1Q2018 CONSOLIDATED EARNINGS RESULTS CALL TRANSCRIPT

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FIRST QUARTER 2018 CONSOLIDATED EARNINGS RESULTS CALL TRANSCRIPT

Operator

Welcome to Grupo Aval First 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 *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 U.S. Registered with Colombia's National Registry of Shares and Issuers (*Registro Nacional de Valores y Emisores*) and the U.S. 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 the inspection and surveillance of 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 the "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 for non-GAAP measures such as ROAA and ROAE among others are explained when required in this report.

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

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

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

Luis Carlos Sarmiento Gutiérrez

Chief Executive Officer

Thank you very much Hilda. Good morning all and thank you very much for joining our 2018 1Q results call. I'd start by referring to Colombia's macroeconomic results during this 1Q of 2018.

In summary, the quarter results mirrored to a large extent our expectations. In fact, GDP growth for the quarter was 2.2% in line with market and our own expectations and almost in line with the Central Bank's forecast of 2.3% but below the Minister of Finance's forecast of 2.5%.

1Q growth compared very favorably to the growth reported during the 1Q of 2017 which was 1.3%. It must be noted however, that DANE the official entity in charge of macroeconomic statistics changed the GDP database and specifically changed the base here from 2005 to 2015, used as the anchor year out of which growth are measured. Consequently, revised growth were published for previous quarters, i.e. 1Q 2017 growth previously reported as 1.1% was revised to 1.3%, it is also worth noting that 2017 1Q is a relatively low base of comparison because of specific incidents that took place during that quarter such as the slow-down due to increase in the VAT [Value Added Tax].

The sectors that led growth during this quarter were: financial activities, social services and commerce. Sectors that showed contractions were construction, mining and industry. Civil works specifically, showed up contractions of 6.4%, we believe that this is a result, at least in part, of Ruta del Sol liquidation value not having been resolved yet in arbitration or otherwise.

We are cautiously optimistic with regards to 2018 consensus growth estimate of 2.5%. In order to achieve this estimated growth during the next three quarters and particularly during the second half of this year, the economy is going to have to perform much better than this first quarter. We expect that a market-friendly result in the upcoming presidential elections will be essential for this to happen. On the other hand, and although the reported GDP for this quarter is better than the one reported last year, the economy has not yet shown full signs of recovery. In summary, we are still placing our bets of growth in the range of 2.3% to 2.5% for this year.

Another positive index has been inflation which as of April 2018 on a last twelve-month basis came-in at 3.1% with food inflation below 1% and other products' inflation at 4%. This is evidence that the Central Bank's tightened policy of 2016 and 2017 was successful when it raised rates up to 7.75%. In contrast, the Central Bank's REPO rate is currently at 4.25% in line with its current expansionary monetary policy. Given the current and expected 2018 levels of inflation of 3.25% to 3.5%, and growth of 2.3 to 2.5%, we expect that this rate will be kept constant and only change if these indices change materially.

Last known data point of current account deficit is 3.3% for end up period 2017 and last known point of fiscal deficit was 3.6% at the end of 2017, both deficits should continue to improve during this year, we expect the first one to be below the 3% area and the fiscal deficit to meet this year's target of 3.1%. As it's now well-known the fiscal experts' committee revised the existent fiscal rule target, identifying new, realistic and achievable targets for the years 2019-2026. We have been vocal about the necessity to do this, as the economy's performance led by the global oil environment has changed dramatically since 2014. For example, the new fiscal deficit target for 2019 up to 0.4% should be achievable without presenting to Congress yet another fiscal reform as soon as Colombia's new president takes over.

The country's trade balance deficit has also shrunk materially and in fact almost disappeared in part as a result of the current levels of price of oil (in the US$65 to US$70 range) and also because the steady increase in non-traditional and other exports in the last few years. Specifically, oil exports revenues should amount to about US$13 billion dollars this year, a significant increase when compared to the US$8 billion exported in 2016, but only 50% of what it was in 2014 when it reached US$26 billion dollars. A reduction in imports has also contributed to a balance trade deficit of 0.5% at the end of 2017.

Although the dollar-peso rates historically correlated with oil prices, has slightly shown signs of higher volatility due to world-wide trends, we expect it to maintain its current range between COP$ 2.700 – 2.900 pesos per dollar for the remainder of this year.

Social indicators such as the Gini coefficient and the Multidimensional Poverty Level continued to improve despite the economy's slow-down. The Gini coefficient has improved by 0.04 since 2014 pre-oil crises and it's currently at 0.51 and the Multidimensional Poverty Level improved by 4% and it's currently at 17%. Although we still have a lot of room for improvement these results are also encouraging. In 2017 for the first time, the level of formality in the country surpassed the level of informality, these bodes both worked for the Government's effort on the fiscal front and for the financial system.

