratios. True net income for 2Q18 was COP$ 682 billion, or $31 pesos per share, showing an increase of 14% versus the previous quarter. These results incorporate a positive effect in taxes, some net of recoveries that affect our true net income. Return on average assets was 2.0% and our return on average equity was 17.7%. Before we move into questions and answers, I will now summarize our general guidance for 2018. We expect 2018 loan growth to be in the 5% to 7% percent area, deposit growth will be very similar to loan growth, we expect 2018 cost of risk, net of recoveries to be in the 2% area, we expect full year 2018 net interest margin to be in the 5.6% area. We expect fee income to grow at a slightly faster pace than loan volume; regarding efficiency ratios we expect cost to assets basis to be in the 3.5% area, we expect no material change in our marginal tax rate from a year earlier. Finally, we expect 2018 return on equity to be in the 15% area. We are now available to address your questions.

Q&A

Thank you. We will now begin the Q's & A's session. If you have a question please press * and 1 on your touchtone phone. If you wish to be removed from the queue please press the # or the hash key, if you are using a speaker phone you may need to pick up the handset first, before pressing the numbers. Once again, if you have a question please press * and 1 on your touchtone phone.

And the first question comes from Judy Fernandez, from JP Morgan: thank you gentlemen, and congratulations for the quarter. **My first question** is regarding non-financial sector income, it was very strong this quarter increase more than a 100% over a year, and included many driven-by infrastructure I read in your […] billion pesos versus the first quarter, can you provide more […] how is the recurrence of this line and also can you discuss the Corficolombia offering, the decision of the group not to participate in the offering, being clearly […] just to have more clarity on that. And my **second question** is regarding assets quality, it's basically to see if the worst is really behind […] the loans are improving, the interest (rates) are improving, so maybe I should….wait for better….asset quality for group AVAL, but you still have very low provisions for the corporate […], so if you can also discuss why you are keeping the level of coverage lower for some of those […], we need to increase provisions…so basically the idea is to have a better call idea on the future. Thank you.

Ok. Thank you. Let me address a couple of.. I think I got everything you said. Let me see if I can maybe address a couple of your issues. With regards to the ongoing capitalization of Corficolombiana, let me start there and then I'll address Corficolombiana's… the performance that Corficolombiana is showing this year and then maybe Diego and/or Tatiana can address asset quality and coverage? Ok. Let us give you our thoughts behind the capitalization of Corficolombiana and the decision of both Banco de Bogota and Ava to see its rights to capitalize onto its, their own shareholders. Corficolombiana has important… well, first of all, Corficolombiana has started to construct at least two if not three of the 4G infrastructure projects that it was adjudicated a couple years ago, and obviously those projects on average require, you know maybe a billion dollars of funds of which about 30% come from equity. Corficolombiana obviously generates equity through its own investments, but not at enough rate to come up with the equity necessary to capitalize the concessions that are going to build those roads.

So, we decided it was a perfect time to go and raise, and raise capital. Additionally, an opportunity presented itself to increase our participation in the electrical utility company in Bogota, which has been a powerful and very good investment for Corficolombiana. So, bearing all that in mind, Corficolombiana decided it was a good time to raise some capital. Now, obviously, as in any capital raise, the shareholders they are entitled to participate are the current book of shareholders of the company. Among those, are banks in Grupo Aval. However, with current regulations, as you know, or you probably know, our banks have to deduct from their core equity tier 1 the cost of their investment in Corficolombiana, and also, Aval, which really doesn't have to deduct it, as it makes investments in its subsidiaries, will have to use its own liquidity or raise debt to do so. Aval has a good position of liquidity in dollars, a very good position of liquidity in dollars, but not so much in pesos. We don't really aim to keep very large liquidity positions in pesos. And obviously, if Aval decides to invest in a subsidiary and raises debt to do so its double leverage is going to increase. So lets take the two positions. First, the banks decided, you know with all that is going on with the new implementation of Basel III, and bear in mind that the Basel III Decree was published after the launch of the capitalization of Corficolombiana, so we didn't have the final decree on hand. But the banks decided, you know, with all that is going on with around capital, maybe it's not the time to invest in something that will further reduce the tier 1 capital. So, they decided to pass it on to their shareholders. We are very very confident, almost sure that the shareholders will take the offer and capitalize Corficolombiana in the total capitalization amount. So that was the rationale of the banks.

