Condensed consolidated interim financial statements 2Q 2018

GRUPO AVAL ACCIONES Y VALORES S.A.

Grupo Aval Acciones y Valores S.A. and Subsidiaries
Condensed Consolidated Statement of Financial Position
(Figures in millions of Colombian pesos)

	Notes		June 30, 2018 (*)		December 31, 2017
ASSETS					
Cash and cash equivalents		Ps.	21,175,165	Ps.	22,336,838
Financial assets at fair value	4		27,595,227		19,057,394
Financial assets measured at amortized cost	4		165,557,590		175,055,314
Non-current assets held for sale			104,830		101,382
Investments in associates and joint ventures			986,031		1,043,014
Property, plant and equipment	6		6,461,432		6,654,006
Goodwill	7		6,817,470		6,901,056
Intangibles assets	8		4,408,600		3,962,848
Income tax assets			970,592		1,047,213
Other assets			470,413		482,635
Total assets		**Ps.**	**234,547,350**	**Ps.**	**236,641,700**
LIABILITIES AND EQUITY					
LIABILITIES					
Financial liabilities at fair value	4		524,692		312,129
Financial liabilities measured at amortized cost	4		198,350,573		200,161,260
Provisions	11		744,277		692,615
Income tax liabilities			1,989,080		2,079,384
Employee benefits	10		1,178,714		1,182,596
Others liabilities	12		6,490,103		6,235,466
Total liabilities		**Ps.**	**209,277,439**	**Ps.**	**210,663,450**
EQUITY					
Subscribed and paid-in capital			22,281		22,281
Additional paid-in capital			8,303,431		8,412,685
Retained earnings			6,822,003		7,573,912
Other comprehensive income			682,818		223,543
Equity attributable to owners of the parent			**15,830,533**		**16,232,421**
Non-controlling interest			9,439,378		9,745,829
Total equity		**Ps.**	**25,269,911**	**Ps.**	**25,978,250**
Total liabilities and equity		**Ps.**	**234,547,350**	**Ps.**	**236,641,700**

See notes that are an integral part of the condensed consolidated financial statements.

(*) The Group adopted IFRS 9 and IFRS 15 as of January 1, 2018 prospectively. (See Note 2.)

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Grupo Aval Acciones y Valores S.A. and Subsidiaries
Condensed Consolidated Statement of Income
(Figures in millions of Colombian pesos)

	Notes		For the three-month periods ended June 30			For the six-month periods ended June 30		
			2018 (*)		2017		2018 (*)		2017
Interest income		Ps.	4,388,715	Ps.	4,404,952	Ps.	8,977,905	Ps.	9,021,617
Interest expenses			1,841,986		2,092,058		3,702,907		4,281,181
Net, interest income			**2,546,729**		**2,312,894**		**5,274,998**		**4,740,436**
Net impairment loss			613,576		902,554		1,486,987		1,624,967
Net interest income, after impairment losses			**1,933,153**		**1,410,340**		**3,788,011**		**3,115,469**
Income from contracts with customer for commission and fee									
Commission and fee income	15		1,345,842		1,300,111		2,657,646		2,579,290
Commission and fee expense	15		146,869		163,363		308,396		314,338
Net commission and fee income			**1,198,973**		**1,136,748**		**2,349,250**		**2,264,952**
Income from sales of goods and services to clients									
Income from sales of goods and services	15		1,455,099		-		2,831,815		-
Cost for goods and services	15		1,196,103		-		2,366,977		-
Net, income from sales of goods and services to clients			**258,996**		**-**		**464,838**		**-**
Net income from financial instruments at fair value through profit and loss	**16**		**319,690**		**537,106**		**281,366**		**813,103**
Other income	**17**		**134,504**		**322,016**		**560,321**		**835,534**
Other expense	**17**		**2,251,354**		**2,231,254**		**4,428,353**		**4,291,989**
Net income before tax expense			**1,593,962**		**1,174,956**		**3,015,433**		**2,737,069**
Income tax expense	**9**		454,706		399,081		924,833		875,919
Net income for the quarter		**Ps.**	**1,139,256**	**Ps.**	**775,875**	**Ps.**	**2,090,600**	**Ps.**	**1,861,150**
Net income for the quarter attributable to:									
Owners of the parent			681,515		498,108		1,279,260		1,206,307
Non-controlling interest			457,741		277,767		811,340		654,843
		Ps.	**1,139,256**	**Ps.**	**775,875**	**Ps.**	**2,090,600**	**Ps.**	**1,861,150**
Net income of the owners of the parent per share (in Colombian pesos)		**Ps.**	**30.59**	**Ps.**	**22.36**	**Ps.**	**57.41**	**Ps.**	**54.14**

See notes that are an integral part of the condensed consolidated financial statements.

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Grupo Aval Acciones y Valores S.A. and Subsidiaries
Condensed Consolidated Statement of Other Comprehensive Income
(Figures in millions of Colombian pesos)

	Notes		For the three-month periods ended June 30				For the six-month periods ended June 30		
			2018 (*)		**2017**		**2018 (*)**		**2017**
Net income		**Ps.**	**1,139,256**	**Ps.**	**775,875**	**Ps.**	**2,090,600**	**Ps.**	**1,861,150**
Other comprehensive income									
Items that may be reclassified to profit or loss									
Hedging of net investments in foreign operations:									
Net investment in foreign subsidiaries	5		602,867		619,258		(193,587)		204,550
Hedging derivative instrument	5		(277,054)		(261,278)		78,189		(91,167)
Hedging non-derivative instrument	5		(325,294)		(357,221)		115,949		(113,065)
Cash flow hedges			**(9,269)**		**(20,346)**		**(3,039)**		**533**
Foreign currency translation differences for foreign Operations			**(61,004)**		**(130,358)**		**(58,355)**		**(76,430)**
Impairment of credits and contingents			-		(22,272)		-		(36,215)
Investments in associates and joint ventures			7,494		12,278		(7,625)		(480)
Unrealized gains (losses) on investments in debt securities through OCI			(104,674)		-		(163,013)		-
(Expenses) tax			210,873		230,530		(36,074)		72,013
Total, Items that may be reclassified to profit or loss		**Ps.**	**43,939**	**Ps.**	**70,591**	**Ps.**	**(267,555)**	**Ps.**	**(40,261)**
Items that will not be reclassified to profit or loss									
Unrealized (losses) gains on equity securities			(9,261)		65,546		(12,651)		86,439
Actuarial gains from defined benefit pension plans			15,640		280		17,847		280
Expenses tax			(5,972)		(4,280)		(7,453)		(4,824)
Total items that will not be reclassified to profit or loss		**Ps.**	**407**	**Ps.**	**61,546**	**Ps.**	**(2,257)**	**Ps.**	**81,895**
Total other comprehensive income			**44,346**		132,137		**(269,812)**		**41,634**
Total comprehensive income, net of taxes		**Ps.**	**1,183,602**	**Ps.**	**908,012**	**Ps.**	**1,820,788**	**Ps.**	**1,902,784**
Total comprehensive income for the year attributable to:									
Owners of the parent			736,871		585,235		1,128,056		1,250,796
Non-controlling interest			446,731		322,777		692,732		651,988
		Ps.	**1,183,602**	**Ps.**	**908,012**	**Ps.**	**1,820,788**	**Ps.**	**1,902,784**

See notes that are an integral part of the condensed consolidated financial statements.

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Grupo Aval Acciones y Valores S.A. and Subsidiaries
Consolidated Statement of Changes in Equity for the six-month periods ended at June 30, 2018 and 2017
(Figures in millions of Colombian pesos)

		Subscribed and paid-in capital		Additional paid - in capital		Retained earnings		Other comprehensive income (OCI)		Equity attributable to owners of the parent		Non-controlling interest		Total equity
Balance at December 31, 2016	**Ps.**	**22,281**	**Ps.**	**8,416,780**	**Ps.**	**6,771,926**	**Ps.**	**423,080**	**Ps.**	**15,634,067**	**Ps.**	**9,268,612**	**Ps.**	**24,902,679**
Acquisition of non-controlling interest		-		(4,096)		-		-		**(4,096)**		-		**(4,096)**
Refund of advances for capitalizations		-		-		-		-		**-**		(16,544)		**(16,544)**
Tax uncertainties		-		-		16,775		-		**16,775**		6,435		**23,210**
Dividends declared		-		-		(1,310,124)		-		**(1,310,124)**		(563,957)		**(1,874,081)**
Other comprehensive income		-		-		-		39,057		**39,057**		2,577		**41,634**
Net income		-		-		1,206,307		-		**1,206,307**		654,843		**1,861,150**
Wealth tax		-		-		(73,598)		-		**(73,598)**		(31,169)		**(104,767)**
Balance at June 30, 2017	**Ps.**	**22,281**	**Ps.**	**8,412,684**	**Ps.**	**6,611,286**	**Ps.**	**462,137**	**Ps.**	**15,508,388**	**Ps.**	**9,320,797**	**Ps.**	**24,829,185**