After a low point of foreign direct investment during 2015 when it only reached US$11.8 billion dollars, the results for 2016 and 2017 showed positive trends ending at US$14.5 billion dollars, we are not in the pre-crisis levels of US$16 billion dollars but this is another encouraging trend.

Consumer confidence index continues to improve and it has increased 18 points between 2017 and year to date 2018.

The one indicator that has not yet shown signs of recovery is urban unemployment which remains stubbornly at 10.7%, we believe that this is closely correlated to the very slow pace of industrial loan demand and thus stagnant commercial activity. Urban unemployment is obviously worrisome because it represents a headwind in the path of improvement of the financial system's consumer books cost of risk.

In conclusion, we are now confident that the economy has passed its worst moment, which happened at some point during 2017 and it is now gaining momentum towards a sustained recovery. This momentum should be further aided by a market-friendly outcome in the upcoming presidential elections.

Regarding Central America, which represents about 30% of our business, on the economic front, 2018 growth expectations are in line with our own estimates and for the region as a whole should be roughly twice that of Colombia's. The region continues to benefit from a robust U.S. economy with remittances remaining a strong pillar of the economy. It is worth singling out Costa Rica's new government stated intention to undertake a fiscal reform to deal with its very high fiscal deficit.

However, on the political front we must note that Nicaragua where we hold US$2 billion dollars in assets has had a rough month of marches and protesters demanding a more democratic regime. The government has already agreed to take back its proposed change in the country's pension system, which was the cause of the protest in the first place. It's also agreed to engage in peaceful discussions with the protesters to avoid further escalation of the problem. We are very watchful of the outcome of these negotiations.

Just to follow-up on a point that I touched upon during our last public call, I'd like to report that our digital labs are up and running and turning out minimum viable products on an average every 16-weeks for all of our banks. We are currently gathering data under test marketing of several digital deposits and loan products and on the results of several digitalized operations such as collections and others. This data will have us launch new versions of these MVPs and to expand our market in which we introduce them, as soon as we have meaningful information we'll be able to share with you the potential impact of digitalization in our figures.

I had also reported on a recently passed law of conglomerates, law 1870 of 2017; this law basically touches on these areas: definition of conglomerates, capital requirements for conglomerates, definition of related parties, maximum exposures of conglomerates to related parties, definition and guidelines for management of conflict of interest among members of a conglomerate. We have followed closely and participated to the extent that we have been allowed in the drafting of the law and the subsequent drafting of decrees to specifically define each of the law's aspects. So far, one decree has been finalized and published, decree 774 of 2018 on the first two aspects of the law: definition of conglomerates and capital requirements for conglomerates. I am happy to report that Aval shows ample capital under the law due specifically to the combination of bank's adequate capital levels and Aval's limited double leverage.

Finally, turning to Aval's financial results, I will briefly run over the main highlights and impacts of the adoption of IFRS 9, and also give you an update with respect to provisions in reference to our largest commercial problem loans: Ruta del Sol, Electricaribe and SITP.

First, beginning January 1st 2018 we began to reflect our numbers under IFRS 9; Diego will explain in detail the impacts in a couple of minutes, but in a nutshell we made a one-time 1.2 trillion pesos adjustment to increase our loan-loss reserves, which net of deferred taxes and others, reduce our total assets by approximately COP$ 800 billion pesos and our total shareholder's equity by approximately COP$ 730 billion pesos and increase our deferred tax liabilities by approximately COP$ 100 billion pesos. The increase in reserves improved our coverage ratios of both PDL and NPLs by approximately 20% percent, per IFRS 9 going forward we will adjust quarterly the expected losses model to periodically reflect new macro trends in order to estimate cost-of-risk.

We also adopted IFRS 15, which implies that in our NPL going forward we will show on a separate line the gross and net income from non-financial sector investments. The implementation of this new standard did not have an impact on our bottom line.

With regards to our financial performance for the quarter, attributable net income came-in at a healthy COP$ 600 billion pesos for COP$ 27 pesos per share accompanied by a return on equity of 15.3% albeit after affecting the IFRS 9 adjustment mentioned previously, and return on assets of 1.6% percent. Our bottom line was the result of resilient net interest margins especially in our loan book, better although still a high cost of risk, effective cost control, and adequate fee income generation. Also, we are starting to see the benefits through Corficolombiana at having started in earnest the construction of one of our 4G projects. Unfortunately, our bottom line was not accompanied by a balance sheet growth during the quarter.

In fact, the balance sheet grew at 2.3% year on year, or 3.3% when excluding the FX effect of our Central America operation, supported by growth in our loan book of 4.3% in the year or 5.3% when excluding the FX effect. During the quarter, however, our assets decreased by 1.8% which translates into a 0.2% growth after excluding FX. We must note that the Colombian peso revalued 6.8% in the 1Q of 2018, and 3.6% in the twelve-month period ending March 31, 2018.