. And in terms of Aval, we decided two things: number 1, we did not want to increase our double leverage at this point. Number 2, even with the dilution that would result from this, but based on what we now know about Corficolombiana should perform, we will more than recover the dilution or the corresponding share of the profits that are diluted by the better performance of Corficolombiana including the capitalization. And finally, the other rationale from Aval was that it did not want to use its own dollar denominated liquidity to participate in the capital raise because then it would open up its balance sheet into a dollar liability invested in a peso asset. So, with all that in mind, we feeling fairly confident that the capital raise would be achieved and we still feel that way. We decided to proceed that way, and that's the whole rationale behind the capitalization of Corficolombiana. In terms of the performance of Corficolombiana, it is having a very good year as you probably all saw in the first semester. It's already performing better than it did the whole of last year. There are various reasons for this. One is that virtually the Ruta del Sol, the least financial problem is behind us in Corficolombiana. Secondly, Corficolombiana is now actively building, as I said, 2 or at least 3 of the concessions that it was adjudicated to a couple of years ago. And, thirdly, Promigas keeps showing very, very solid results. So, and you know we all know that Corficolombiana has three main businesses: its own treasury trading business, and investment banking advisory business, but most importantly, Corficolombiana generates profits from its investment book. And its investment book is performing very, very well. With that, we feel that Corficolombiana is on a good, good trend and that it shall continue to perform equally well. So that, in terms of that. And then you had some questions on assets and all that so Diego wants to address that. Regarding asset quality, I think that reiterating as what I said before on the call, we are seeing very positive signals of improvement in the quality of the overall portfolio, but particularly on the consumer side. Even though, as mentioned, we are still cautious, we need to see an employment improving, we have already started to see a lot of things happening outside of our banks, meaning the economy, but also inside our banks through the upgrade, a substantial upgrade of our collection activity and our collection processes. When you look at the numbers, we have started to see not only stable ratios, particularly on the thirty days bracket, but also reduction in the new PD up formation, particularly in consumer and particularly in Colombia. When you take those into account, combined to a positive view and how Colombia is expected to evolve, plus the results already obtained through what Luis Carlos described in upgrading our collection processes and digitalization, we are quite confident that these numbers at some point should continue to turn around. Having said so, I would say that we need to bare caution and that the allowance numbers that we have are comfortable for the kind of expectations that we have.

Our following questions comes from Diego Noruega from Citi.

Hi everyone, thank you for the opportunity. Following the election, do you believe that on corporates to were actually postponing projects have begin to resume that. We have saw during the end quarter that your commercial book was actually flat during year-end. Just want to understand when do you believe that the pickup could happen and also, as you have guided for long growth of around 5 to 7%, could you just provide maybe a breakdown of what you expect for each of your […], and I'll make a second question afterwards. Thank you.