		Subscribed and paid-in capital		Additional paid - in capital		Retained earnings		Other comprehensive income (OCI)		Equity attributable to owners of the parent		Non-controlling interest		Total equity
Balance at December 31, 2017	**Ps.**	**22,281**	**Ps.**	**8,412,685**	**Ps.**	**7,573,912**	**Ps.**	**223,543**	**Ps.**	**16,232,421**	**Ps.**	**9,745,829**	**Ps.**	**25,978,250**
Changes in accounting policies (*)		-		(109,254)		(961,993)		610,479		**(460,768)**		(374,839)		**(835,607)**
Balance at January 1, 2018	**Ps.**	**22,281**		**8,303,431**		**6,611,919**		**834,022**		**15,771,653**		**9,370,990**		**25,142,643**
Dividends declared		-		-		(1,069,176)		-		**(1,069,176)**		(624,344)		**(1,693,520)**
Other comprehensive income		-		-		-		(151,204)		**(151,204)**		(118,608)		**(269,812)**
Net income		-		-		1,279,260		-		**1,279,260**		811,340		**2,090,600**
Balance at June 30, 2018	**Ps.**	**22,281**	**Ps.**	**8,303,431**	**Ps.**	**6,822,003**	**Ps.**	**682,818**	**Ps.**	**15,830,533**	**Ps.**	**9,439,378**	**Ps.**	**25,269,911**

(*)The Group adopted IFRS 9 and IFRS 15 as of January 1, 2018 prospectively. (See Note 2.)

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Grupo Aval Acciones y Valores S.A. and Subsidiaries
Condensed Consolidated Statement of Cash Flows for the six-month periods ended June 30, 2018 and 2017
(Figures in millions of Colombian pesos)

		June 30, 2018 (*)		June 30, 2017
Cash flows from operating activities:				
Net income before tax expense	Ps.	3,015,433	Ps.	2,737,069
Reconciliation of net income before taxes and net cash provided by operating activities:				
Depreciation and amortization		455,739		438,916
Impairment losses of loans and receivables		1,702,560		1,763,158
Net interest income		(5,274,998)		(4,740,436)
Gains on sales of non-current assets held for sale		(6,717)		(1,589)
(Losses) Gain on sales of property, plant and equipment		23,104		(6,416)
Foreign exchange gains		26,801		(26,316)
Income proceeds of investments in associates and joint Ventures		(88,546)		(89,337)
Other adjustment for reconciliation net income		(68,132)		(148,382)
Fair value adjustments on:				
Investment property and biological assets		(17,464)		(19,119)
Non-current assets held for sale		6		13,605
Derivative financial instruments		160,661		(16,368)
Changes in operating assets and liabilities:				
Decrease in financial assets held for trading		1,482,446		1,779,404
Increase in other accounts receivable		(64,977)		(107,843)
Decrease (increase) in non-current assets held for sale		7,625		4,660
(Increase) Decrease in other assets		(38,517)		43,531
(Decrease) in other liabilities, provisions and employee benefits		(14,408)		(1,139,864)
Decrease (Increase) in loans and receivables		7,029,045		(1,857,303)
(Decrease) increase in customer deposits		(2,079,766)		5,254,344
Increase in interbank borrowings and overnight funds		2,138,357		156,605
(Decrease) in borrowings from development entities		(797)		(1,288)
(Decrease) increase in borrowings from banks and others		(915,900)		1,056,298
Interest paid		(3,270,608)		(4,364,458)
Income tax payments		(872,904)		(506,168)
Equity tax payments		-		(53,421)
Net cash provided by operating activities	**Ps.**	**3,328,043**	**Ps.**	**3,883,888**
Cash flows from investing activities:				
Acquisition of property plant and equipment	Ps.	(255,781)	Ps.	(209,073)
(Increase) in available for sale financial assets		(2,432,880)		163,757
Purchases of held-to-maturity financial assets		(1,929,663)		(4,373,715)
Maturities of held-to-maturity financial assets		1,722,098		3,342,279
Additions of other intangible assets		(151,497)		(112,719)
Proceeds from sales of property and equipment		66,247		36,092
Dividends received from investments		170,695		109,628
Capitalization of intangible assets in concession contracts		(552,453)		(222,098)
Decrease of other items related to investment activities		29,427		63,034
Net cash used in investing activities:	**Ps.**	**(3,333,807)**	**Ps.**	**(1,202,815)**
Cash Flows from financing activities:				
Dividends paid to shareholders	Ps.	(593,884)	Ps.	(653,904)
Dividends paid to non-controlling interest		(398,606)		(433,706)
Issuance of debt securities		915,944		1,537,129
Payment of outstanding debt securities		(559,835)		(2,991,943)
Net cash provided by (used in) financing activities	**Ps.**	**(636,381)**	**Ps.**	**(2,542,424)**
Effect of foreign currency changes on cash and cash equivalents		**(519,528)**		**627,130**
(Decrease) increase in cash and cash equivalents		**(1,161,673)**		**765,779**
Cash and cash equivalents at the beginning of the period	**Ps.**	**22,336,838**	**Ps.**	**22,193,004**
Cash and cash equivalents at the end of the period	**Ps.**	**21,175,165**	**Ps.**	**22,958,783**

The accompany notes and appendices are an integral part of the consolidated financial statements.

(*) The Group adopted IFRS 9 and IFRS 15 as of January 1, 2018 prospectively. (See Note 2.)

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NOTE 1 – REPORTING ENTITY

Grupo Aval Acciones y Valores S.A. (hereinafter the "The Group" or "Grupo Aval") was established under Colombian law in January 7, 1994, with its main offices and business address registered in Bogotá, D.C., Colombia. The corporate purpose of Grupo Aval is the purchase and sale of securities issued by financial and comercial entities. Grupo Aval is the majority shareholder of Banco de Bogotá S.A., Banco de Occidente S.A., Banco Popular S.A. and Banco Comercial AV Villas S.A., entities whose main purpose is to perform all transactions, operations and services inherent to the banking business, pursuant to applicable laws and regulations. Furthermore, through its direct and indirect investments in Corporación Financiera Colombiana S.A. ("Corficolombiana") and in Sociedad Administradora de Fondos de Pensiones y Cesantías Porvenir S.A. ("Porvenir"), Grupo Aval engages in investment banking activities, invests in the non-financial sector and manages pensions and severance funds in Colombia..

NOTE 2 – BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements have been prepared in accordance with International accounting standards accepted in Colombia, issued and effective at December 31, 2015 and included as an appendix of Decree 2170 from 2017, issued by the Colombian Government, which includes the IAS 34 Interim Financial Reporting.

These interim financial statements do not include all of the information required for a complete set of IFRS financial statements and should be read in conjunction with the Group's last annual consolidated financial statements as of and for the year ended 31 December 2017.

However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

Grupo Aval does not present seasonal or cyclical effects on its disclosed revenue.

Changes in significant accounting policies

Except for the changes described below, the accounting policies applied in these interim financial statements are the same as those applied by Grupo Aval in the financial statements for the year ended December 31, 2017.

Changes in accounting policies are also expected to be reflected in the financial statements for the year ended December 31, 2018.

Grupo Aval has initially adopted IFRS 15 Income from contracts with customers as described below (see section A); IFRS 9 Financial instruments (see section B); and changes in recognition of employee benefits under IAS 19 and the equity recognition between the difference between the portfolio provisions of the separate balance sheet and the consolidated balance sheet (see section C). These changes are reflected as of January 1, 2018.

A. IFRS 15 Income from contracts with customers.

IFRS 15 establishes a comprehensive framework to determine how much and when income is recognized, it replaced IAS 18 Revenue, IAS 11 Construction Contracts and other policies related to its interpretations.

The Group has adopted IFRS 15 prospectively, recognizing the effect of initial adoption of this standard as of January 1, 2018. Consequently, the information presented for 2017 has not been modified with the adoption of the aforementioned standards.

(Figures in millions of Colombian pesos)

The following table summarizes the impact, net of taxes, of the adoption of IFRS 15 in the statement of financial position as of January 1, 2018.

		Impact of the adoption of IFRS 15 to January 1, 2018
Customer loyalty programs	Ps.	32,232
Deferred tax associated to customer loyalty programs		(18,055)
Concession arrangements rights		55,706
Deferred tax associated to concession arrangements rights		(15,573)
Net impact at January 1, 2018	**Ps.**	**54,310**

Impact in asset and liabilities of the adoption of IFRS 15	Balance at December 31, 2017	Adjustment IFRS 15	Impact of the adoption of IFRS 15 at January 1, 2018
Assets			
Concession arrangements rights	3,114,167	55,706	3,169,873
Deferred tax	138,464	(18,055)	120,409
Total assets	**236,641,700**	**37,652**	**236,679,352**
Liabilities			
Customer loyalty programs	6,928,081	(32,232)	6,895,849
Deferred tax	1,747,283	15,573	1,762,856
Total liabilities	**210,663,450**	**(16,657)**	**210,646,793**
Equity			
Equity attributable to owners of the parent	**16,232,421**	**27,721**	**16,260,142**
Non-controlling interest	**9,745,829**	**26,589**	**9,772,418**
Total equity	**25,978,250**	**54,310**	**26,032,560**
Total liabilities and equity	**236,641,700**	**37,652**	**236,679,352**

Income from contracts with customers (Replaces: Income from commissions and collections and income from services and sale of goods).