Slow growth was driven by the Corporate book which on a consolidated basis grew at 2.7% year on year or 3.4% excluding FX. Our retail book on the other hand, continues to show a more satisfactory result with a 6% annual growth rate in consumer loans, 7.3% after FX and 8.3% growth in mortgages or 10.7% after FX. During the quarter commercial loans decreased by 1.1% a growth of 0.3% after FX, and consumer loans decreased by 1.4% which is 1% growth after FX. We are aiming at approximately 7% loan growth during 2018, supported on our expectations for a much stronger second half of the year.

Growth in deposits continues to behave similarly to our loan portfolio with an annual growth of 3.4% or 4.5% excluding FX movement of our Central American operation. However, during the 1Q of 2018, our consolidated deposits showed a contraction of 2% with our Colombian operation of minus 1.3% and our Central American operation of minus 3.9% percent. In absence of the movement of the currency in the quarter, deposits would have remained relatively stable.

Our tangible equity ratio for the quarter was 7.4% reflecting two impacts: On the one hand, dividends declared by Aval by AVAL's annual shareholders' meeting, and on the other hand, it took a one-time impact of the implementation of the IFRS mentioned above.

Despite a continuous decrease in the Central Bank's rate, our net interest margin, particularly our Neiman loans continues to show resilient. This result is due to more competitive pricing on the consumer front, faster growth in the higher-yielding consumer book, low growth in the corporate book, and effectiveness in funding costs. Our consolidated NIM for the quarter, only fell by 10 basis points versus 1Q 2017, mainly driven by a contraction in the NIM of our Central American operation due to seasonal effects, plus regulatory changes. We expect to see a reduction of NIM in the next three quarters of about 10 to 15 basis points per quarter.

Provision expense for the quarter was COP$ 984 billion pesos, and cost of risk was 2.3% made of recoveries, we now believe that cost of risk of 2.25% for the year is achievable, which includes further provisions for specific trouble loans. During this quarter, the three large corporate credits previously discussed: Electricaribe, SITP and CRDS had an impact of almost COP$ 100 billion pesos or 24 basis points impact in the cost of risk, this number compares to the almost COP$ 200 billion pesos or 50 basis points impact in cost of risk during the fourth quarter of last year. After affecting these additional provisions, the coverage ratios of these credits stand at: Electricaribe 80%, SITP 15% and CRDS 13%.

Fee income performed positively in the quarter, maintaining a stable fee income ratio of 26% area. The rest of the year should show similar fee income performance. Other expenses continue to reflect our efforts in cost-cutting initiative; 1Q 2018 total expenses are 0.7% smaller than 1Q of last year. We expect that our efforts will continue to yield positive results.

As I mentioned before, and as a consequence of all of the above, plus some minor movements in the other income line, our net income for the quarter finished at 0.6 trillion pesos, and now we will achieve a yield for the year of approximately 13.5%.

And now I will pass on the presentation to Diego, who will expand on the highlights I just shared with you, thank you all and have a good day.

Diego Solano Saravia,
Chief Financial Officer

Thank you Luis Carlos. Before moving into our financial results, I'd like to summarize on page 5 the impact of IFRS 9 adoption on our balance sheet presented. We recorded an additional allowance for impairments of loans of COP$ 1.16 trillion pesos, of which, COP$ 557 billion pesos correspond to Colombia, to the Colombian portfolio, and COP$ 606 billion pesos, for the Central American portfolio. The strong impact in Central America was mainly explained by a significant increase in the LIP (loss identification period) of certain consumer loan portfolios.

This increase in allowance raised our 90 days PDL (past due loan) coverage ratio from 26.6 percentage points to 155% and our allowance to gross loans from 3.5% to 4.3% percent.

The impact on total equity which includes a positive impact on deferred taxes, adjustments in valuation of investments and others was COP$ 732 billion pesos. The impact on attributable equity was COP$ 509 billion pesos.

I will now move to the consolidated results of Grupo Aval under IFRS, starting on page 10 through our asset evolution, as mentioned by Luis Carlos, asset growth continues to be slow in Colombia. In addition, the appreciation of the Colombian peso combined with a lower growth, following the seasonal peak at year end experienced in Central America, resulted in a 1.8% contraction during the quarter.

The impact of foreign exchange fluctuations on balance sheet growth was relevant to our growth dynamics, as we experienced a 6.8% appreciation of the Colombian peso during the quarter and of 3.6% during the year. Furthermore, the adoption of IFRS 9 implied a COP$ 825 billion reduction in assets, with a 35 basis points negative effect on quarterly growth.