Ok. I'll start and to pass it to Tatiana and go by segment. What we're seeing is, you have to understand that the President came in office last week, the new President. And the second round of election happened actually, very late during the process of reporting our second quarter. So, these kinds of numbers don't yet show any impact of the change in political environment and expectations from the community as a whole. What we have started to see is very positive expectations and what's going to happen on the economic front and the tax front. We are seeing President Duque and his minister of finance delivering on what they promised on the campaign at least on the plans that they're crafting, and if you take those into consideration plus what is happening on the old front that is helping the overall numbers for Colombia and the trade side, the ground is set for a recovery of Colombia. It is very early to give you any guidance there, but we have started to feel some stronger dynamics in our credit committees with loans coming in. We will be very happy to be able to show this into numbers in our future calls, but we've seen a change, not only in mood but also starting to see better demand. And I guess to answer your question with regards to growth, first of all, bear in mind that there is a seasonality effect. So for example, in Central America our loan portfolio tends to grow much, much faster in the second half, versus the first half. And in terms of types of products, we expect the growth of the consumer plus mortgage loan portfolio to grow between 8 to 10 percent, so slight pickup from the numbers that we have already. And in corporates, should actually start to grow at least, more in the fourth quarter than in the third quarter. End-of-period balance sheets should show a 3 percent growth, that's our expectation. But then average balance should grow somewhat lesser than that. So, I guess that should be an answer to your question of segment.

Our next question comes from Frederick Demarius from UBS

Good morning everyone. Good morning Diego, Luis Carlos, Tatiana. Thank you for the opportunity and congratulations on the results.

I wanted to get back to the question on asset quality, if I may. We saw that you mentioned the coverage ratios for the three large corporate exposures. Now, would it turn this, when should we expect those exposures to get out of the books, you know, when do you think you can write-off so that you don't have to increase the coverage anymore for those three large exposures? And then on asset creation on the other side for the consumer side, obviously lower inflation is helping the consumers you mentioned during your presentation, some initiatives on the digital side that will help in collections. Could you give a little bit of color just to understand what you're doing? You know, how tax incentive it is and what would be the prospect for this.

And then my **second question** would be, especially on the digital strategy. You mentioned during your presentation also that you were expecting a cost to assets close to 3.5 for this year. But I would love to hear your thoughts about the medium and the long term. How do you think that the digital strategy can change the efficiency at the group and at the banks and do you have any targets in terms of costuming cut your assets, or whatever other way you want to think about efficiency? Thank you.

All right. Let me address the digital strategy first. As far as what we've done in digitalizing collections on the consumer side, its honestly been, its simple, but it's been very effective. And what we were able to do is determine who in our, in this, it's basically some algorithms that we were able to put together, and what we've done is we've been able to identify who has to be called first and who we can call later to accelerate collections, and actually we've been able to pin point to a certain degree with the precision what has the most impact in terms of digital calls obviously and of text messages, and of emails and when to call, and how to call and what to ask from them and what not. And, that's basically, so it's, you know it's fairly simple, it's very effective but it takes putting together the algorithm and what we have shown is quick, is really a quick game with that, a quick win.

Going forward, our digital strategy, we have always insisted, and I am a big believer of this, there are two ways that you can get results from a digital strategy. On the one hand, you should generate more revenues via launching new innovative effective products, but really the difference that a digital strategy makes is in cost savings. And what it is, is on being able to specially launch products faster by working more intelligently, by using all the technology available and your resources and obviously in cases like ours, where we have four banks, we are trying to do what we call now triple and quadruple plays which is, we are now being able to design four different looking products but with identical back-office processes and that has taken some doing, but it's also starting to yield cost-savings results. And the other thing that we have mentioned is through our digital, we've been able to digital strategy, we've been able to identify which branches need to be optimized via conversion, via closure, via movement, and how to migrate those transactions to more digital channels, and as I mentioned, we have gone ahead and closed about 71 branches. Some of the cost savings of the personnel reduction are being seen already. Obviously, there are some indemnifications that need to be paid but, going forward that should also have a positive effect in the following years and that is one of the reasons that we can start to estimate a better cost to, a better efficiency ratio. Finally, as also is a result of all the digitalization product, we have re-estimated all our technology investment strategy for the next five years, and the one very good news there is that we have been able to sort of make an inventory of all the technology, all the technological projects, at the bank levels, at the holding company level, put them all together, refurbishing of the corporate governance, and the strategy, and right now it looks that we are talking about savings going forward in the next three years of about 200 million dollars in technology Capex. So, all that comes from its, you know we call it the digital strategy, but it really is much more than that, and we are pretty confident that that's really, really helping us out. Obviously, when you joint that with the fiscal reform that we're waiting to officially read and know, we have two very important components working in our favor.