The group recognizes income from contracts with customers based on a five-step model established in IFRS 15:

Step 1. Identify contracts with customers: A contract is defined as an agreement between two or more parties, which creates rights and obligations and establishes criteria that must be met for each contract. Contracts can be written, verbal or implicit through the customary business practices of a company.

Step 2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a client for the transfer of a good or service to the client.

Step 3. Determine the transaction price: The transaction price is the payment amount that the group expects to be entitled to in exchange for the transfer of the goods or services promised to a client, without taking into account the amounts received in representation of third parties.

Step 4. Allocate the transaction price to the performance obligations in the contract: In a contract that has more than one performance obligation, the Group distributes the transaction price among the performance obligations in amounts that represent the rights the Group expects to be entitled to after meeting each performance obligation.

Step 5. Recognition of income when the entity fulfils a performance obligation.

The Group fulfils a performance obligation and recognizes income over time, if any of the following criteria is met:

a) The Group's performance does not create an asset with an alternative use for the Group, and the Group has an enforceable right for payment associated to the performance completed to date.

b) The group's performance creates or improves an asset that the client controls as it is created or improved.

c) The client at the same time receives and consumes the benefits that result from the performance of the Group.

For performance obligations where none of the indicated conditions is met, income is recognized when the performance obligation is fulfilled.

When the Group fulfills a performance obligation through the delivery of the promised goods or services, it creates a contractual asset for the amount of the consideration associated with the Group’s performance. When the amount of the consideration received by a client exceeds the amount recognized as income, a contractual liability arises.

Income is measured based on the consideration specified in the contract with the customer, and excludes the amounts received on behalf of third parties. The Group recognizes income when it transfers control over a good or service to a customer. Income is registered net of value added tax (VAT), reimbursements and discounts and after eliminating intragroup sales.

The Group evaluates its income plans based on specific criteria to determine whether it acts as principal or agent.

Income is recognized to the extent that the economic benefits are likely to be received by the Group and if it is possible to reliably measure revenues and costs, if any.

The main activities through which the Group generates income from contracts with customers are described below:

(i) Banking (financial services)

Banks usually sign contracts that cover several different services. Such contracts may contain components that are within or outside the scope of IFRS 15. For this reason, banks only apply the rules of IFRS 15 when all or part of their contracts are outside of the scope of IFRS 9.

The sources of income obtained by banks through contracts with clients are the following:

- Credit cards: Exchange fees, general fees (annual, quarterly, monthly), loyalty programs

There are contracts that create rights and obligations due between the bank and cardholders or merchants, under which the bank usually provides services in exchange for annual or other fees. Below are some of the services that may exist in the contract with the cardholder are described below:

- Customer loyalty programs (options for acquiring free or discounted goods / services in the future), which are usually based on the monetary volume of card transactions,
- Payment processing services,
- Insurance, where the bank is not the insurer,
- Protection against fraud, and
- Processing of certain transactions, such as purchases in foreign currency and cash withdrawals.

The transaction price is assigned to each performance obligation based on the relative sales prices of the goods or services provided to the customer. The allocation of the transaction price to each individual performance obligation is not absolutely necessary when there is more than one performance obligation, when all are met at the same time or equally during the period.

- Commissions:

Banks receive insurance commissions when they refer new clients to third-party insurance sellers, and the bank is not in itself the insurer of the policy. These commissions are usually paid periodically (monthly, for example) to banks based on the volume of new policies (and / or renewal of existing policies) generated with clients referred by the bank. The transaction price may include a variable portion or a portion payable subject to the outcome of future events, such as policy cancellations. These portions are estimated and included in the transaction price based on the most probable amount, so it is included in the transaction price only when it is very likely that the resolution of said uncertainty will not lead to a significant reversal in income.

Commitment fees are within the scope of IFRS 15 when it is unlikely that an specific loan agreement will arise and when the commitment is not measured at fair value through profit or loss.

IFRS 15 contemplates loan syndication fees received by a bank that agrees to a loan and does not retain any part of the loan package for itself (or retains a portion to the same EIR (earning interest rate) in English or IRR (internal rate of return) for purposes of comparable risk with other participants).

• Savings accounts and checking accounts: Transaction and account fees

Savings account and checking account contracts generally allow clients to access a series of services, which include the processing of electronic transfers, the use of ATMs to withdraw cash, the issuance of debit cards, and the generation of bank statements. Sometimes they include other benefits. Collections are made periodically and give the customer access to banking services and additional benefits.

• Investment banking: placement and consulting fees

Consulting contracts with clients are not standardized. These contracts may constitute different promises made to customers, which usually include a variable portion that takes into account contingent fees that are only payable when meeting agreed goals.

(ii) Asset management

Asset management revenues consist of basic management fees, consulting fees, distribution of incentives and incentive fees based on the performance resulting from the sale of services. Revenues from basic management fees, consultancy fees and incentive distributions are recorded based on the accrual taking into account the amounts receivable at each period.

Income from incentive fees based on performance and profit-sharing agreements are recorded based on the accrual taking into account the amount that would be payable under the established formula in the contract when said amount is no longer subject to adjustments resulting from future events.

If the amount expected by the asset manager is variable, the variable portion included in the transaction price is limited to the amount for which it is "very likely that there will not be a significant reversal of recognized accumulated revenue when resolving the uncertainty”. When making this assessment, the Group takes into account both the probability and magnitude of the income reversal. Some factors that could increase the probability or magnitude of a reversal of income are, among others, the following: (i) the variable portion is very susceptible to factors that are outside the influence of the entity, (ii) the uncertainty associated to the variable portion is not expected to be resolved in the long term, and (iii) the contract has a large amount and a wide range of possible amounts associated to the variable portion.

Management fees are usually based on net assets under management, while performance fees are based on profits generated from the underlying investments held by funds subject to certain limits.

The contractual measurement period for performance fees for traditional fund managers is usually the end of the month, the quarter and, in some cases, a longer period. Sometimes, performance fees are restricted until the contractual measurement period is completed. This means that in general, total income will not be recognized in the interim periods. However, management must determine if there is a part (a minimum amount) of the variable portion that should be recognized before the end of the contractual measurement period. The total amount of the charge will probably be recognized at the end of the contractual measurement period when the asset manager obtains the right to a fixed amount. In some cases, the total amount of the charge is recognized when there is a payment given that the amount becomes fixed at that time and is no longer subject to reversal.

(iii) Operation and construction services (Concessions)

In concession arrangement rights, the Group determines that its performance obligations (construction, operation and maintenance) have been met over time and measures its progress towards completion to determine the time for income recognition using a method that represents the transfer of goods or services to the client. The Group takes into account the nature of the products or services provided and the terms of the contract, such as the right to cancellation, rights to demand or withhold payments, and the legal right to work in a process to determine the best method of entry or output to measure the progress towards with the fulfilment of a performance obligation.

The Group uses a single method to measure progress in each performance obligation within a contract. The method can be input (cost incurred, hours worked) or output (units produced, goals achieved).

The estimates of income, costs or degree of progress towards completion are reviewed if circumstances change. Any increase or decrease in estimated revenues or costs is reflected in the income statement in the period in which management learned of the circumstances that led to the review.

(iv) Energy and public services

The contracts between a client and a public service for the purchase, delivery and sale of gas or electricity, establish the rates and terms of the service. The Group determined that its obligation to sell electricity or gas represents a single performance obligation, which is fulfilled over time (in other words, the sale of electricity or gas over the duration of the contract represents a series of defined assets that are substantially the same and have the same transfer pattern to the client).

Some contracts include multiple deliverables, such as the installation of connections or repairs, which are accounted for as separate performance obligations. The transaction price is assigned to each performance obligation based on the individual sale prices (regulated rates). If the contracts include the installation of goods, the income of the goods is recognized at the point at which the goods are delivered, the legal title is passed and the client has accepted said goods.

(v) Logistics

Transportation and logistics companies offer multiple products or services to their customers as part of a single agreement. Separate performance obligations are identified in an agreement based on the terms of the contract and the Group's usual business practices.

Revenue recognition criteria are, in most cases, applied separately to each performance obligation. In certain circumstances, it may be necessary to separate a transaction into identifiable components to reflect the content of the transaction. It may be necessary to group two or more transactions when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole.

The transaction price is assigned to performance obligations separately in a contract based on the relative independent selling price of each separate performance obligation.