During the quarter, our Colombian assets increased 0.1% while our Central American assets grew 0.5% in U.S. dollar terms, a 6.4% contraction when translated into Colombian pesos. The adoption of IFRS 9 had a 23 basis points and 63 basis points negative effect in quarterly growth for each region. Over the twelve-month period ended on March 31st our Colombian assets increased by 2.1% while our Central American assets grew 6.7% in U.S. dollar terms, 2.8% when translated into Colombian pesos.

Gross loan growth was the main driver of assets dynamics, increasing 4.3% during the last year and contracting to 1.3% during the quarter. Fixed income investments grew 2.8% during the last quarter contributing to our quarterly results.

The adoption of IFRS 9 slightly affected our consolidated balance sheet structure by reducing the weight of net loans and leases on our asset base.

Finally, our Colombian operation increased its shares of assets by 138 basis points to 71.7% in line with the strong appreciation of the exchange rate.

On page 11 we present the evolution of our loan portfolio. Gross loans contracted by 1.3% during the quarter in peso terms and grew 4.3% over the last twelve months. The performance during the quarter resulted from a 0.8% growth of our Colombian book and a 0.4% growth in U.S. dollar terms of our Central American book, a 6.4% contraction when translated into pesos.

In Colombia, growth remains underpinned by the still modest GDP dynamics, we expect growth to pick up as the macro environment improves and the presidential elections cycle is over. In addition, the recent adjustment to the fiscal rule targets comes as a relief to concerns around the need for a new tax reform that could dampen the recovery rate of the economy.

As mentioned in our recent calls, Colombian loan growth resulted from a soft loan demand on our corporate customers and the tightening of our consumer and SME underwriting policies. 'Aval' has emphasized growth in products and segments with lower risk profiles. Unsecured customer lending in which we have grown less than the market, has suffered more during this credit cycle.

Our Colombian consumer and mortgage business continue to lead the growth of our Colombian operation, expanding 1.4% and 3.5% percent respectively during the quarter and 7.4% and 18.1% respectively over the last year.

Colombian corporate loan portfolio has experienced the lowest growth during this cycle, expanding 0.3% during the quarter and 2.0% over the year.

Central America continues to be more dynamic than Colombia, growing 7.7% and 0.4% in U.S. dollar terms over the twelve and three-month period respectively, this is a 3.8% growth and a 6.4% contraction when translated into Colombian pesos over the same periods. This performance is explained by seasonal effects, tightening of underwriting policies and the FX volatility. Seasonality has a strong influence in loan growth for this region during the first quarter of the year when compared to the previous quarter of the year due to the high seasonal usage of credit cards at year's end. Furthermore, a tightening of our credit policies in higher risk profile, segments and products has slightly influenced growth. Finally, the 6.8% appreciation of the Colombian peso experienced during this period, hindered the contribution of Central American to overall growth in Colombian pesos.

Broken down by type of loan, annual growths in Central America were 5.4%, 3.2% and 1.7% percent for commercial, consumer and mortgage loans respectively. Excluding FX, these growths were 9.4%, 7.1% and 5.5% respectively. Colombian operation accounted for 72% of our gross loan book.

We expect in 2018 loan growth in absence of FX movements to reach the 6% to 8% percent area.

On pages 12 and 13, we present several loan portfolio quality ratios. We continue to see some signals that hint that the worse of the Colombian credit cycle could be close to an end. Even though 30-days PDLs deteriorated during the quarter, some positive trends in asset quality should be highlighted. For example, the 90-days PDL formation fell for the third quarter in a row; cost of risk showed signals of stabilization and stronger debt coverage ratios. All these aspects point in this direction. As mentioned during our last call, caution is still due as 30 day PDL formation continues to be high, and urban unemployment continues to be at the peak compared to previous periods.

Quarterly cost of risk net of recoveries of charge offs assets improved by 34 basis points to 2.3 % of which three corporate cases 'Electricaribe' 'Ruta del Sol' and SITP accounted for 25 basis points of cost of risk reduction. These corporate cases explain 24 basis points during this quarter, down from 49 basis points of quarter earlier.

With regard to 'Electricaribe', our exposure at the end of 1Q 2018, was US$232 million dollars, of which we had provisioned 80% percent contributing 21 basis points to cost of risk during the quarter. Given the current outlook, we have paused increasing provisions for 'Electricaribe'. Additional provisions, if any, will depend on new developments in the restructuring process.

In 'Ruta del Sol' our exposure was US$ 342 million dollars, of which we had provisioned close to 13%. Further provisions will depend on the definitive liquidation value of the concession that results from the ongoing arbitration proceeding.

Regarding SITP companies, our exposure was US$ 180 million dollars, of which we had provisioned close to 15%. We expect to increase our coverage in an additional 15 percentage points.