In terms of the three loans, you know, sometimes I feel like you that we should just go ahead and reserve 100% of the three loans in be done with it, but the truth is that it doesn't really look like we will lose 100% of our investment on those three loans. So, it's really not convenient to go ahead and just charge them off. Specially, when it comes to Ruta del Sol or the financial, the Colombian financial system is still exposed to the tune of about 630 million dollars. What we have to do and, you know, its just we got to be patient. The courts of law are deciding the value of liquidation of that contract, and that is in fact moving in the right direction. There are basically, two judicial instances were that will be decided. One is in a court of arbitration, and the second one is in an administrative tribunal. In the administrative tribunal we have presented conclusions, closing arguments, and we'll see what comes out of that. And in the arbitration tribunal, we had our, unfortunately, our third judge or arbiter in that tribunal died, and we have to, or the tribunal was suspended until the third arbiter is named again. You know, that is sad news obviously, but the good news is that it has given this new government time to inform itself of what really has gone on with Ruta del Sol and this government understands perfectly that the financial system is looking at the judicial system to see how this case is finally decided, how banks make out at the end, because that is really crucial to the financial system opening up again to continue the financing of 4G going forward.

In terms of Electricaribe, there are things happening as well. Electricaribe has been, I think covered the point about 80%. Yeah, 80%. So there is really not that much to go anymore, and the only reason that we have stopped for now it is there are now active conversations to move the company out of the government's intervention and to have a new operator start operating it, and we have demanded and obviously this needs to be seen, but we have demanded that the new operator as a way to be given the contract must negotiate with the banks the repayment of the loans.

And in terms of the transportation system, that is also moving pretty actively because, you know, I say pretty actively, but at the pace that a government moves actively which as we all know it's almost at no pace. But, it is moving and specially through the Major of Bogota who as you probably know, has really been the force behind all the integrated transportation system in Bogota.

So, you know, we will continue to make coverage and to provide for those loans as we see that our chances of collections are getting larger or smaller, but as you also know, as those loans become stage 3 under IFRS, they have to be analyzed on a case by case basis it's just not a template of additional provisions. So that's what's happening with those. I don't know if I didn't cover anything else. No, I think you're good.

Our following question comes from <u>Jason Mollin from Scotiabank</u>

Yes, hi. **My question is a follow-up on the cost risk.** You talk about expectations for the full year close to 2% and we saw 1.7% number for the quarter. I just wanted to make sure that we understand well the change in accounting from IFRS 9. So, we see lower NII and lower loan loss provisions the first half of the year. I guess you gave us the numbers, the number on both sides there would be 250 billion pesos. I just wanted to make sure for looking historically that we should adjust for that and therefore, really the net impact on the bottom line was 0. So, it really wasn't so much that the quarterly move in cost of risks that generated the good bottom line this quarter, it looks more to be lower taxes, trading and good post-provision NIM, I guess, in my view. So, if we kind of adjust for taxes and trading maybe the ROE instead of being seventeen and a half percent in the quarter is closer to the 15% that you're looking for in the year. Is that, would you agree with that?

Jason, you have partially, you're right, but to try to sharpen your numbers, the ROE would have been more the 16% area if you adjust for that, and this is more of a P&L presentation discussion what is happening here rather than something that is changing our bottom line under IFRS 9.

Just to try to... I'm going to make it as simple as possible, but to tell you the difference between what we're doing now, now means first quarter and second quarter. So, for comparability you should be able to compare first quarter with second quarter. But to compare to what happened in the past, there is some differences that do not change bottom line but do change your ratios.