(vi) Customer loyalty programs

The Group’s financial institutions and hotels manage many customers loyalty programs in which customers accumulate points for their purchases, which entitles them to redeem said points under the policies and the current rewards plan on the date of redemption. Reward points are recognized as an identifiable component, separate from income for services rendered, at fair value. Revenues from loyalty programs are deferred and recognized in the income statement when the entity has fulfilled its obligations to provide the products under the terms of the program or when it is unlikely that the program rules will be redeemed. A contractual liability is recognized until the points are redeemed or expire.

The Group acts as a principal in a customer loyalty program if it has control of the goods or services of another party in advance, or if it transfers control of said goods or services to a customer. The Group acts as an agent if its performance obligation is to organize the other party to provide the goods or services.

(vii) Agricultural crops

The Group sells agricultural products. Sales are recognized when control over the products has been transferred. When the products are delivered to the wholesaler, he has total discretion over the channel and price to sell the products, and there are no unfulfilled obligations. The delivery occurs when the products have been shipped to a specific location, when the risks of obsolescence and loss have been transferred to the wholesaler, and when the wholesaler has accepted the products according to the sales contract, the acceptance criteria have expired, or when the group has objective evidence that all acceptance criteria has been met.

Income from these sales is recognized based on the price, net of discounts, that has been specified in the contract. Accumulated experience is used to estimate and provide discounts, using the most probable amount, and income is only recognized when it is very likely that there will not be a significant reversal. No financing is considered when sales are made with a credit of less than 3 months, which is consistent with market practices. An account receivable is recognized when the goods are delivered given that this is the moment when the consideration is unconditional, since only time is required for it to be paid.

For this reason, a contractual liability (reimbursement liability) and a right for returned goods (included in other current assets) are recognized for the products that will be returned. Accumulated experience is used to estimate these returns at the time of sale (expected value method). Given that the number of products returned has been stable for years, it is very likely that there will not be a significant reversal in the accumulated income. The validity of this assumption and the estimated amount of returns is re-evaluated on each reporting date.

(viii) Hotel services

Sources of income:

• Administration fees are received by the hotels managed by the Group, usually from long-term contracts with the hotel owners. Administration fees include a basic charge, which are usually a percentage of the hotel's income, and which is recognized upon receipt under the terms of the contract, and an incentive fee, which is usually based on the hotel's profitability or cash flows, and it is recognized when the corresponding performance criteria are met under the terms of the contract.

• Income from operating owned or leased hotels, including room rental and food and beverage sales.

Income is recognized at the time that goods are sold or that services are provided.

(ix) Financing components

The Group adjusts transactional prices to the time value of money for contracts where the period between the transfer of goods or services promised to the customer and the payment by the customer is greater than one year.

The Group has established new items in its presentation of the income statement in compliance with the requirements of the IFRS 15 standard.

B. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognition and measurement of financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The following table summarizes the impact, net of tax, of our transition to IFRS 9 on the opening balance of reserves and retained earnings and OCI at January 1, 2018 (for a description of the transition method, see (iv) below).

	Detail		Impact of adopting IFRS 9 on opening balance
Recognition of expected credit losses under IFRS 9	ii.		(1,222,097)
Recognition of changes on classification under IFRS 9	i.		(15,381)
Related tax			381,118
Impact at 1 January 2018		**Ps.**	**(856,360)**

Details on the new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

i. Classification and Measurement of Financial Assets and Liabilities

IFRS 9 (2014 version) includes a new classification and measurement approach for financial assets and is generally based on the business model in which a financial asset is managed and the characteristics of its contractual cash flow.

IFRS 9 (2014 version) includes three main classification categories for financial assets: measured at amortized cost (AC), at fair value through other comprehensive income (FVOCI), and at fair value through profit or loss (FVTPL)

The new standard complements the two existing categories in the previous IFRS 9 of AC and FVTPL that are currently in force in Colombia for the consolidated financial statements, adding the FVOCI category.

Financial assets are measured at amortized cost if they meet both of the following conditions and are not designated at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Financial assets are measured at FVOCI only if they meet both of the following conditions and are not designated at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and the sale of financial assets; and

- its contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

Upon initial recognition of an equity investment that is not held for trading, Grupo Aval may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at AC or FVOCI as described above are measured at FVTPL. In addition, upon initial recognition, Grupo Aval may irrevocably designate a financial asset that otherwise would meet the requirements to be measured at amortized cost or at FVOCI at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

All financial asset are classified into one of these categories upon initial recognition. See (vii) for the transition requirements relating to the classification of financial assets.

Under IFRS 9 (2014 version), derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the financial instrument as a whole is assessed for classification, at FVTPL.

Business Model Assessment

Grupo Aval assesses the objectives of the various business models in which financial assets are held at a portfolio level because this best reflects how business is managed at each subsidiary, and how information is provided to management. The information assessed includes:

- the stated policies and objectives set out for each portfolio and the operation of those policies in practice, including whether management's strategy is focused on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to both Grupo Aval's and its subsidiaries' management;
- the risks that affect the business model's performance (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, value and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how Grupo Aval's stated objectives for managing financial assets are achieved and how cash flows are realized.

Financial assets that are held for trading and managed, whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment Whether Contractual Cash Flows Are Solely Payments of Principal and Interest (SPPI Test)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset upon initial recognition. 'Interest' is defined as the consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

Grupo Aval will consider the contractual terms of the instrument by assessing whether the contractual cash flows are solely payments of principal and interest. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, Grupo Aval will consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;

(Figures in millions of Colombian pesos)

- terms that limit Grupo Aval's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic review of interest rates.

Interest rates on certain corporate and retail loans originated by Grupo Aval are pegged to standard variable rates (SVRs) generally used in each country where the group operates and includes a discretional spread. In Colombia, the SVRs are based on the DTF and IBR rates which are calculated weekly by the Central Bank based on information collected from the Colombian financial system, plus a discretionary spread, and in the case of loans in foreign currency the group uses libor interest rates plus a discretionary spread. In these cases, Grupo Aval will assess whether the discretionary feature is consistent with the SPPI criteria by considering a number of factors, including whether:

- The borrowers are able to prepay the loans without significant penalties. Colombian regulation does not allow for penalties charged on prepayments.
- the market competition ensures that interest rates are consistent between banks; and
- any regulatory or customer protection framework is in place that requires banks to treat customers fairly.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, and the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant upon initial recognition.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. See (iii) below for derivatives designated as hedging instruments.
Financial assets at AC	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses (see (ii) below). Interest income, foreign exchange gains and losses and impairment losses are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses on valuation are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

The effect of adopting IFRS 9 (2014 version) on the carrying amounts of financial assets at 1 January 2018 relates solely to the new classification and impairment requirements, as described further below.

The following table and the accompanying notes below explain the original measurement categories under IFRS 9 (2012 version) and the new measurement categories under IFRS 9 (2014 version) for each class of the Group's financial assets at 1 January 2018

	Original classification under IFRS 9 (2012 version)	**New classification under IFRS 9 (2014 version)**		**Original carrying amount under IFRS 9 (2012 version)**		**New carrying amount under IFRS 9 (2014 version)**
Financial assets						
Cash and cash equivalents	Amortized cost	Amortized cost	Ps.	22,336,838	Ps.	22,336,838

(Figures in millions of Colombian pesos)

	Original classification under IFRS 9 (2012 version)	New classification under IFRS 9 (2014 version)		Original carrying amount under IFRS 9 (2012 version)		New carrying amount under IFRS 9 (2014 version)
Debt securities	Amortized cost	Amortized cost		10,061,747		2,899,039
		At Fair Value (FVTPL)				23,642
		At Fair Value (FVOCI)				7,101,335
	At Fair Value (FVTPL)	Amortized cost		13,315,686		-
		At Fair Value (FVTPL)				2,635,150
		At Fair Value (FVOCI)				10,680,536
Equity securities	At Fair Value (FVTPL)	At Fair Value (FVTPL)		2,149,159		-
		At Fair Value (FVOCI)				2,149,159
	At Fair Value (FVOCI)	At Fair Value (FVTPL)		926,285		-
		At Fair Value (FVOCI)				926,285
Derivatives	At Fair Value (FVTPL)	At Fair Value (FVTPL)		383,653		383,653
Loans and leases receivables	Amortized cost	Amortized cost		166,372,776		166,372,172
		At Fair Value (FVTPL)				604
Other receivables	Amortized cost	Amortized cost		4,466,134		4,466,134
Assets under concession contracts	At Fair Value (FVTPL)	At Fair Value (FVTPL)		2,282,611		2,282,611
Total financial assets			**Ps.**	**222,294,889**	**Ps.**	**222,257,158**

ii. Impairment of financial assets

IFRS 9 (2014 version) replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model "ECL". This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.
The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- loans and lease receivables; and
- Loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

Under IFRS 9 (version 2014), no impairment loss is recognized on equity investments.

IFRS 9 (version 2014) requires a loss allowance on FVOCI financial instruments to be recognized at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from possible default events within the 12 months after the reporting date.