Cost of risk in Colombia and Central America, decreased from 2.9% to 2.5% and 2.0% to 1.8% respectively over the quarter. Cost of risk in Colombia, when excluding 'Electricaribe', 'Ruta del Sol' and 'SITP', was stable for the third quarter in a row at 2.2% percent.

We expect 2018 cost of risk net of recoveries to be in the 2.25% and 2.5% area.

On page 13, we will find further detail on the quality of our loan portfolio. As mentioned in the previous page, new 90-days PDL formation hints to positive developments over the next few quarters. New 90-days PDL formation was the lowest in five quarters. Despite this improvement in the new PDL formation, our delinquency ratio deteriorated 11 basis points to 2.86% given our charge-off policies.

30-days PDL to total loans deteriorated to 4 ¼ percent explained by the poor growth dynamics and PDL seasonality contributing to its performance.

On page 14, we present funding and deposits evolution. Our funding structure remained stable with deposits representing 77% of total funding. In addition, our CASA ratio was 60%.

Our deposits to net loan ratio was 97%. We maintained our strong liquidity position with cash to deposits ratio of over 14% percent.

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 3.4% over the last twelve months and contracted 2% in the quarter. Our 12-month growth, excluding the impact of FX movements in Central America was 4.5% percent.

By region, Colombia accounted for 73% of total funding and 72% of total deposits. Deposits in Colombia grew 2.1% over the last 12 months and decreased 1.3% in the quarter, consistent with our asset dynamics. Total funding grew 2.1% over the last 12 months and decreased by 0.2% percent in the quarter.

Central American deposits grew 11% in dollar terms over the last 12 months and 3% during the quarter, a 7.1% increase and 3.9% contraction in Colombian peso terms, respectively. Total funding grew 6.8% in dollar terms over the last 12 months and increased 1.2% over the last quarter, 2.9% and a decrease 5.7% in Colombian peso terms.

We expect deposits to grow at a similar pace to our loan portfolio during 2018.

On page 15, we present the evolution of our total capitalization, our attributable shareholders equity and the capital adequacy ratio of our banks. Our total and attributable equity fell during this quarter as dividends were declared and IFRS 9 was adopted during this period. Owned equity contracted by 1.8 trillion pesos while attributable equity fell close to 1.4 trillion pesos.

Dividends of 1.06 trillion pesos were declared at Aval during the quarter affecting attributable equity.

As mentioned earlier, the adoption of IFRS 9 had a COP$ 732 billion peso impact on our total equity and COP$ 509 billion pesos of attributable equity as of January 1st 2018. These figures mainly result of an increase in allowance for impairment and the associated deferred taxes. 29 basis points of the decrease in tangible capital ratio for the period was due to the adoption of such new accounting standards.

All of our banks, show appropriate Tier 1 and total solvency ratios. Consolidated Tier 1 ratios at the end of period ranged between 8.5% for 'Banco Popular' to 11% for 'Banco AV Villas'. Total solvency ranged between 10.1% for 'Banco Popular' and 13.1% for 'Banco de Occidente'.

During this period, most of the banks increased their Tier 1 ratio as the result of additional legal reserves being constituted as part of the earning distribution process during the shareholders' meeting.

As mentioned in our last call, the regulator has indicated that it plans to announce adjustments later this year to current solvency metrics seeking further convergence to Basel 3. We'll share more detail of our understanding of the changes and their impact on our banks' solvency ratio once clarity exists on this new regulation and timeline for its implementation.

Based on our last solvency ratios and current available information mentioned by Luis Carlos we expect all of our banks to comply within initial solvency ratios and to be able to adjust over time to increases in requirements.

On page 16, 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 4.50% as of March 31st 2017, while the average rate fell 41 basis points from 5.0% in 4Q17 to 4.6% in this last quarter. Central Bank voted an additional 25 basis points cut during its end of April meeting.

During the quarter, yield on commercial loans fell 28 basis points to 8.1% driven by a 30 points basis reduction in the yield for our Colombian commercial portfolio to 8.6% and a 21 basis points reduction in our Central American portfolio. Our average cost of funds fell 24 basis points to 3.8% compared to a quarter earlier, as deposits had rapidly incorporated that declining interest rate scenario and as lower pressure from loan growth has allowed us to reduce the rates paid, in particular, to large corporate and government entities.

The 24 basis points decrease in cost of funds resulted from improvements of 29 basis points in Colombia and 10 basis points in Central America during the quarter.

An 8 basis points contraction in spread between loans and cost of funds resulted from the movement described before.

We expect pressure on spreads to continue, as our yield on loans fully incorporates the Central Bank's rate cut and a more dynamic economy brings higher growths and more competitive pressure and an improvement in quality of consumer loans.

On page 17 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, showing a 4.2% increase as compared to first quarter of 2017 and a 0.9% decrease 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 contracted 13 basis points from 5.9% to 5.8% percent. Our net interest margin excluding net trading income from investments held for trading through profit or loss increased 7 basis points from 5.8% to 5.9%.

