4Q2018 CONSOLIDATED EARNINGS RESULTS CALL TRANSCRIPT

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Operator

Welcome to Grupo Aval's Fourth Quarter 2018 Consolidated Results under IFRS Conference Call. My name is Hilda 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. During the 'Question and Answer' session if you have a question, please press * and then 1 on your touchtone phone. Please note that this conference is being recorded.

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 compliance with securities regulation in Colombia and applicable U.S. securities regulation.

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 supervision as financial institutions by the Superintendency of Finance. Grupo Aval is now also subject to the inspection and supervision of the Superintendency of Finance as a result of Law 1870 of 2017, also known as Law of Financial Conglomerates, which came in effect on February 6, 2019. Grupo Aval, as the holding company of its financial conglomerate is responsible for the compliance with capital adequacy requirements, corporate governance standards, risk management and internal control and criteria for identifying, managing and revealing conflicts of interest, applicable to its 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. Full year and quarterly results for 2018 are not comparable to previous periods due to the prospective adoption in Colombia of IFRS 9 and IFRS 15 starting in January 1, 2018.

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 risk described from time to time in our filings with the Registro Nacional de Valores y Emisores and the SEC. Recipients of this document are responsible for the assessment and use of the information provided herein. Matters described in this presentation and our knowledge of them may change extensively and materially over time but we expressly disclaim any obligation to review, update or correct the information provided in this report, including any forward looking statements, and do not intend to provide any update for such material developments prior to our next earnings report. The content of this document and the figures included herein are intended to provide a summary of the subjects discussed rather than a comprehensive description.

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

I will now turn the call over to Mr. Luis Carlos Sarmiento, CEO of 'Grupo Aval', Mr. Sarmiento you may begin.

Luis Carlos Sarmiento Gutiérrez

Chief Executive Officer

Thank you Hilda. Good morning all and thank you for joining us in our fourth quarter and full year 2018 conference call. It is my pleasure to share with you our strongest financial results ever. Our attributable net income for 2018 was 2.9 trillion pesos or 131 pesos per share showing an increase of 48.4% versus 2017's results of 2.0 trillion or 88 pesos per share, and our return on average equity for 2018 rose to 17.8%.

Without further ado, I will jump right into my presentation. I intend to cover several subjects including regulatory changes, macroeconomic results, an update in the implementation and highlights of our digital strategy, a few highlights of the reasons behind our financial results, our guidance for 2019, and an update on all the legal issues surrounding the Ruta del Sol project.

Let's start with regulatory. As some of you might have noticed, the disclaimer at the beginning of this call has changed somewhat versus previous calls. This is due to changes on the regulatory front. In fact, as a result of the Conglomerates Law passed last year, Grupo Aval and its 68 financial affiliates are now an official financial conglomerate and Grupo Aval, as the holding company of the conglomerate, is now under the full supervision of the Superintendence of Finance, as were already all our banks and our pension fund manager. In all, the superintendence identified 13 financial conglomerates in Colombia. Holding companies of the Financial Conglomerates are expected to work in the following areas:

First, to estimate and publish the total capital position of the Conglomerate and compare it with the required level of capital which is not materially different than the sum of the required capitals of their financial subsidiaries. This calculation needs to be ready by year-end 2019. Our estimations conclude that currently the capital position of the Aval financial conglomerate amply exceeds the level required.

Second, they are expected to start reporting to the Superintendence, a list of all the Conglomerate's related parties and all the intra-conglomerate transactions.

Third, limits of exposure for transactions made within the Conglomerate and between the Conglomerate and its related parties must be defined and managed.

Fourth, corporate-wide policies on conflict of interest must be implemented.

Finally, a Risk Management Framework or RMF, and in Colombia Marco de Gestión de Riesgo must be defined. In it, different levels of risk appetite and methodologies to manage risk within the conglomerate and with third parties, must be established. Risks inherent to the conglomerate that need to be addressed in the RMF are: concentration risk, risk of contagion and strategic risk.

We welcome all these requirements as we understand that they will serve to add transparency to the market. This regulatory change is particularly important for Porvenir, our pension fund manager, which will be allowed, after full compliance with all corporate governance requirements, to invest in debt or equity instruments of its related parties up to 8% of its total assets under management. Currently, 8% of Porvenir's assets under management amounts to approximately, 3.3 billion dollars. We applaud this new regulation as we believe it will significantly strengthen the local capital markets and because it truly levels the playing field, by standardizing the regulation, of allowed investments for all the pension fund managers in the country including those that were already investing in related parties.

As we told the market in our last 6K, Grupo Aval is working to comply with all new requirements in a timely manner. It is important to remember that these requirements do not have the same starting date. Some are mandatory this year, like the capital report, but some are mandatory after a period of transition of 18 months.

Let´s move on to Macro. Let's address the most relevant macroeconomic results of the Colombian and Central American economies.

First, the Colombian economy, where 70% of our business resides, performed mostly as we had guided to, GDP grew in 2018 at 2.7%, almost twice what it had grown the year before which grew at 1.4%. Importantly, growth noticeably accelerated in the last two quarters and it is expected that the momentum will carry on to 2019. More importantly, growth was largely based on internal demand. In fact, after seeing a decline in disposable income of the Colombian households in 2017 partly due to the Value Added Tax increase included in the 2016 Tax Reform, 2018 was a year of recovery. We now believe that GDP for 2019 will grow at 3.3%.

Inflation was kept under control and finished the year at 3.18%, towards the bottom of the Central Bank's target range. Our expectation is that inflation will reach 3.5%, the middle of the Central Bank's target range, in 2019. Monetary policy was basically kept unchanged since May, 2018. If internal demand and imports stay robust, and GNP picks up, a monetary contraction might be in order and a hike or two might be needed to maintain the inflation within acceptable levels. Consequently, we expect that the Central Bank average rate during 2019 will be similar to 2018's at 4.35%.