Grupo Aval will recognize a loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognized will be the 12-month ECLs:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments (other than short term others receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for loans and lease receivables will always be measured at an amount equal to lifetime ECLs.

IFRS 9 impairment requirements are complex and require management judgements, estimates and assumptions, particularly in the following areas:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

Measurement of ECLs

ECLs are probability-weighted of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due in accordance with the contract and the cash flows that Grupo Aval expects to receive, considering a 12-month ECL for financial assets for which credit risk has not significantly increased since initial recognition, and life-time ECL for financial assets with significant increase in credit risk since initial recognition;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to Grupo Aval if the commitment is drawn down and the cash flows that Grupo Aval expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that Grupo Aval expects to recover.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39 (see note 2.6 g).

Definition of Default

Under IFRS 9, Grupo Aval considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to Grupo Aval in full, without recourse by Grupo Aval to actions such as realizing collateral (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to Grupo Aval. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.
- Clients in bankruptcy proceedings, such as Law 1116 for the case of the Colombian Goverment
- Fixed income financial instruments include the following concepts, among others:
  - External rating of the issuer or instrument in rating D.
  - Contractual payments are not made on the due date or within the stipulated period or grace period.
  - There is a very high probability of suspension of payments.
  - The issuer likely to go bankrupt or file for bankruptcy or similar action.
  - The financial asset no longer has an active market given its financial difficulties.

In assessing whether a borrower is in default, Grupo Aval will consider indicators that are:
- qualitative: e.g. breaches of covenants;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to Grupo Aval; and
- based on internally developed data and obtained from external sources.

Inputs used in the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant Increase in Credit Risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) of a financial instrument has increased significantly since initial recognition, Grupo Aval will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on Grupo Aval's historical experience, expert credit assessment and forward-looking information.

Grupo Aval will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:
- the remaining lifetime probability of default (PD) at the reporting date; with
- the remaining lifetime PD at this point in time that was estimated upon initial recognition of the

exposure.
- Qualitative aspects and the rebuttable presumption of the norm (30 days) are also considered.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument.

Credit Risk Grades

Grupo Aval will allocate each exposure to a credit risk grade based on a variety of data intended to be predictive of the probability of default and applying experienced credit judgement. Grupo Aval will use these grades with the purpose identifying significant increases in credit risk under IFRS 9 (version 2014). Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Each exposure will be allocated to a credit risk grade upon initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Generating the Term Structure of PD

Credit risk grades will be the primary input in the determination of the term structure of PD for exposures. Grupo Aval will collect performance and default information about its credit risk exposures analyzed by jurisdiction or region, by type of product and borrower and by credit risk grade. For some portfolios, information purchased from external credit reference agencies may also be used.

Grupo Aval will employ statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as an in-depth analysis of the impact of certain other factors (e.g. charge-offs) on the risk of default. For most exposures, key macro- economic indicators are likely to include GDP growth, benchmark interest rates and unemployment.

For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/ or real estate prices.

Grupo Aval’s approach to incorporating forward-looking information into this assessment is discussed below.

Grupo Aval has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk of a particular financial instrument has increased significantly since initial recognition. The framework is aligned with Grupo Aval’s internal credit risk management process.

The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

Grupo Aval will deem the credit risk of a particular exposure to have increased significantly since initial recognition if, based on Grupo Aval’s quantitative modelling, the remaining lifetime PD is determined to have increased significantly since initial recognition. The remaining lifetime PD is adjusted for changes in maturity when determining any increase in credit risk.

In certain instances, using its expert credit judgement and, where possible relevant historical experience, Grupo Aval may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, Grupo Aval will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

Grupo Aval will monitor the effectiveness of the criteria used in identifing significant increases in credit risk through regular reviews to confirm that:

- the criteria are useful in identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes over 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

Modified Financial Assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:
- the remaining lifetime PD at the reporting date based on the modified terms;
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

Grupo Aval renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default.

For financial assets modified as part of Grupo Aval's forbearance policy, the estimate of PD will reflect whether the modification has improved or restored Grupo Aval's ability to collect interest and principal and Grupo Aval's previous experience on similar forbearance actions. As part of this process, Grupo Aval will evaluate the borrower's payment performance against the modified contractual terms and consider various behavioral indicators.

Generally, forbearance is indicative of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit risk. As such, a restructured customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

Inputs for the measurement of ECLs

The key inputs for the measurement of ECLs are usually the term structures of the following variables:
- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed statistical models and other historical data that leverage regulatory models. They will be adjusted to reflect forward-looking information as described below.

PD estimates are estimated at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, this will lead to a change in the estimate of the associated PD. PDs will be estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss in the event of default. Grupo Aval will estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models will consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value (LTV) ratios will be a key parameter in determining LGD. Estimates will be calibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They will be calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of default. Grupo Aval will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortization and prepayments. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts. For some financial assets, Grupo Aval will determine EAD by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has significantly increased, Grupo Aval will measure ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which there is exposure to credit risk, even if for risk management purposes, Grupo Aval considers a longer period. The maximum contractual period extends to the date at which Grupo Aval has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For retail overdrafts and credit card facilities and certain corporate revolving facilities that include both a loan and an undrawn commitment component, Grupo Aval will measure ECLs over a period longer than the maximum contractual period if Grupo Aval's contractual ability to demand repayment and cancel the undrawn commitment does not limit Grupo Aval's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. Grupo Aval can cancel them with immediate effect but the contractual right is not enforced in the normal day-to-day management, rather when Grupo Aval becomes aware of an increase in credit risk of a particular facility. This longer period will be estimated taking into account the credit risk management actions that Grupo Aval expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

Whenever modelling of a parameter is carried out on a collective basis, the financial instruments will be grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk ratings;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings will be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Forward-looking Information

Under IFRS 9 (2014 version), Grupo Aval incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. Grupo Aval will formulate a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on recommendations from the Group's Market Risk Committee, forecasts provided by economic experts and considering a variety of external actual and forecast information. This process will involve developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organizations such as the Organization for Economic Co-operation and Development (OCDE) and the International Monetary Fund, and selected private sector and academic forecasters.

(Figures in millions of Colombian pesos)

The base case will represent a most-likely outcome and be aligned with information used by Grupo Aval for other purposes, such as strategic planning and budgeting. The other scenarios will represent more optimistic and more pessimistic outcomes. Grupo Aval intends to calibrate these scenarios with the stress-testing tools in place in each of its subsidiaries.

Impact of the new impairment model

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional impairment allowance as follows:

Loss allowance at 31 December 2017 under IAS 39 9	**Ps.**	**5,940,413**
Additional impairment recognized at 1 January 2018 on:		
Loans and receivables:		1,164,897
Other accounts receivable		24,648
Debt securities and other liquid financial assets		32,552
Loss allowance at 1 January 2018 under IFRS 9	**Ps.**	**7,162,510**

iii. Hedge Accounting

When initially applying IFRS 9, Grupo Aval may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9. Grupo Aval has elected to continue to apply IAS 39 until macro-hedging project has finalized.

iv. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 are generally applied retrospectively, except as described below.

- Grupo Aval will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement changes (including impairment).
- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognized in retained earnings and reserves as at January 1, 2018. The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - If a debt investment security has low credit risk at January 1, 2018, then Grupo Aval will determine that the credit risk on the asset has not increased significantly since initial recognition.

C. Change in accounting policies.

Taking into account the current regulatory context, Grupo Aval has determined to make changes to the accounting policies prospectively in the preparation of the consolidated financial statements which are presented below:

a) Equity reclassification of the allowance for loan losses between OCI accounts and retained earnings, in accordance with IFRS9.
b) Recalculation of employee benefits taking into account the provisions of IAS 19.
c) Taxes related to the previous literals.

The following table summarizes the impact, net of taxes, of changes in accounting policies.

	Impact of changes in accounting policies at January 1, 2018
Employee benefits	(55,576)
Other adjustment	(4,318)
Deferred tax	26,337
Impact at January 1, 2018	**(33,557)**

NOTE 3 – USE OF JUDGEMENTS AND ESTIMATES

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation were the same as those described in the last annual financial statements ended on December 31, 2017, except for those disclosed in note 2, literal A, B and C.

Measurement of fair values

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and the valuation techniques used may not fully reflect all the factors relevant to the positions of Grupo Aval. Therefore, the appraisals are adjusted, if necessary, to allow for additional factors, including country risk, liquidity risks and counterparty risks.

The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for assets or liabilities identical to those which the entity can access as of the date of measurement.
- Level 2 inputs are inputs different than quoted prices included in Level 1 that are observable for the asset or liability, whether directly or indirectly in non-active markets.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which fair value measurement is classified in whole is determined based on the input of the lowest level that is most significant for measuring its total fair value. For such purpose, the relevance of an input is assessed in connection with to measurement of the total fair value. Financial instruments that are listed in markets that are not deemed active, but which are valued based in accordance with quoted market prices, quotes from price vendors or alternative price sources supported by observable inputs, are classified in Level 2.