These figures incorporated the downwards trends in the cost of funds and the yield on loans described in the previous chart. In addition, a soft result of net interest margin on investments negatively contributed to this result.

Our consolidated net interest margin on loans for the first quarter decreased 7 basis points to 6.9% compared to a quarter earlier, while our net interest margin on investments decreased by 19 basis points to 0.3%. The poor performance of net interest margin on investment is mainly attributable to trading activities in our Central American operation, that posted a COP$ 6 billion peso loss compared to a COP$ 19 billion pesos gain that came in a quarter earlier.

Non-financial activity had a negative impact of 18 basis points within overall NIM.

We expect our total NIM to contract 30 basis points during 2018, resulting from pricing of the reduction of Central Bank's rates into consumer loans and a higher share of loans priced under a lower interest rate environment enter our mix.

On page 18 we present net fees and other income. Gross fee income remained stable compared to a quarter earlier and grew 2.4% over the last 12 months. Excluding the effect of FX movements on our Central American operation, growth would have been 1.8% in the quarter and 3.2% over the last 12 months.

Quarterly growth resulted from a strong seasonal performance of our Colombian pension and severance fund management business and soft performance of bonded warehouse services and our trust and portfolio management activities. In addition, Central American results for this quarter compare negatively to a seasonally high fees recorded in the last quarter of each year.

Broken down by geography, Colombia accounted for 61% of total gross fees for 2017. Domestic fees increased by 6.5% compared to a quarter earlier, for Central American decreased 4.7% in dollar terms, an 8.8% increase in Colombian peso terms, due to the seasonality within the fourth quarter.

We expect fee income to continue growing at a slightly higher rate than our balance sheet for 2018.

On the right of the page, we can find our non-financial sector broken down by sector. Its contribution increased 19.6% as compared to a year earlier with a strong performance from energy and gas and Infrastructure companies. Compared to the previous quarter the non-financial sector decreased 30.8%, due to a lower contribution of infrastructure.

At the bottom of the page, we present other operating income. For the quarter was COP$ 375 billion pesos, materially unchanged from a year earlier and lower than a quarter earlier. Other operating income for this quarter includes a loss on sale of impaired fixed income investments that was fully offset by a recovery of impairments of investments. These impairments of fixed income investments were recorded on 2016.

On page 19 we present some efficiency ratios. Cost control initiatives continue to deliver positive results. Personnel and administrative expenses decreased 3.6% during the quarter and 0.9% when compared to a year earlier. Adjusting for the wealth tax accrued last year, 12-month growth would be 4.3%. Cost control in Central America continued to be a key contributor to positive results.

Efficiency ratio measured as operating expenses to total income improved 34 basis points to 45.9% compared to previous quarter and 10 basis points versus first quarter 2017. Central America and Colombia reported ratios of 52.5% and 42.9% respectively in the 1Q 2018.

Efficiency measured as an operating expense to average assets of 3.4% for the first quarter remained stable compared to a year earlier and improved 3.6% compared to a quarter earlier. Central America and Colombia reported ratios of 4.3% and 3.1% respectively in the quarter.

Regarding efficiency, we foresee to continue growing our costs at lower pace than our assets, expecting a 5 to 10 basis points improvement in our cost to assets basis for the year 2018.

Finally, on page 20 we present our net income and profitability ratios. Total net income for the first quarter 2018 was COP$ 598 billion, $27 pesos per share, showing an annual increase of 28.1% versus the previous quarter.

Our return on average assets was 1.6% and our return on average equity was 15.3%.

Before we move into questions and answers, I will now summarize our general guidance for 2018. We expect loan growth to be in the 6% to 8% percent barrier; deposit growth will be fairly similar to loan growth; we expect 2018 cost of risk, net of recoveries, to be in the 2 and ¼ percent to 2 and ½ area; we expect full year 2018 net interest margin to be 30 point slower than that of 2017. We expect fee income to grow at a slightly faster pace than loan volume; regarding efficiency ratios we, expect 5 to 10 basis points on a cost to assets basis, with no marginal changes on our marginal tax rate. Finally, we expect a return on assets to be in the 13% to 13.5% area.

Q&A

Thank you. We will now begin the Q's & A's session. To take as many questions as possible, we ask that you please limit to one question. If you have a question, please press *1 on your touchtone phone. If you want to be removed from view press the # or hashtag, 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 *1 on your touchtone phone.

And our first question comes from Jason Mollin from Scotia Bank

Question: Hi, thank you for the opportunity to ask a question…you mentioned the financial conglomerate law and the implementation of a consolidated regulatory conglomerate capital would have adequate capital levels…if you could provide handout details on how that would work, capital would look like under these new guidelines, thank you.