The Fiscal deficit target of 3.1% was met in 2018 thanks to the adjustments made in the 2016 tax reform. The Fiscal Rule for 2019 calls for a maximum fiscal deficit of 2.4%, which should be achievable at the current price of oil and given Ecopetrol's profits of 2018 and dividend distribution during 2019, and also due to the marginal 4% tax imposed in the 2018 Tax Reform to the financial system, and finally due to the additional tax-burden resulting from the Tax Reform on already tax-paying individuals.

Notably, the current account deficit grew 50 basis points during 2018 to 3.8% due in part to the end-of-year decline in oil prices, the hike in the devaluation that took the peso to $3,250 per dollar, and the increase in demand of imported goods. If internal demand including imports continue to perform as they did in 2018, it is hard to see how this deficit will improve significantly soon.

Although the average FX rate for 2018 was mostly unaltered when compared to 2017, it did present volatility during the year due to the fluctuations of the price of oil and to political and trade discussions between developed markets. It rose specially at yearend when, as I mentioned before, it reached almost $3,250 pesos per dollar. Since, it has returned to the $3,100 pesos per dollar level where we expect it to continue throughout 2019. We therefore expect an average exchange rate for 2019 close to $3,150 pesos per dollar.

Unemployment continues to be the most worrisome macro statistic. During 2018 unemployment did not improve and we believe that this reflected two effects; on the one hand, layoffs effected by several companies as they adapt to constant tax reforms and as a result of the digitalization of operations, and also the influx of Venezuelans into the formal labor force as many Venezuelans coming into Colombia are issued automatic work permits. This expansion of the workforce might be crowding out a limited number of work spots. We expect that unemployment will improve in the medium term because of a stronger economy but the Venezuelan impact will continue to weigh, in what is possible a new labor market reality in Colombia.

Central America grew during 2018 at Colombia's pace, despite a GDP contraction of 4% in Nicaragua due to its political crisis and a slowdown in Costa Rica, which grew only 3.3% due to reforms needed to correct its fiscal deficit. During 2019, we expect regional growth close to 3.7% with controlled inflation and a regional fiscal deficit around 3.5%. We are watchful of the situation in Nicaragua, where we have shrunk our assets and liabilities in excess of 30% since the crisis started but continue to hold a very high liquid position, the highest of any bank in that country. We are also following closely any fiscal development in Costa Rica.

Moving on to digital, 2018 also saw the consolidation of the two Conglomerates' Digital Labs into the Aval Digital Lab, which now combines the efforts of the four banks in Colombia and soon is expected to work collectively with BAC's digital efforts. This is the combined platform we designed to continue leading the digital transformation of our Group. ADL is working with agile methodologies applied to: (i) improve client experience in our different channels through digital processes and client-driven products; (ii) develop advanced analytics that allow us to better anticipate the needs of our clients and increase the productivity of our operations and our collection efforts; (iii) incentivize the migration of transactions from traditional branches to digital alternatives; and (iv), create ecosystems to significantly increase seamless client transactions within the Group and with third parties.

Allow me to share a few salient examples of achieved results in 2018:

Only in Colombia we designed and launched ten digital minimum viable products which are now in full production. As a result,

As of last December Banco de Bogotá's digital saving accounts represented 38% of total new accounts opened and 92% of the clients that opened such accounts were new to the Bank. Additionally, the bank's digital credit card currently accounts for 37% of all credit cards issued.

Banco de Occidente's digital automobile loan platform, unique in the Colombian financial system, as of December represented 38% of all new car loans.

The recently launched Banco Popular's digital payroll loan alternative is already nearing 10% of its new payroll loans production.

The banks joined forces to design a unique digital platform that combines their points rewards system and unifies the conversion programs into products, travel and cash. Although the program hasn't been officially launched it is now functional and has obtained around 20,000 new subscribers in a week.

BAC Credomatic continues to deliver on their view on digital. The bank has separated itself from the rest by understanding clients' needs and delivering digital products first and faster. They have developed a great ecosystem of clients who transact on BAC's traveling platform called Viajes Credomatic, and who use a digital token named Compass to move faster in the vast majority of Costa Rican toll roads, to effect contactless payments upon exiting parking lots and who get access quicker to entertainment events and others.

Our commitment to digital continues undeterred. The key to success lies in aligning goals and objectives of Digital, IT, Operations, Strategy and Commercial. So far that is just what we have been able to achieve.

Let's move on to some of the highlights behind our results. Our strong results were the product of multiple factors summarized as follows:

During 2018, Grupo Aval's banks engaged in a strategy of profitable growth mostly in the Colombian corporate book. This was only achieved by means of extraordinary pricing discipline and the strictest creditworthiness analysis. In fact, despite a 177 basis points decline in the average Central Bank rate, when comparing 2018 versus 2017, our 2018 NIM on loans declined only 22 bps and finished strong at 6.71%. As I have said before, profitable growth and not just growth, this might have led to knowingly losing some market share in some big corporate names, but it also meant a strong focus on getting back to a desired level of ROE. This strategy was combined with a continuation of our focus on retail banking, which led to increases in market share in products such as payroll loans, credit cards and mortgages. Total gross loans grew by 6.4% in the year driven by 10.1% growth in the consumer portfolio and 15.1% growth in the mortgage portfolio.

Both our Colombian and Central American operations continued their digital transformation and together with it, a cost optimization strategy that concluded with the closing of a part of our traditional footprint, the re-design of some other branches, and significant reductions in our FTEs. In fact, total personnel and G&A expenses for the year grew at 4.1% which compares to assets growing close to 10%.