If a fair value measurement uses observable inputs that require significant adjustments based on unobservable inputs, this measurement is classified as Level 3. The assessment of the importance of a particular input to the measurement of fair value in whole requires judgment, taking into account specific factors of the asset or liability.

Determining what is deemed as 'observable' requires a significant judgment by Grupo Aval. Grupo Aval considers as observable data the market data which is already available, distributed or updated by the price suppliers, and it is reliable and verifiable, with no property rights, and provided by independent sources which are actively involved in the reference market.

(Figures in millions of Colombian pesos)

NOTE 4 – FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

a) Carrying value and fair value

The following table presents an analysis, within the hierarchy of fair value, of Grupo Aval´s assets and liabilities (by class), measured at fair value as of June 30, 2018 and December 31, 2017 on a recurring basis. For financial instruments that are not measured at fair value if the carrying amount is a reasonable approximation of fair value, fair value information is not included:

	Carrying Value	Fair Value			
June 30, 2018		**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets					
Cash and cash equivalents	**Ps. 21,175,165**				**21,175,165**
Financial instruments at fair value through profit or loss					
Investments in debt securities through profit or loss	**Ps. 2,421,547**	**Ps. 892,332**	**Ps. 1,513,954**	**Ps. 15,261**	**Ps. 2,421,547**
Securities issued or secured by Colombian Government	1,008,309	859,668	148,641	-	1,008,309
Securities issued or secured by other entities of the Colombian Government	103,604	25,818	77,786	-	103,604
Securities issued or secured by Foreign Governments	96,554	-	96,554	-	96,554
Securities issued or secured by Central Banks	12,438	-	12,438	-	12,438
Securities issued or secured by other financial entities	1,127,787	6,846	1,120,941	-	1,127,787
Securities issued or secured by Non-financial sector entities	34,391	-	34,391	-	34,391
Other	38,464	-	23,203	15,261	38,464
Investments in debt securities through OCI (1)	**Ps. 19,175,163**	**Ps. 10,673,092**	**Ps. 8,502,071**	**Ps. -**	**Ps. 19,175,163**
Securities issued or secured by Colombian Government	11,886,995	10,073,859	1,813,136	-	11,886,995
Securities issued or secured by other entities of the Colombian Government	514,758	226,827	287,931	-	514,758
Securities issued or secured by Foreign Governments	2,203,959	81,675	2,122,284	-	2,203,959
Securities issued or secured by Central Banks	1,259,333	-	1,259,333	-	1,259,333
Securities issued or secured by other financial entities	2,907,590	290,731	2,616,859	-	2,907,590
Securities issued or secured by Non-financial sector entities	188,749	-	188,749	-	188,749
Other	213,779	-	213,779	-	213,779
Equity securities at fair value through profit or loss	**2,122,861**	**25,012**	**2,073,018**	**24,831**	**2,122,861**
Investments in equity securities through OCI	**911,415**	**765,708**	**52,640**	**93,067**	**911,415**
Held for trading Derivatives	**469,026**		**467,115**	**1,911**	**469,026**
Currency Forward	357,703		355,792	1,911	357,703
Securities Forward	239		239		239
Currency Swap	42,250		42,250		42,250
Interest Rate Swap	45,027		45,027		45,027
Currency Options	23,807		23,807		23,807
Hedging Derivatives	**85,559**		**85,559**		**85,559**
Currency Forward	85,559		85,559		85,559
Financial assets in concession arrangement rights	**2,409,656**	**-**	**-**	**2,409,656**	**2,409,656**

(Figures in millions of Colombian pesos)

	Carrying Value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total
Total financial assets at fair value on recurring basis	**Ps. 27,595,227**	**Ps. 12,356,144**	**Ps. 12,694,357**	**Ps. 2,544,726**	**Ps. 27,595,227**
Financial assets at amortized cost					
Investments in debt securities	**2,961,046**	**17,535**	**2,943,342**	**-**	**2,960,877**
Securities issued or secured by other entities of the Colombian Government	2,932,427	-	2,932,140	-	2,932,140
Securities issued or secured by Foreign Governments	17,536	17,535	-	-	17,535
Securities issued or secured by other financial entities	11,083	-	11,202	-	11,202
Loan portfolio, net (see detail literal f)	**158,305,705**				**153,736,778**
Commercial	93,406,682				
Consumer	48,069,464				
Mortgage	16,496,909				
Microcredit	332,650				
Other accounts receivables, net	**4,290,839**				
Total financial assets at amortized cost	**Ps. 165,557,590**				
Financial Liabilities					
Financial liabilities at fair value					
Trading Derivatives	**478,149**	**-**	**477,284**	**865**	**478,149**
Currency Forward	322,859	-	321,994	865	322,859
Securities Forward	70	-	70	-	70
Interest Rate Swap	33,815	-	33,815	-	33,815
Currency Swap	77,620	-	77,620	-	77,620
Currency Options	43,785	-	43,785	-	43,785
Hedging Derivatives	**46,543**	**-**	**46,543**	**-**	**46,543**
Currency Forward	46,543	-	46,543	-	46,543
Total financial liabilities at fair value on recurring basis	**Ps. 524,692**	**Ps. -**	**Ps. 523,827**	**Ps. 865**	**Ps. 524,692**
Financial liabilities at amortized cost					
Customer Deposits	**151,958,090**				**152,578,208**
Checking accounts	34,025,163				34,155,298
Time deposits	63,831,055				64,406,109
Savings accounts	53,599,104				53,514,033
Others	502,768				502,768
Financial obligations	**46,392,483**				**48,855,233**
Interbank borrowings and overnight funds	7,154,692				8,735,788
Borrowings from banks and others	16,836,461				15,321,392
Bonds issued (see detail “e”)	19,347,311				19,654,909
Borrowings from development entities	3,054,019				3,143,144
Total Financial liabilities at amortized cost	**Ps. 198,350,573**				**199,433,441**

(1) The Group adopted IFRS 15 and IFRS 9 as of January 1, 2018 prospectively. (See Note 2).

(Figures in millions of Colombian pesos)

			Fair Value							
December 31, 2017 (1)		**Carrying Value**		**Level 1**		**Level 2**		**Level 3**		**Total**
Financial Assets										
Cash and cash equivalents	**Ps.**	**22,336,838**								**22,336,838**
Financial assets at fair value										
Investments in debt securities	**Ps.**	**13,315,686**	**Ps.**	**5,690,139**	**Ps.**	**7,605,945**	**Ps.**	**19,602**	**Ps.**	**13,315,686**
Securities issued or secured by Colombian Government		6,854,248		5,423,827		1,430,421		-		6,854,248
Securities issued or secured by other entities of the Colombian Government		507,199		-		507,199		-		507,199
Securities issued or secured by Foreign Governments		1,360,047		29,604		1,330,443		-		1,360,047
Securities issued or secured by Central Banks		1,041,875		-		1,041,875		-		1,041,875
Securities issued or secured by other financial entities		3,387,307		236,708		3,150,599		-		3,387,307
Securities issued or secured by Non-financial sector entities		46,473		-		46,473		-		46,473
Other		118,537		-		98,935		19,602		118,537
Trading equity securities		**2,149,159**		**28,659**		**2,095,160**		**25,340**		**2,149,159**
Investments in equity securities available-for-sale		**926,285**		**768,367**		**50,063**		**107,855**		**926,285**
Trading Derivatives		**328,392**		**-**		**326,814**		**1,578**		**328,392**
Currency Forward		223,955		-		222,377		1,578		223,955
Securities Forward		731		-		731		-		731
Interest Rate Swap		52,970		-		52,970		-		52,970
Currency Swap		33,104		-		33,104		-		33,104
Currency Options		17,632		-		17,632		-		17,632
Interest Rate Options		-		-		-		-		-
Hedging Derivatives		**55,261**		**-**		**55,261**		**-**		**55,261**
Currency Forward		55,261		-		55,261		-		55,261
Financial assets in concession arrangements rights		**2,282,611**		**-**		**-**		**2,282,611**		**2,282,611**
Total financial assets at fair value on recurring basis	**Ps.**	**19,057,394**	**Ps.**	**6,487,165**	**Ps.**	**10,133,243**	**Ps.**	**2,436,986**	**Ps.**	**19,057,394**
Financial assets at amortized cost										
Investments in debt securities										
Securities issued or secured by Colombian Government		3,885,066		3,349,546		512,770		-		3,862,316
Securities issued or secured by other entities of the Colombian Government		3,072,021		-		3,102,996		-		3,102,996
Securities issued or secured by Foreign Governments		862,109		26,852		837,281		-		864,133
Securities issued or secured by Central Banks		349,432		-		349,094		-		349,094
Securities issued or secured by other financial entities		1,470,494		219,647		1,254,483		-		1,474,130
Securities issued or secured by Non-financial sector entities		318,908		-		295,866		-		295,866
Other		103,717		-		105,370		-		105,370
Loan portfolio, net (see detail literal f)		**160,754,295**								**166,303,676**
Commercial		96,500,412								
Consumer		47,921,019								
Mortgage		15,997,343								
Microcredit		335,521								