Answer: Sure Jason, basically what decree calls for conglomerates to estimate their own capital, their own technical capital and…then compare also that estimated technical capital with what the minimum required technical capital would be. I'd start by saying that we are exceeding the minimum technical capital requirement under the law by about COP$ 8 billion pesos or 8 trillion in million million pesos, so we are under the law very adequately capitalized.

The way to estimate the technical capital in our case is by combining the consolidated technical capitals of our affiliates and adding to that the separate financial statement of Aval's technical capital, so in a sense, what the law says is that you combine technical capitals of your banks and combined to that your own technical capital and what it does is that by doing so, it makes you take into account the double-leverage that you have at the holding company level, so basically the law is a good law in that for the first time it is saying ok let's examine how your affiliates are doing and obviously the affiliates have to be doing well because they have been regulated forever and they have to pass local regulations. But to that, they're saying ok let's see how the capital at the holding level company is affecting the whole capital for the conglomerate, and so for example if a holding company has at a very high index of double leverage then that would affect the combined technical capital, in our case, that's not really the case because our double-leverage is less than 120% so all and all when we combine all the capitals that I mentioned we come out doing very, very well, under the new law.

The other thing that has been officially is that obviously the law concentrates on what of your capital is available to absorb losses, so in that respect, then it doesn't differentiate into attributable equity from minority interest equity, so that also complements our ability to comply with and to show a lot of excess.

Hilda: thank you. The next question comes from Fredrick De Mariz from UBS

Question: Good morning Luis Carlos, Diego and Tatiana and thank you for the opportunity to follow up on the asset quality. Can you remind us of what you expect for the cost of risk for this year, what you mentioned at the end of the call, but more generally speaking I wanted to hear your thoughts on the asset quality in two lines, at the very beginning of the call you mentioned that inflation is getting lower and but you also said high unemployment, so what are you thinking in terms of NPLs for consumers are you considering on for this year, and then on the corporate side you mentioned specific numbers for the three big exposures for SITP, Electricaribe and CRDS should we expect an increase on those coverage ratios ? or should we maybe expect a reduction or reversal of provisions maybe on some of the other lines, I know it is probably taking longer than expected but just wanted to hear from you what should we expect in the profit ratios for those lines. Thank you.

Answer: ok, Fredrick. Regarding cost of risk for the year was 2 and ¼ to 2 and ½, on the question on the consumer front, we're still cautious on guidance here and the reason is for some things and event to need to happen and is a sequence that happens around and around in time, you will need to see GPD peaking up, after that a slight lag you see unemployment improvement and finally you see the credit quality of consumers reverting.

At this point we started to see early signals of the economy picking up, positive on that unemployment is still at a high level but hasn't yet turned around, particularly urban unemployment. As a consequence, even though consumer loans have mixed signals when you look to an advantages meaning the improvement of certain products of certain of our bank, we still see some vintages that are not realizing yet. In that sense even though we expect to see some improvement from the cycle we haven't yet into a significant change in our cost of risk. Now moving to the exposures, taking them one by one, public transportation (SITP) would still demand additional provisions there, we're basically thinking of an additional 15 percentage points of coverage to 30% coverage, due to the kind of customers that we have there, then we talk in general of the SITP it is a group of companies and different companies has different profiles so you can´t really compare from bank to bank when you look at those kind of coverage. At this point, even though conversations with the city's mayor are positive on how that evolves, we're still seeing some deterioration to come before thing get better; regarding 'Electricaribe' we're already up to 80% coverage, that is a situation that is improving fast and the previous one, that's the reason why we have decided to paused this for some time in additional provisions there, I wouldn't like to jump ahead of ourselves that could be positive news if a number of events do happen, at this point we're just pausing our provisions, and last 'Ruta del Sol', there have been a lot of news, but we're waiting for a valuation of the liquidation to the arbitration process, we're not expecting that to happen before at least the first round of elections, because it has an impact on politics, so that's something I'm sorry I'm not able to give you additional color there but at this point, not foreseen additional provisions because I believe the liquidation will be enough we already have provisions but we have to review that after liquidation comes from arbitration.

Hilda: the next question comes from Yuri Fernandez, from JP Morgan

Question: thank you gentlemen, I had a question on your guidance, not sure if I heard well but you'd like to revise up to 13, 13.5 my question is that you are reading the first quarter and even if it looks ok to us what happened by the IFRS implementation, to us it is to trecking above that 15% percent, so are you seeing some pressure through the coming quarters you don't want to expect to keep your level for the rest of the year…and that's my question. Thank you

Answer: if I got your question right, you're asking what the implication of the new guidance is, it's building in, as you well mentioned that changes in the value of our equity. It is a shy change in our expected earnings per share what we really have guided into, we are positive on some of the aspects of whats happening here, we are looking into perhaps likely slower cycle with a lower impact on net interest margin reduction, a slight upside in our cost of risk but given that cycle is not helping us as much as expected because you might have notice that we review down one percentage points to our growth we end up in similar numbers that we had before.