What you do under IFRS 9 is you take your…once your loan moves into stage 3 that means it's already advance in the process of deterioration, or you expected to be passed to in a substantial way. You start to account different for interests and provisions. If you were under the old system you would account for the full interest and then go ahead and provisioning those. But what you started do when you move into stage 3 is given that you already have, I would say, a percentage of provision that you need to apply to the loan, you start doing exactly the same with what is happening with the interest and you start not…or you start reducing that from your net interest income line as well as from your cost of risk line. Net net it becomes exactly the same number you would have had in the past but rather than having those numbers higher, you ended up netting those. As a result, you end up with a lower net interest margin and lower cost of fund…cost of risk, I'm sorry.

To your question of should you change these numbers moving on, this is something that you start to apply with IFRS 9. You do not go back and change the numbers in the past. That's why we have only affected our 2018 numbers, but as you said, for comparability, that's why when Luis Carlos mentioned that we have around a 15-basis point impact given this change. And if I may I guess, hi Jason, to your point vis-à-vis our expectation in cost of risk versus last year, what we are expecting or hoping is that second half will not have a huge impact of these large corporates and as we're seeing our 30-days past-due loans and 90-days past-due loans behaving in a more adequate way, that is why we are foreseeing an improvement in the cost of risk. So, for sure, yes, part of the comparison between this year and last year will be a thing of reclassification but then some part of it will also be a consequence of an improvement in the quality of the loan portfolio. Also, to give you some comfort and the trust of risk for this period, just reminding you, there were a number of things that did help us in a relevant manner and is the improvement in our consumer portfolio. That is something that we start to see consolidating and that's something that does change compared to what was happening in the past, and this is not the best argument for reducing your cost of risk but what you're not growing in your corporate portfolio, then you do not need to record provisions for growth. So, wrapping up, yes there would have been a different number, the number would be around 16%, and that's why we're [guiding] in something in the 15% area.

Our next question comes from Andres Soto from Santander

Good morning everyone and thank you for the opportunity to ask questions. I have a few of them.

The first one, regarding Aval loan growth next year. Considering the full implementation of Basel III, what level of growth can your banking subsidiaries sustain in 2018 in order to remain compliant with the target established by the regulator? And I'm curious specifically about Banco de Bogota. The second question, this is a continuation of the regulation issue this time on the conglomerates law. You mentioned that we will level the field to all players. Does that mean that Porvenir, your pension fund manager, will be able to purchase shares of Grupo Aval? And if so, what will be the maximum limit that they will be allowed to buy? And finally, given the recent volatility in the Colombian peso, I was wondering if you can please remind us what is the sensitivity or your main indicators including profitability and capitalization to the COP depreciation? Thank you.

Hi Andres. To the question on Basel, please bear in mind that Luis Carlos pointed out that the first quarter in which we will comply with Basel III is the first quarter of 2020. Having said so and to answer specifically your question in Banco de Bogota, Banco de Bogota will not have issue. Its fully compliant with full Basel III adoption. We are not giving public…we are not making public our numbers because there are still certain points that we need to discuss, as an industry, as a whole with the Superintendency of Finance. But initial numbers given, that we have reported to the government, show that Banco de Bogota and all of our banks are fully compliant. Even more so, the small ones than Banco de Bogota, but we will be compliant. This means that an expected growth of 10% or low teen areas with profitability that will come without growth, will be enough and that means that capital of Banco de Bogota will be sufficient to fund that growth. With regards to Porvenir. With regards to Porvenir, yes, you're right. The law...the decree that came out ruling on the law of conglomerates that it's a decree that has to do with related parties, included a… and article which we consider of the upmost importance which basically levels the field in the sense that Porvenir will now be able to invest up to 8% of its total administer funds in related parties including in equities of Aval and fixed income, obviously. So, yeah and the current regulation is that…well, currently Porvenir wasn't able to do so. Other pension funds were able to invest up to 10% in their own related parties because of the ownership structures. Now, it looks like everybody will be able to bring that position to 8%. So, yes it's a…I think it will…what I think is that it's a great opportunity for the financial markets, for the capital markets in Colombia because it really expands a flow of funds and…into the capital markets. So, yes, the question… the answer to your question is that Porvenir will be able to invest in its own related party equities up to 8% of its funds. Regarding your last question and the sensitivity to FX. First of all… well, we can give you straight numbers to this, but we can give you some way to think about it. The main place where we have impact from FX is our Central American operation. It weighs around 30% of our full net income. You take our balance sheets, our balance sheets are hedged across the world, so there is no substantial change happening there. The other piece to bear in mind is our P&L is moving more with average depreciation, while our balance sheet is moving with end-of-period depreciation or appreciation. That might generate temporary changes, but when you look over time, those numbers should look similar. In this case, when you compare first quarter to second quarter, when you look at average depreciation, the number was quite down substantially; it was point seven percent; what happened there compared to the end-of-period five-point four percent. So, yes there might be some temporary distortion, but when you look over time, it fades away.