(Figures in millions of Colombian pesos)

			Fair Value							
		Carrying Value		Level 1		Level 2		Level 3		Total
Other accounts receivables, net		**4,239,272**								
Total financial assets at amortized cost	**Ps.**	**175,055,314**								
Financial Liabilities										
Financial liabilities at fair value										
Trading Derivatives		**298,665**		**-**		**296,853**		**1,812**		**298,665**
Currency Forward		144,572		-		142,760		1,812		144,572
Securities Forward		1,107		-		1,107		-		1,107
Interest Rate Swap		40,693		-		40,693		-		40,693
Currency Swap		79,263		-		79,263		-		79,263
Currency Options		33,030		-		33,030		-		33,030
Hedging Derivatives		**13,464**		**-**		**13,464**		**-**		**13,464**
Currency Forward		13,464		-		13,464		-		13,464
Total financial liabilities at fair value on recurring basis	**Ps.**	**312,129**	**Ps.**	**-**	**Ps.**	**310,317**	**Ps.**	**1,812**	**Ps.**	**312,129**
Financial liabilities at amortized cost										
Customer Deposits		**154,885,224**								**154,805,726**
Checking accounts		36,017,602								35,991,218
Time deposits		62,616,163								62,627,204
Savings accounts		55,778,677								55,714,522
Others		472,782								472,782
Financial obligations		**45,276,036**								**45,413,210**
Interbank borrowings and overnight funds		4,970,430								4,970,430
Borrowings from banks and others		18,205,320								18,147,634
Bonds issued (see detail “e”)		19,102,196								19,808,232
Borrowings from development entities		2,998,090								2,486,914
Total Financial liabilities at amortized cost	**Ps.**	**200,161,260**							**Ps.**	**200,218,936**

b) Fair Value determination

The following table provides information about valuation techniques and significant inputs when measuring at fair value on recurring basis assets and liabilities, with fair value hierarchy level 2 and level 3.

ASSETS **Investments in debt securities at fair value** **In Colombian Pesos**	**Valuation technique for fair value hierarchy level 2 and level 3**	**Significant inputs**
Securities issued or secured by the Colombian Government	Income approach	Estimated Prices
Securities issued or secured by Colombian government entities	Income approach	Estimated Prices
Securities issued or secured by other financial entities	Income approach	Estimated Prices Yield and Margin
Securities issued or secured by non-financial sector entities	Income approach	Estimated Prices
Other	Income approach	Estimated Prices Yield and Margin Projected cash flows of mortgage securitizations (1)
In Foreign Currency		
Securities issued or secured by the Colombian Government	Market Price	Quoted Prices Average Prices
Securities issued or secured by Colombian government entities	Income approach	Estimated Prices
Securities issued or secured by foreign governments	- Internal Model - Market Price	- Discounted cash flows using yields from similar securities outstanding - Market Price or price calculated based on benchmarks set by price providers methodologies - Bloomberg Generic / Bloomberg Valuation
Securities issued or secured by Central Banks	- Internal Model - Market Price	- Discounted cash flows using yields from similar securities outstanding - Market Price or price calculated based on benchmarks set by price providers methodologies
Securities issued or secured by other financial entities	- Income approach Internal Model - Market Price	- Estimated Prices - Quoted Price or price calculated based on benchmarks set by price providers methodologies - Bloomberg Generic / Bloomberg Valuation
Securities issued or secured by non-financial sector entities	- Market Price	- Average Price - Quoted Price - Bloomberg Generic
Other	- Income approach Internal Model - Market Price	- Estimated Prices - Theoretical Price Mutual Funds which by the end of the month capitalize or pay interests - Quoted Price
Investments in equity securities (2)	Discounted cash flow	- Growth in values after 5 years - Net Income - Growth in residual values after 5 years Discount interest rates
	Comparable Multiples	- EBITDA Value - EBITDA Number of times - Net income value - Net income number of times

	Valuation technique for fair value hierarchy level 2 and level 3 Adjusted Net Asset Value	**Significant inputs** Adjusted Net Asset Value
Trading Derivatives		
Foreign Currency Forward Debt securities Forward Interest rate Swap Cross Currency Swap Swap (others) Currency Options	Income approach	- Underlying asset price - Currency curve by underlying asset - Forward Exchange rates curve of the operation's currency - Implicit curves of Exchange rates forwards - Swap curves by underlying asset - Implicit volatilities matrixes and curves
Hedging Derivatives		
Currency Forward	Discounted cash flow	Curves by currency
Other financial assets		
Assets under concession contracts	Income approach	- Free-cash flow from concession contracts - Concession contract's maturity period - Perpetuity value of the year "n" free-cash flow - Present value of the discounted residual value at WACC. - Financial income: annual adjustment of the financial asset's value. The detail of valuation process for financial assets in concession arrangements are outlined in (3)
LIABILITIES **Derivatives held for trading**		
Foreign Currency Forward Debt securities Forward Interest rate Swap Currency Swap Swap (others) Currency Options	Income approach	- Underlying asset price - Currency curve by underlying asset - Forward Exchange rates curve of the operation's currency - Implicit curves of exchange rates forwards - Swap curves by underlying asset - Implicit volatilities matrixes and curves
Hedging Derivatives		
Foreign Currency Forward Interest rate Forward Interest rate Swap	Income approach	- Underlying asset price - Currency curve by underlying asset - Forward Exchange rates curve of the operation's currency - Implicit curves of Exchange rates forwards - Swap curves by underlying asset - Implicit volatilities matrixes and curves

The following details sensitivity analysis of the valuation when measuring Level 3 assets at recurring fair value, on base of the valuation at June 30, 2018:

(1) Mortgage-Backed Securities

The methodology through which the sensitivity analysis of TIPS securities is carried out consists of calculating the fair value of the securities under the modification of the two main variables that affect their fair value: Prepayment and Default. For this, two scenarios proposed by the Titularizadora were used, which consist a prepayment of 10% and 1 time delinquency curve and a prepayment of 20% and 1.5 time delinquency curve.

(Figures in millions of Colombian pesos)

	Favorable scenario (ii)		Unfavorable scenario (iii)
Ps.	80	Ps.	(95)

(2) Valuation of equity instruments Level 3

Investments with fair value hierarchy level 3 have significant unobservable inputs. Level 3 instruments mainly includes equity instruments, which are not quoted on any stock exchange. Like observable prices are not available for these securities, Grupo Aval has used valuation techniques as discounted cash flows to obtain fair value.

The following table includes a sensitivity analysis of changes on assumptions, considering changes in the fair value of these investments are recognize in equity as they correspond to investments classified as equity instruments at FVOCI:

Methods and Variables	Variation	Price per share recognize	Favorable impact	Unfavorable impact
Comparable Multiples / Recent Transaction Price				
EBITDA Number of times	+/-1 x	200,893.53	227,589	174,467
		627,219.27	712,430	542,278
Adjusted Net Asset Value				
Most relevant variable in assets	+/-10%	0.97	1.07	0.87
Adjusted discounted cash flow				
Growth in residual values	+/-1% of the gradient	17,145.02	21,074	13,216
	+/-1%	8.69	8.94	8.44
Growth in residual values after 5 years	+/- 30 bp	12.22	12.58	12.22
	+/-1%	45.75	47.65	43.84
		12.22	12.94	11.86
		45.75	49.56	42.57
Income	+/-1%	13,393.65	13,726.77	13,072.02
		17,145.02	17,145.02	16,787.84
		54,649.77	56,435.71	52,863.83
	+/- 1% anual	8.69	9.64	7.74
		8.69	8.94	8.44
		12.22	12.94	11.86
		45.75	47.02	44.48
Discount interest rates	+/- 50 pb	13,393.65	14,232.19	12,601.06
		17,145.02	19,288.15	15,001.90
		54,649.77	57,507.27	51,792.26

(3) Valuation of financial assets under concession arrangement rights

Promigas and subsidiaries, designated at fair value the financial assets under concession contracts, the method of discounted cash flows was used to determine the fair value.

The assumptions in the calculation of the financial asset were:

- Financial assets are calculated taking into account the expiration date of each concession contract.
- The calculation was carried out in proportion to the expiration of each of the concession contracts in force.
- Only the operational cash flows of these assets under concession were taken into account.

The components of the calculations are as follows:

- Free cash flow generated solely by assets under concession.
- Expiration period of the concession.

(Figures in millions of Colombian pesos)

- Amount in-perpetuity of the Free Cash Flow (FCF) of the year, estimated factoring a growth in the residual amount between 3% and 1% each year.
- Current amount of the residual amount Weighted Average Cost of Capital (WACC), estimated taking into account an interest rate between 9.04 % and 8.40% each year.
- Financial Income: Annual adjustment of the amount of the financial asset to WACC (*).