Luis Carlos Sarmiento: I'd like to add to complement the answer by saying that obviously this 1st quarter ROAE was aided by the fact that our equity was reduced as a result of IFRS 9 and we don't expect that to continue happening for the next three quarters, on the contrary the next three quarters will be accumulating equity as we won't have IFRS 9one-time shot, and secondly we won't distribute more dividend so in a sense those two events really make equity reduce during the 1st quarter and that obviously bring our ROAE up. In the next three quarters as Diego said we would expect one, growth of only 7%, secondly continue decrease in our net interest margin numbers as loan pricing absorbs the effects of lower Central bank rates, and with all that combined you'll have revenues coming in progressively but equity probably growing faster than that, so that makes us believe that 15% will not be sustainable and at the end of the year will be closer to 13.5 percent.

Hilda: thank you. The next question comes from Sebastián Gallego from Credicorp Capital

Question: good morning, thanks for the presentation, I have two questions, first one can you elaborate a bit more on the strategy on Villas and Popular we're observing double digit growth rate, compared to single-digit growth in other banks. If you can elaborate on that particularly taking into account that Popular's Tier 1 ratio still stands at 8.5 well below the other banks. The second question is related probably a follow up on asset quality and particularly looking at the mortgage portfolio. The PDLs and the NPLs. Can you comment on your expectations for this particular segment going forward? Thank you.

Answer: ok as far as strategies yes obviously consumer banks are growing faster than commercial banks and by that I mean banks that have portfolios more oriented to consumers such as Villas and Popular are growing more steadily. Second, Popular specifically is one of our very nice stories as it has been streamlined in its process of lending and that has helped out in loan generation, also in cost control and others, so in Popular you'll see some good things for the rest of the year and Villas is the same thing is a bank more oriented towards consumer lending, the other two banks that are more prone to the commercial lending are seeing a slowdown that we continue to see in the industry and the commercial lending, with regards to Popular, equity obviously one of the reasons that it decreased in the first quarter has to do with the dividend generation and we expect that as we'll see a continuous increase which are seeing month after month in their earning ability, in the earning generation ability, and obviously not more dividend distributed through the year, you will see the effect of their equity coming up and it will more than compensate any growth from their asset, their loan book so we feel at this point that we just got to push them instead of holding them back and with the loan growth that they have projected and the earning generation they projected they will have more than equity forward for the rest of the year. As far as your first question, and secondly…

Diego Solano: and perhaps adding to what Luis Carlos mention for Tier 1 Banco Popular you might have noticed that is the only bank that still has two annual shareholders' meetings, the reason for having done that is to be able to take care of the point you mentioned. Regarding asset quality for mortgages, yes we have looked into what is happening there to mention the quality of our loan portfolio still significant better than what the market average looks like, basically expected to see some deterioration there as part of the cycle, and have no concerns in the sense of the way we have built our portfolio, so yes your point is we look that deterioration of mortgages in line with the deterioration of the economy, but numbers in absolute terms are positive and the shape of our portfolio is also more resilient than what the market average looks like.

Hilda: Thank you. The next question comes from Rodrigo Sanchez at Ultra Serfinco

Question: good morning thank you for taking my question, my only question is understanding that IFRS 9 thus not have an impact in net income could you still walk me through the effects of implementation in the top lines of the PNL and specifically on the impairment loss, what would be the effect of the impairment loss for the upcoming quarter? And what the impact of IFRS 9 in relation to the cost of risk during this quarter. Thank you.

Answer: implementation of IFRS 9 we are still cautious on giving guidance on what to see there, but at this point we have had let's say a positive surprise and come up with a higher cost of risk compared to the previous accounting base. The reason for that, is that IFRS 9 anticipates the cycle in more than we have in the past. In that sense, part of what we saw a very significant adjustment to our coverage around 20% of additional coverage was building in the cycle was to be seen. In that sense, at this point even though IFRS 9 we have said might bring additional provisions it hasn't been a fact as at least as first quarter.

Hilda: Thank you, at this moment we have no further question. I would like to turn the call over to Mr. Sarmiento for final remarks.

Luis Carlos Sarmiento Gutiérrez

Presidente

Thanks a lot Hilda. Thanks for all who attended the call, hope to talk again on mid-August with our second quarter results, by then obviously the new president will have already taken over, and I hope probably by then the arbitration tribunal for 'Ruta del Sol' will have made a decision and hopefully it will go away as we expect, with that I'm closing again.

Thank you and we'll see you next time, and thanks Hilda.

Hilda: Ladies and gentlemen, this concludes today's conference, thank you for participating, you may now disconnect.