During 2018 we fully deployed a strategy to start construction of Corficolombiana's 4G infrastructure projects. In fact, by yearend we had started three of the four projects and expect to start the fourth one in 2019. Each road will take approximately 5 to 6 years to build. Additionally, we saw very strong results from Promigas, our gas transportation and distribution subsidiary. As a result, Corficolombiana's net income represented 21% of our attributable net income, or approximately 28 pesos per share.

We took advantage of the existing fiscal rules and thus Banco de Bogota and Banco Popular effected sales of some of their non-productive assets which resulted in a contribution of Ps 254 billion to Aval's attributable net income.

Given the 2018 Tax reform's impact on our net deferred tax liability position, and other fiscal optimization strategies, we were able to recover some tax expenses previously booked. In fact, collectively our subsidiaries booked deferred tax recoveries which positively impacted attributable net income in Ps 62 billion.

Thanks to increases in market shares, improvements in efficiency and some tax optimization strategies, BAC performed very well during 2018 contributing with approximately 38 pesos per share of our attributable net income.

Finally, and probably one of the most important facts concerning our results, when aggregating all non-recurrent revenues and non-recurrent expenses, the net non-recurrent income during 2018 amounted to Ps 16 billion or 0.7 pesos per share.

Allow me to give you some guidance. Before giving you an update on certain matters about CRDS and its legal processes, let me give you an update on our guidance, based on what we are seeing in the markets where we operate. During 2019, we are expecting the following from our business:

First, loan Growth between 8% and 10%.

A NIM of 5.7%, a slight increase versus 2018, given the rate stability.

Cost of Risk should decline to about 2.2%. We expect a more pronounced improvement in cost of risk in the Colombian loan portfolio, but this will be partially offset by higher provisions as a result of IFRS 9 estimations in Nicaragua and Costa Rica given their macro performance.

PDLs and NPLs should improve to end of period 2017 levels. Bear in mind that Electricaribe, which is now fully provisioned, is still on our books affecting these ratios by about 40 basis points.

Cash expenses, personnel and G&A, will increase by approximately 5%. D&A is expected to increase more than that due to the amortization of IT investments. When compared to 2018, we expect a slightly better Cost to Average Assets ratio in 2019 of about 3.4%.

The implicit tax rate will reflect the 4% tax surcharge applied exclusively to financial institutions as a result of the 2018 tax reform; needless to say, this will also affect our estimated net income for 2019.

However, as a result, return on average equity for 2019 should be close to 15.8% based on a one-digit growth rate in net income and a sizable increase in our average equity.

Moving on to legal, allow me to provide an update on matters related to CRDS.

First, just as a reminder, as of December 31, 2018 Episol has written off 100% of its equity investment in CRDS. The last impairment of approximately USD 30 million, equivalent to about 30% of the investment value, was booked last year.

Second, after a second partial payment was made by the Government on January 10th this year, our credit exposure to CRDS decreased to $225 million dollars approximately. Our current coverage of this outstanding debt is 45%.

Third, about legal matters and after consulting with internal and external counsel, I would like to share with you the following information:

First, regarding the Investigation of the Superintendence of Industry and Commerce (SIC). As I mentioned last year in our third quarter conference call, on September 14, 2018 the Colombian anti-trust authority, the SIC, announced its decision to present charges for violations of the Colombian legal regime of free economic competition, associated to Ruta del Sol Sector 2, against Odebrecht and several members of its management, CRDS, Grupo Aval and two members of its management including myself, Corficolombiana and two members of its management, Episol, an employee of the World Bank through the IFC and José Elías Melo, former president of Corficolombiana. Corficolombiana and Episol were charged with two counts, and Grupo Aval, Diego Solano and myself were charged with one violation. All of us contested the SIC's accusations last October, laying out the initial legal basis of defense, as well as submitting and requesting documental and testimonial evidence. We are not aware of any subsequent development. Additionally, we cannot predict how long this proceeding will last. Even though we believe that the legal basis and evidence supporting our defense are sound, if we are not successful, our companies may face the payment of fines for up to the equivalent of approximately U.S $24.5 million dollars per charge and each of our employees may be responsible for fines of up to the equivalent of approximately $490,000 dollars. Therefore, if the maximum statutory fines were to be imposed, it would impact Aval's attributable net income by approximately Ps 220 billion or 1.2% of the company's attributable equity as of December 31st, 2018.

Second, regarding the class action in the Tribunal Administrativo de Cundinamarca or TAC. As you may recall, this action was filed by the Procuraduría early in 2017. As I mentioned in our second quarter conference call, Episol had presented closing arguments and was awaiting to hear the TAC's ruling. On December 16, 2018, the TAC produced a first instance ruling in which it found CRDS, its shareholders including Episol, and other individuals and entities not related to Aval or its affiliates, jointly and severally liable for damages caused to collective interests. The TAC further estimated these damages originally in approximately Ps 805 billion and then corrected its estimate down to Ps 716 billion. In addition, the TAC's ruling would result in the debarment of the defendants from Colombian government contracts for a term of ten years, as well as a prohibition on holding public office. Episol, as well as other defendants, filed an appeal against the decision. The appeal was granted by the TAC which further suspended the effects of its ruling until the appeal is heard by the Consejo de Estado, Colombia's Supreme Court on administrative matters, and until this Court reaches a final decision. Historically, the Consejo de Estado has taken between two and seven years to rule on appeals. We believe that we have a strong basis to get the TAC's ruling overturned by the Consejo de Estado. However, if the ruling is confirmed these damages will have to be paid by all defendants to the Ministry of Transportation. Because Grupo Aval holds, via Corficolombiana, an indirect 38% economic interest in Episol, in the event that Episol would have to pay the entire fine, without contribution by the other defendants, the impact to Grupo Aval's attributable net income might be as high as approximately Ps 273 billion or 1.5% of the attributable equity of Grupo Aval S.A. as of December 31st, 2018.