If the average… if the average currency depreciates, then our net income will show higher results because of the Central American operations. In terms of solvency and capital, current regulation implies that the movement of effects are absorbed, because you have the risk [..] assets going up, but then you have an adjustment in the technical capital also. So no results in solvency because of the high depreciation of the currency… of the eventual high depreciation.

Our following question comes from Sebastian Gallego from Credicorp Capital

Hi, good morning. Thanks for the presentation and congratulations on results. I have two questions, probably follow-ups from previous questions. The first one, regarding double leverage at the Aval level…at the Aval level. Can you.,..can you provide how do you see the evolution on double leverage going forward for Aval, particularly given the growing position of the concession rights at Corficol?

The second question is regarding also a follow-up on the initial question on the Corficol's transaction. I know you point out your rationale and so on…but my question is, is it possible that the controlling shareholder of Aval may use another vehicle, or are you willing to have a strategy were new investors take the whole transactions? Thank you.

On double leverage question about Aval, Aval has about 116% double leverage index now, which is under what the rating agencies like us to have. They actually… rating agencies like holding companies to have as high as 120%, in some cases higher, but with us they feel very comfortable at 120%. So, we comfortable keeping it under 120% and we are at 116%. With regards to…and basically, because we are not participating in the share subscription, it should remain virtually unchanged. With regards to who will participate, well obviously, we can't control those who rescinded the right of participating too. We obviously can't control if they decide to or not, but obviously, from what we know, the subscription will be taken entirely and also, actually there will be…we really can't predict right know if there will be none shareholders of Banco de Bogota and/or Aval who will participate because the shareholders of Banco de Bogota and Aval do have the right to seek the right they got from the bank and Aval to participate. We have started to see some sessions and we have seen…we have seen the book coming together. So, I guess we'll just have to wait until the time is done which is I think… how many days? End of this month. So, at the end of this month its not too much longer to hang on...at the end of this month we'll know how the new shareholder book of Cofricolombiana looks.

Our last question comes from Marina [..] from [Price]

Hi, thank you. I just have a quick question on your tax rate. So, corporate taxes coming down. We see the impact of that in 19. What do you expect your effective tax rate to be next year? Thank you.

Well, actually what we pointed out for tax rates was that we saw during this quarter was something temporary and that we expect to see the taxes full remain as expected for the full year. For next year, the way we expect things to go is, Colombia weighs around 70% of our income and Central America the remaining portion. Central America is at 28% and we will depend very much on how the tax discussions in Colombia evolve. We could be positive with an eventual tax reform, but at this point we should continue at the… Current scenario is that the level of taxes will come down next year. So, it will come down by three percentile points, so we will capture about 1% of less implicit tax rates. So next year we will have a lesser tax rate than this year.

We have no further questions at this time.

Luis Carlos Sarmiento Gutiérrez

Presidente

All right Silvia, thank you very much and thank you all for attending the call and hopefully we will continue the good work and the good news and we will see you next quarter.

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