Third, the Arbitration Tribunal. After several months of inactivity just recently this Tribunal resumed its duties with a new presiding judge. Its first decision was to appoint a Duff & Phelps subsidiary, Forest Partners, Estrada y Asociados, S.L., to render an expert opinion on technical and financial issues regarding CRDS, which should serve as the basis to establish the liquidation value of the Ruta del Sol 2 contract. The liquidation value of the contract will determine the payment of CRDS's obligations with the financial system, which currently stands at approximately Ps 1.2 trillion in principal. It is expected that this Tribunal will rule on or before August 20th, 2019.

Fourth, as we discussed in previous calls, Mr. Jose Elías Melo's trial commenced on January 21st, 2019. As of now, all the evidence has been presented to the judge. Attorneys for the defense and the prosecution are expected to provide their closing arguments starting March 20th and the judge is expected to rule in early April.

Finally, we have been informed by the US Department of Justice (DOJ) and the Securities and Exchange Commission (SEC) of investigations related to the Ruta del Sol 2 project. Grupo Aval is cooperating with the investigations. However, at this stage it is not possible to predict the outcome of these investigations, or the eventual impact on Grupo Aval.

In summary, 2018 was a year of contrasts. On the one hand, we are very satisfied with our results and more so because our expectation is that with recovering economies in the countries where we operate, albeit with some exceptions, we trust the recurrent nature of our performance. On the other hand, we have had to invest many work hours to defend and protect Grupo Aval's interests in the different legal scenarios, which are the only scenarios where the Ruta del Sol fate will be decided.

We certainly hope to continue delivering good news on all fronts. I now leave you with Diego Solano, and thank you for your attention.

Diego Solano Saravia, Chief Financial Officer

Thank you Luis Carlos, I will now move to the consolidated results of Grupo Aval under IFRS.

As mentioned by Luis Carlos, 2018 was our best year in net income so far. Five elements drove our performance:

One, a strong contribution of our non-financial activities reflecting construction advancement on three of our new toll-road concessions in Corficolombiana;

Second, positive results from our continuing cost control efforts;

Third, an improvement in the quality of our consumer portfolio particularly in Colombia;

Fourth, sale of PP&E that were reflected in other income; and finally

Fifth, a positive impact of the tax reform on our deferred taxes.

We achieved these positive results amidst a low loan growth scenario. However, we expect the economic trends in Colombia to continue improving and commercial loan activity to pick-up.

Moving to page 9, assets grew 9.8% over the year and 7.5% during the quarter. Colombian assets grew by 8.9% over the year and 5.4% during the quarter, respectively, driven by cash, net loans, and intangibles & financial assets from our concessions.

Central America, which weighs close to 30% of our book, saw a 2.7% and 3.3% growth in dollar terms driven by the increase in cash and net loans, in spite of the annual and quarterly contraction of 19.6% and 7.8% in Nicaraguan assets. An annual 9% depreciation of the Colombian peso, concentrated in the quarter, brought annual growth up to 11.9% when expressed in Colombian pesos.

Moving to page 10, loans excluding repos grew at 6.4% over the year and 4.6% during the quarter. As discussed throughout the year, Commercial loans drove the soft growth dynamics in Colombia. We will continue to focus on profitable growth during 2019, as we did during 2018. This strategy seeks to capitalize on the expected pick-up in growth momentum as the Colombian economy continues improving its fundamentals. These slow dynamics were partially compensated by a stronger performance of the consumer portfolio supported on a positive trend of its quality.

Colombian consumer and mortgage businesses continue to be dynamic, expanding 9.2% and 18.8%, respectively, over the 12 months. Quarterly growth was consistent with this performance. Colombian corporate loan portfolio grew by 0.5% during the quarter and contracted 0.9% over the year.

Central America grew 4.6% in dollar terms over the year and 2.3% during the quarter. Nicaragua, which weights around 6% of our Central American assets, drove the 12-month performance contracting 17.2% while the rest of the region expanded at 6.6%.

We expect 2019 consolidated loan growth, in absence of FX movements, to be in the 8 to 10% area in 2019.

On Pages 11 and 12, we present several Loan Portfolio Quality ratios.

Delinquency metrics continued to improve during the quarter, both in Colombia and in Central America. During the fourth quarter, we continued reducing the burden of the three corporate cases; Electricaribe is now fully provisioned and pending write-off. Year-end coverage for CRDS went up to 31%, this number was increased as of today, given the approximately USD 100 million payment received during January that reduced the outstanding balance to USD 225 million with a 45% coverage. Our coverage for the SITP companies reached 36% on average, and up to 90% for those companies with the worst outlooks.

Consumer portfolios improved both in Colombia and Central America. In Colombia, the improving trend in delinquency of consumer loans persisted, with 30-day PDLs falling 37 bps during the quarter to 5.1%, accumulating a reduction of 85 bps since its peak in 1Q2018. Similarly, 90-day PDLs fell 26 bps during the quarter to 3.1%, accumulating 42 bps drop since peaking in 2Q2018. In Central America, delinquency of consumer loans continued trending down over the quarter, with 30-day PDLs improving 24 bps to 4.3% and 9 bps on a 90-day PDL basis to 1.8%. Further improvements in this front are subject to a stabilization of the political environment in Nicaragua and a strengthening of the macro environment in Costa Rica.

There was no further deterioration of our commercial loans portfolios in both geographies. In Colombia, we recorded a 14 bps improvement in 30-day PDLs and stability in 90-day PDLs during the quarter. In Central America, the deterioration evidenced in some corporate clients in the region last quarter has stabilized; commercial 30-day and 90-day PDLs improved slightly.

We expect that a combination of improvement in new PDL formation trends and a pick-up in growth dynamics, will lead commercial PDL ratios to trend down.

Our quarterly cost of risk increased 78 bps mainly due to a 113 bps uptick in Colombia, partially offset by a 6 bps improvement in Central America. Cost of risk for the three corporate cases that we have discussed for the past calls, Electricaribe, SITP and Ruta del Sol, explain this increase.

The increase in cost of risk, combined with an improvement in quality of our portfolio resulted in a stronger PDL coverage of 1.6x 90-day PDLs.

Full year cost of risk fell 13 bps from 2.5% to 2.4%. In Colombia, the improvement reached 28 bps from 2.7% to 2.4%. In Central America, cost of risk increased 27 bps from 2.1% to 2.4%, mainly explained by consumer loans. The three cases we have been following had a similar burden during 2018 as in the previous year increasing our cost of risk in 37 bps in our consolidated operation and 53 bps in Colombia.

We continue to see an improvement in new PDL formation, especially in our Colombian operation. Relative to the previous quarter, our new PDL formation in Colombia improved 25% to Ps 492 billion on a 30 days basis and 9% to Ps 605 billion on a 90 days basis. Our overall new PDL formation improved 13% on a 30 days basis and 3% on 90 days basis.

We expect 2019 cost of risk, net of recoveries, to be in the 2.2% area, and 90-days PDL levels to fall to or below 2017 end of year levels.

On Page 13 we present funding and deposits evolution, funding dynamics were consistent with loan growth.

Our funding structure remained materially stable with deposits representing 76% of total funding and our Deposit to Net Loans ratio reaching 97%. Our liquidity position was slightly higher than normal with Cash to Deposits ratio at 17%.

Deposits grew 7.3% in the quarter reflecting year-end seasonality, accumulating 6.1% over 12 months. Colombia grew at 5.3% in Colombian peso terms and Central America at 2.5% in USD terms, respectively during the quarter. Over the 12-month period, Central America grew at 4.8% in USD terms while Colombia grew at 2.9% in peso terms.

We expect deposits to continue growing at a similar pace to our loan portfolio during 2019.

On Page 14 we present the evolution of our total capitalization, our attributable shareholders equity and the capital adequacy ratios of our banks.

During the year, our total equity grew 14.2% while our attributable equity grew 9.2%, mainly driven by our earnings. Total equity and attributable equity grew 5.9% and 5.3%, respectively over the quarter.

As of 4Q2018 our banks show appropriate Tier 1 and Total Solvency Ratios, that enable adequate growth up to the end of the transition period Basel III.

We will be transitioning to Basel III throughout 2019, officially reporting our solvency under this standard in our report for our 1Q2020. The Superintendence of Finance will release final details on regulation during the following months. As mentioned in the past, we expect a substantial improvement of Banco Popular, AVVillas and Occidente´s solvency ratios due to a material reduction in risk weighting of their assets under Basel III, and an excess over that required by Banco de Bogotá.

On page 15 and 16 we present our yield on loans, cost of funds, spreads and Net Interest Margin.

The Central Bank Intervention rate movement drove the evolution of yield on loans and cost of funds dynamics. The year-end Central Bank Rate fell 50 bps from 4.75% to 4.25% as of December 31st 2018, while the annual average rate fell 177 bps from 6.1% to 4.4% in 2018.

Our NIM dropped 25 bps in 2018 compared to 2017 mainly driven by a contraction in the NIM of our corporate floating rate loan portfolio.

Moving forward, we expect the expansion of the NIM on corporate loan portfolio as the Central Bank starts to raise its rates throughout the year. With regard to the consumer portfolio, we could see increased 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.

We expect our full year 2019 NIM to remain stable in the 5.7% area for 2019.

On page 17 we present net fees and other income.

A substantially better performance of the infrastructure sector boosted income from the Non-Financial Sector during this quarter and during 2018. This positive performance reflects a significant increase of our new toll road concessions' construction activity and its accrual recognition under IFRS 15.

The Covioriente concession formally initiated its construction phase during the quarter.

We expect our infrastructure business to continue contributing to our overall performance during this and the following years as the Coviandina, Covipacifico, and Covioriente concessions advance their construction activity. We expect the Covimar concession to begin its construction phase towards the end of this year.

Our gas & energy sector maintained its strong contribution to the Non-Financial Sector. Agribusiness improved its performance relative to last year primarily due to the negative impact of the liquidation of a company during 2017. The Other sector reflect mainly the increase in personnel expenses in Ventas y Servicios to carry out third party and intra-group outsourcing and BPO services.

Also on this page: Gross Fee Income dynamics were consistent with seasonal effects over 4Q2018 and balance sheet performance over the year. Gross fees in Colombia increased by 3.7% in pesos and in Central America 6.3% in USD terms, in 2018 as compared to 2017.

Other operating income for the quarter includes profits worth Ps 373 billion, of those Ps 254 attributable after taxes, from the sale of property, plant and equipment at Banco de Bogotá and Banco Popular. The remaining items of other income showed no major variation over the year or the quarter.

On Page 18 we present some efficiency ratios.

Cost control initiatives have delivered positive results, personnel and administrative expenses increased 4.1% during the year. Personnel expenses increased 5.6% driven by a 3.3% increase in salaries and employee benefits, and the payments associated with optimization projects that reduced close to 2.6% of our headcount.

Total administrative expenses increased 2.9% in 2018 as compared to a year earlier, below what inflation increased. The progress of our digital efforts and cost control initiatives throughout our subsidiaries have been the key drivers of this improvement. Initiatives behind these results include reformatting and closure of branches, business process optimizations, migration of transactions to digital channels and ATM network optimization.

As a result, our efficiency measured as Operating Expenses to Average Assets remained stable at 3.5% for 2018, in spite of the low asset growth experienced during the year. Colombia and Central America reported stable ratios of 3.2% and 4.4%, respectively for both 2017 and 2018.

Our efficiency ratio measured as operating expenses to total income showed an improvement of 338 bps to 43.1% compared to the previous year. Our cost control initiatives and the increase in income from our non-financial sector described earlier positively affected our efficiency ratio measured based om income. Colombia reported an improving ratio from 43.9% to 39.6%. Central America reported an improvement as well from 52.0% to 51.0%, for full year.

We expect an improvement in our cost to asset ratio to bring it down to 3.4% in 2019.

Finally, on Page 19 we present our net income and profitability ratios.

Attributable Net income for 2018 was Ps 2,913 billion, or 131 pesos per share; a 43 pesos increase vs 2017's accumulated results. Attributable net income for the quarter was Ps 850.7 billion or 38 pesos per share.

The non-recurrent events that affected our net income during the year were:

Banco de Bogotá and Banco Popular effected sales of non-productive assets, which contributed Ps 254 billion of attributable net income.

All the entities booked deferred tax recoveries as a result of the 2018 fiscal reform which positively impacted attributable net income in Ps 62 billion.

Banco de Occidente and Banco Popular booked extraordinary compensation expenses totaling approximately Ps 30 billion at the attributable net income level.

And finally, specific provision expenses booked in relation to Electricaribe, CRDS and SITP added Ps 600 billion to our cost of risk with a post-tax attributable net income impact of Ps 270 billion.

Our ROAA and ROAE for the year were 2.2% and 17.8%, respectively.

Before we move into Questions & Answers. I will now summarize the general guidance for 2019:

We expect loan growth to be in the 8-10% area in 2019.

We expect full year NIM to be in the 5.7% area.

We expect our cost of risk, net of recoveries, to be in the 2.2% area and 90day PDLs to fall to or below year-end 2017 levels.

Regarding efficiency ratios, we expect cost to assets to improve to 3.4%.

We expect our tax rate to rise by around 200 bps, as last year included benefits of adjustments to deferred taxes triggered by the tax reform.

Finally, we expect our ROAE to be in the 15.75% area in 2019, incorporating the effect of the 4% temporary tax surcharge to financial businesses.

We are now available to address your questions.

Q&A

Operator: Thank you. We will now begin the Q's & A's session. If you have a question, please press * then 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 then 1 on your touchtone phone.

We have a question from Gabriel Nóbrega from Citi:

Gabriel Nóbrega: Hi everyone and thank you for the opportunity to ask a questions. During this quarter we actually found that you achieved 100% coverage for Electricaribe and 45% for CRDS, I couldn´t actually hear what is your reach for the mass transportation system, if you could please mention them again. And also at this point since you already have achieved 100% coverage of Electricaribe, are you actually planning to remove this completely from your books? and if not, why not and let me make a second question afterwards…thank you.

Diego Solano: OK, Regarding SITP, I gave you both an average and the highest coverage, the average was 36% and it is very relevant to bear in mind that there's very different kinds of companies within the SITP. The SITP is an industry, there are some companies that have tougher situations, one of them we provisioned up to 90%, that's a company that is widespread through the financial system, we have a small percentage of that. There's another company that we have close to 50% and finally a company that has a much better profile, that is very likely to recover, we have a 13%. When you take all those and combine those you end up with a 36% coverage. Regarding Electricaribe, that's something we're looking into and it is likely that throughout this year we're going to write that loan off.

Operator: The next question comes from Jason Mollin from Scotia Bank,

Jason Mollin: Ah, good morning. Thank you for Luis Carlos and Diego for your extensive presentation. Can you talk about first the loan growth expectation of 8 to 10% you're looking for…that you discussed through your 2019 guidance, specifically how do you see that coming from Colombia versus Central America and also looking at the segments like consumer mortgage and commercial. And my second question is related to…about income from the infrastructure business which you mentioned and showed grew significantly during the 4Q, you're just starting some of the 4G projects, can you talk about the expectation for 2019, given new projects coming on-board, and if this is a level that we should see…ahh…going forward as we saw on the 4Q. thank you.

Diego Solano: OK, on the first one regarding loan growth, we expect both regions to grow at a similar pace. Within Colombia we continue to see the retail side to be much more dynamic, the corporate side is something that we've been waiting for recovery throughout the year, but expect to see soon to materialize. We've started to see some of the early part of the pipeline building up, and we'd be very happy to turn these into numbers that we can show later. Regarding the impact of infrastructure its worth to understand the numbers, first of all this is a kind of projects that takes 5 to 6 years to be built, construction starts to accelerate as we make progress, last year was the first year for a couple of those, and a very early beginning of another one, so we expect to see these numbers to continue being at least what we saw last year and as construction accelerates the numbers could start to build up. We expect to see that sustained over a few years as the construction will last. Something that needs to be added to that, to prevent confusion when you run the numbers, is that you have to bear in mind that these numbers need to be…you need to subtract the tax from these number and then bring them up to the Aval level where we have around a 38% interest in Corficolombiana. So, we would be getting at the Aval level around 25% of what is happening down in the non-financial sector for these companies.

Operator: The next question comes from Nicolás Riva from Bank of America,

Nicolás Riva: Yeah, thanks very much Luis Carlos and Diego for taking my questions. My first question on Ruta del Sol, and you provided a lot of color, but just to clarify: the equity exposure to CRDS was fully impaired as of the 4Q, that's what I understand, and I think that number was about US$ 3% million dollars through Corficolombiana. Second what is the current debt exposure that you have to CRDS, I understand the banks received a second payment which I believe should be made quite soon to Aval, and third the legal exposure: you said that there's an investigation on antitrust in Colombia and that the potential fine is up to US$25 million dollars for Aval, on the SEC I understand there's no update, what is the third legal investigation that you mentioned as well? So that was my first question on CRDS, and second BASEL III: you said you're going to be transitioning to BASEL III this year and report proforma numbers for BASEL III, I guess for the banking subsidiaries in 1Q 2020. You said for Popular, Occidente and AV Villas the capital ratio should be higher because of the lower density of equity assets, in the case of Banco de Bogotá you'd expect the deduction of goodwill to offset that and capital ratios to be unchanged?? Thanks.

Luis Carlos Sarmiento: Ok, thanks for the questions. I'll start with the easy one and that's the BASEL III question. Yes, as you said, what is evident to us now is that the regulatory capital on Banco de Occidente, Popular and Villas will significantly rise with BASEL III as their risk-related assets will significantly drop. So, you have that…and Banco de Bogotá, yeah exactly as you said, goodwill will be deducted, risk-weighted assets will decrease and so for now what we see is that it will probably remain pretty much the same, but obviously we'll know much more as one last decree is published and we expect that to happen within the next following weeks, and then we'll probably come out to the market with a proforma for BASEL III numbers for all of our banks at the end of March, so in our March call. And let me see if I can get a couple of your questions and then maybe Diego can help me because I forgot all your questions, but with CRDS you asked about our exposure and we have about a 45% coverage on a Ps 700,000 million pesos exposure, I feel that adequate for now, we have to wait and see what comes out of the arbitration tribunal because as a result of the ruling of the arbitration tribunal, which is as I said it might happen…has to happen before August 20th, to be more explicit…then we'll know exactly what the liquidation value of the contract is and the liquidation value of the contract will take us to know exactly how much we'll be paid…to the banks. Obviously our expectation is that 100% will be paid but I cannot really predict that, that's why one of the reasons that the arbitration tribunal just recently hired yet another expert to come out with a number. We'll obviously keep you informed as we know more.

I think you also asked about our equity investment and Corficolombiana had the Episol's CRDS investment in about a US$ 100 million dollars and impaired it in three years, 2016, 2017 and 2018 at about a third each year, so yeah last impairment was effected last year for about US$ 35 million dollars, so it's been written-off. And I think you also asked something about some of the litigations and I think your question was what other things are going on…and let me see. There's a bunch of things going on, there's the SIC and as we mentioned that's been appealed and with the Colombian Supreme Court for Administrative matters, the ruling of the TAC…sorry…the ruling of the SIC…no I'm sorry, I've confused a couple of things. The SIC has been appealed to the SIC, and we have to see what they come back with, until they comeback the procedure the way it works they'll come back with an answer to our appeal to the SIC, obviously you're appealing to the same person who produced the ruling, so you know the expectation is that it will linger on for a while and it will probably end up in the same Supreme Court for Administrative matters. So, we're waiting there, that's going to take a while and we cannot predict exactly how long.

We have obviously the TAC, which is the class action that was filed against the companies and that has been suspended, that ruling has been suspended until the same Supreme Court for Administrative matters decides and that should take a while too. As I said, again it impossible to predict, those guys take you know sometimes 7 to 10 years to issue a ruling, until that happens all the effect of the TAC ruling was suspended.

We have the arbitration tribunal that I referred to and that's important just to know how much the banks are going to be paid, nothing much more will come out of that probably. And Mr. Melo's trial we are really not involved, except that obviously we're very interested to see what happens, what ruling comes out of that court of that trial. That should happen very quickly in the first week of April, we certainly hopeful that everything will come out alright.

And obviously there's the U.S. investigations of the DOJ and the SEC, and you know not much we can comment on that, except that there are some investigations.

Operator: The next question comes from Andrés Soto from Santander.

Andrés Soto: Good morning, thank you for the presentation. I would like to zoom-in in your guidance for cost of risk. Based on your 2018 numbers, total cost of risk was 2.4% but 0.4% was related to extraordinary cases. GIven the additional effort that you did in the 4Q, it seems to me that extraordinary cases should not be a significant source of pressure in 2019, but you're still guiding for a deterioration in the cost of risk from the 2.0% to 2.2%, can you please elaborate a little bit on what is driving this assumption?

Diego Solano: Yes, you were right with your question, we had a combination of two different things. We had these three cases which should fall in their impact on our numbers, but then we have Central America which has deteriorated slightly. Deteriorated means the way the model works starts to accelerate some of the provisions in some of these countries. So, when you see the numbers for the quarter, you see improvement in our consumer loan, you don't see deterioration in our corporate loans, however when you translate PDLs into cost of risk the way IFRS 9 works is that it brings some volatility to numbers. So, our guidance is actually building up some of that we have seen these acceleration provisions particularly in Central America, with something smoother on the three large cases front.

Operator: The next question comes from Yuri Fernandes from J.P. Morgan.

Yuri Fernandes: Thank you gentlemen for the very clear explanations. I have two questions: the first one is on competition, how do you feel about losing market share, like Davivienda became the second bank by loans, and became bigger than Banco de Bogotá, and my message here I think you have been saying that you're looking to be more profitable, reducing the margins, but do you want it to fire back like we can see a tougher competition environment for Colombian banks on this market share trends? That's the first one, and the second one is in regards all those legal investigations, if you can provide kind of combined maximum impact, because when you discuss the low exposure you have like US$ 200 million dollars, and has offset these kind of provisions, son it's net US$ 100 million dollars exposure for you, you have the class action that you should make like the adjustment of the 38.2% stake that you have in Corficolombiana, it's an additional US$ 100 million dollars, there are several investigations and several moving parts because there are several investigations on different companies, but it is not US$ 100 million dollars exposure combined all the things and I don't know, my view here is that it seems a bit exaggerated the market capitalization you lost in all this crisis, so, I just want to hear your views on what you see as the combined impact of all those moving parts…and you should agree with …maybe the pricing seems to be way above what can be dealt with all those fines, thank you.

Luis Carlos Sarmiento: alright, let me see if I got it right. Starting with your last question, I totally agree with you, I think the market has totally exaggerated the potential impact, I think you summarized it pretty well, and it's the same thing we do here on our daily basis, yeah… all that I can say is we'll just keep on pushing. We have trust in our expectations and our guidance, and even though there are some…as you said lingering fronts there with the fines that we talked about, and bear in mind that one of those fines really about 25 different parties are supposed to pay for them, but we are assuming that the worst can happen and it is that we'll be the only responsible party to pay the fine…and even so, as you said, once again you summarized the numbers, and yeah…I think the market is exaggerating but, you know it's the market. We're obviously just by-standards and we'll keep doing so, but again I think that our results speak for themselves.

And regarding market share and competition. It always hurts to lose market share, I'm not going to lie to anybody about it…it hurts me especially, I'm a big pusher for market share. But what I have noticed in the last few years was that competition regarding the big corporate names, and obviously we're talking about the big corporate names, you're talking about big corporate loans, so every time you lose one of those numbers to competition it makes a dent, you know we're working as hard as we can on the next levels of the market, what we call enterprise loans rather than corporate loans, and we're doing very well on those, we've been growing those and we've been pricing them very, very accordingly to the risk we see in those names, and that's why we were able to keep our loans NIM, with the reduction of only 22 basis points through the central bank's rates decreased about 180 basis points, and that's because we were able to price accordingly.

We're also gaining market share, as we're in those enterprise loans, we also gaining market share in the consumer loans and we feel good about those as well, and we feel very good about loan production, and consumer lending because of our digital platforms. But yeah the big corporate loans we have lost to our competitor because of rate, basically because of rate, we price higher and we believe as the liquidity yield of the market starts to be sucked up, we hope that everybody will come to their senses and when that happens I think…we'll be…we'll be in a good position. Until that happens, obviously we'll keep risk adjusting our prices and at some point I think the market will sort of come to its head and the market rates will be the same for everybody, until then we'll keep shrugging on our strategy and once again, it will hurt but it won't be forever, you know liquidity gets sucked up in the market and when that happens everybody is in the same position, and we'll probably be at that point with a little bit more liquidity than anybody else and we'll be able to place it at the rates that we see…the right rates.

Operator: The next question comes from Sebastián Gallego, from Credicorp Capital.

Sebastián Gallego: Hi, good morning, thanks for the presentation. I had three questions, the first one on asset quality particularly on mortgage, we said this is the only segment where we didn't see improvements quarter over quarter, can you provide a little bit more color on what's the outlook on the mortgage segment regarding asset quality. Second question is, can you provide a bit more color on the structure of the optimizations from Banco de Bogotá and Banco Popular, that led to extraordinary income during the quarter and finally, I know you mentioned your strategy on the retail portfolio, and you were describing the size in the commercial portfolio, but can you provide a bit on guidance on what's the actual loan growth that you expect for the commercial portfolio. Thank you.

Diego Solano: Well, on the mortgages what we are seeing is that the vintages are performing pretty well, something to bear in mind is that we've been growing faster than the rest of the market, and in addition our delinquency ratios were much lower than the rest of the market are, so it's part of the natural aging of the portfolio that we've been building up what you are seeing there and we continue to have better numbers than the rest of the market. Regarding the property plant and equipment optimization, what we did was basically to get up to where a lot of our competitors had already gone years before, we had a lot of extra property plant and equipment and as you've seen in this process of digitalization, we've been able to start freeing up some of these assets and we will continue to see that happening. So, it was a good chance to take that and realized that valuation that it had gone up in our books, supported by the productivity that was brought by digitalization. And your last question on growth, we expect to see the corporate loan portfolio to start to move to the 8% area and that's what we're seeing at this point.

Operator: The next and last question comes from Rodrigo Torres from Valora Analytics…

Rodrigo Torres: (Question asked in Spanish) Good morning, thank you for the presentation, I'd like to ask in Spanish to have total clarity on a pair of statements made, and an issue regarding 'Electricaribe'. On Electricaribe I'd like you to remind me the amount of that loan although is provisioned 100%, and a few weeks ago it was made public that the new 'Electricaribe' operator, which the government will soon make a call for bids, is not going to pay the debt with the banks, simply that the banks are going to be some type of debtors, they are going to have to get in line with the other debtors, that have loans with Electricaribe, I'd like you to elaborate on that and if you may wish, I have two questions for later-on.

Diego Solano: I'm going to translate your questions for everybody's interest. The first question what was the gross value of Electricaribe, this was over Ps 700 billion initially and we've fully provisioned that. Your second question was…

Luis Carlos Sarmiento: Regarding the scheme that the government is setting to get a new operator for Electricaribe, and how that new operator will probably not have to pay financial sector's debt. First of all, I cannot stress how disappointed we are, in the way the government has handled this whole Electricaribe case, and unfortunately I have to agree with you, what we heard obviously I cannot comment on that, because is a government's decision but what we heard is that in fact, as you said, the new operator will not have to deal with the debt of the company that it will inherit. You know to say the least, to set out such a terrible precedent…and especially the way that Electricaribe was stripped from Gas Natural, but you know all that I can say is that's one of the reasons that it took us all to…and I think probably the whole financial system but definitively us, made the decision to provision it 100%, and as Diego said earlier we'll probably go-ahead and write-off the loan from our books this year, and we'll definitively try not to have a short-memory on what might happen with other utilities companies when this sort of situation arises.

Operator: Thank you, I will now turn the call over to Mr. Sarmiento for closing remarks.

Luis Carlos Sarmiento Gutiérrez

Chief Executive Officer

Well, once again I'd like to thank you all for joining us today, and we as I said are excited with our financial results. We're excited with everything that happened in 2018, we're excited with what we see happening in 2019, and obviously we'll keep fighting on as we have to get through all the other issues. We hope to keep delivering good news, and we'll see you again in our next call. Thank you very much for your attention.

Operator: Thank you ladies and gentlemen, this concludes today's conference, thank you for participating, you may now disconnect.