(*) Nominal WACC calculated under the Capital Asset Pricing Model (CAPM) methodology for each, updated annually. The following variables were used for determining the WACC:

- Beta Unlevered USA (Oil/Gas Distribution): Damodaran. [Betaunlevered 0.71, en 2017]
- Risk Free Rate, Source: Geometric Average 10 years of American bonds "T-Bonds".
- Marker Return, Source: Geometric Average 10 years Damodaran "Stocks" USA.
- Market Premium: Market Return – Risk Free Rate
- Country Risk Premium: Average last 5 years EMBI (Difference between 10 year Colombian sovereign bonds and 10 year "T-Bonds"). Damodaran
- Emerging Market: Equity Premium Emerging countries (Lambda - Damodaran)

Sensitivity analysis

The following table includes a sensitivity analysis of the assumptions used by Promigas and its subsidiaries in the calculation of fair value of unconditional transfer rights of gas pipelines to Government entities at the expiration date of the contracts. The value of the financial asset at June 30, 2018 is Ps. 2,409,656.

Variable		+100 bps		-100 bps
WACC	Ps.	(638,349)	Ps.	998,260
Growth rate		559,501		(388,055)

c) Transfers between level 1 and level 2 of the fair value hierarchy

The following table summarizes the transfer between fair value levels 1 and 2 during quarters ended on June, 31 2018 and December 31, 2017. In general, transfers between Level 1 and Level 2 in the investment portfolios are due, fundamentally, to changes in the liquidity levels of the securities in the markets:

		June 30, 2018				December 31, 2017		
		Level 2 to 1		Level 1 to 2		Level 2 to 1		Level 1 to 2
ASSETS								
Debt securities at fair value								
Securities issued or secured by Colombian Government	Ps.	21,352	Ps.	13,528	Ps.	-	Ps.	263
Securities issued or secured by other entities of the Colombian Government		222,501		-		-		314
Securities issued or secured by other financial entities		40,499		184,111		-		49,864
	Ps.	**284,352**	**Ps.**	**197,639**	**Ps.**	**-**	**Ps.**	**50,441**

(*)Grupo Aval adopted IFRS 9 and IFRS 15 as of January 1, 2018 prospectively. (See Note 2.)

The following table presents a reconciliation of the balances at the beginning of the period with the closing balances of the fair value measurements classified in Level 3:

		Financial assets in debt securities		Equity instruments		Financial assets under concession arrangements
December 31, 2017	**Ps.**	**19,602**	**Ps.**	**133,195**	**Ps.**	**2,282,611**
Valuation adjustment through profit or loss		(4,341)		(528)		127,045
Valuation adjustments through OCI		-		(4,656)		-
Additions		-		19		-

(Figures in millions of Colombian pesos)

		Financial assets in debt securities		Equity instruments		Financial assets under concession arrangements
Redemptions, sales/disposals		-		(4,498)		-
Transfers to level 2		-		(5,634)		-
June 30, 2018	**Ps.**	**15,261**	**Ps.**	**117,898**	**Ps.**	**2,409,656**

d) Items Measurements at Fair Value on a Non-recurring Basis

The following is the detail at June 30, 2018 and December 31, 2017 of the assets that were measured at fair value as a result of the impairment assessment in the application of IFRS standards applicable to each account but that do not need to be measured at fair value, on a recurring basis:

June 30, 2018

		Level 1		Level 2		Level 3		Total
Impaired collateralized loans	Ps.	-	Ps.	-	Ps.	865,250	Ps.	865,250
Non – current assets held for sale		-		-		104,830		104,830
	Ps.	**-**	**Ps.**	**-**	**Ps.**	**970,080**	**Ps.**	**970,080**

December 31, 2017

		Level 1		Level 2		Level 3		Total
Impaired collateralized loans	Ps.	-	Ps.	-	Ps.	701,948	Ps.	701,948
Non – current assets held for sale		-		-		101,382		101,382
	Ps.	**-**	**Ps.**	**-**	**Ps.**	**803,330**	**Ps.**	**803,330**

e) Financial obligations from issued bonds

The different entities from Grupo Aval are authorized by the Superintendency of Finance and by the regulatory entities abroad where Grupo Aval operates, for issuing or placing either bonds or general guarantee bonds. The bonds issued by Grupo Aval and its banking subordinates are non-guaranteed.

The detail of liabilities as of June 30, 2018 and December 31, 2017 by issue date and maturity date was as follows:

Peso denominated

Issuer	Issue Date		June 30, 2018		December 31, 2017	Maturity Date	Interest Rate
Banco de Bogotá S.A.	23/02/2010	Ps.	129,787	Ps.	132,989	23/02/2020	CPI + 5.45% and UVR + 5.45%
Banco de Occidente S.A	Between 25/08/2008 and 14/12/2017		3,278,461		3,271,929	Between 16/07/2018 and 14/12/2032	Between CPI + 2.90% and 7.00%; Fixed between 6.18% and 7.85%
Corporación Financiera Colombiana S.A.	Between 20/05/2009 and 02/03/2018		2,841,609		2,361,702	Between 11/03/2019 and 02/03/2043	CPI + 2.55% to 6.9%, DTF + 5%, Fixed 7.1%
Banco Popular S.A	Between 26/02/2013 and 08/05/2018		1,830,527		1,571,308	Between 14/08/2018 and 12/10/2026	CPI+ 2.72% to 4.13%; IBR + 1.32%; DTF +1.49; Fixed between 6.62% and 8.10%
Grupo Aval Acciones y Valores S.A.	03/12/2009 and 28/06/2017		1,108,451		1,109,240	Between 03/12/2019 and 28/06/2042	CPI + 2.69% to 5.20%
Peso denominated Total		**Ps.**	**9,188,835**	**Ps.**	**8,447,168**		

(Figures in millions of Colombian pesos)

Foreign Currency

Issuer	Issue Date		June 30, 2018		December 31, 2017	Maturity Date	Interest Rate
Banco de Bogotá S.A.	Between 19/02/2013 and 03/08/2017	Ps.	6,346,626	Ps.	6,459,452	Between 19/02/2023 and 03/08/2027	Between 4.38% and 6.25%
BAC Credomatic							
El Salvador	Between 11/02/2013 and 29/05/2017		590,606		635,536	Between 30/05/2019 and 25/05/2022	Between 5.20% and 5.80%
Guatemala	Between 28/10/2016 and 25/06//2018		121,919		400,244	Between 03/07/2018 and 25/06/2019	Between 3.75% and 8.50%
Honduras	Between 23/07/2013 and 16/03/2018		152,690		159,674	Between 23/07/2018 and 16/03/2021	Between 0.50% and 6.00%
Total BAC Credomatic		**Ps.**	**865,215**	**Ps.**	**1,195,454**		
Total Banco de Bogotá S.A.		**Ps.**	**7,211,841**	**Ps.**	**7,654,906**		
Grupo Aval Limited	19/09/2012	Ps.	2,946,635	Ps.	3,000,122	26/09/2022	4.75%
Foreign Currency Total		**Ps.**	**10,158,476**	**Ps.**	**10,655,028**		
Total of Bonds		**Ps.**	**19,347,311**	**Ps.**	**19,102,196**		

Future maturities of bonds as of June 30, 2018 are as follows:

Year		Value
2018	Ps.	497,251
2019		1,339,178
2020		1,960,858
2021		584,658
2022		3,766,579
After 2022		11,198,787
Total	**Ps.**	**19,347,311**

f) Credit risk concentration

The following is the balance of financial assets by loan portfolio and their provision for impairment as of June 30, 2018 and December 31, 2017:

	June 30, 2018						December 31, 2017					
Portfolio segment		Gross balance		Allowance for impairment		Net balance of credit portfolio		Gross balance		Allowance for impairment		Net balance of credit portfolio
Commercial	Ps.	96,790,233	Ps.	3,383,551	Ps.	93,406,682	Ps.	99,428,894	Ps.	2,928,482	Ps.	96,500,412
Consumer		51,307,910		3,238,446		48,069,464		50,382,895		2,461,876		47,921,019
Mortgage		16,725,892		228,983		16,496,909		16,151,299		153,956		15,997,343
Microcredit		410,710		78,060		332,650		409,688		74,167		335,521
Total	Ps.	**165,234,745**	Ps.	**6,929,040**	Ps.	**158,305,705**	Ps.	**166,372,776**	Ps.	**5,618,481**	Ps.	**160,754,295**

The loan portfolio at amortized cost on the consolidated statement of financial position is classified as commercial, consumer, mortgages, and microcredit, taking into account that this is the classification adopted by the Superintendency of Finance of Colombia in the new Single Catalog of Financial Information "CUIF". However, taking into account the importance of the financial leasing portfolio at the Grupo Aval level, the separation of these credits has been made in all the tables of this note for disclosure purposes, in accordance with the following reclassification detail:

(Figures in millions of Colombian pesos)

June 30, 2018

Portfolio segment		Balance in Statement of financial position		Leasing presentation adjustment		Balance according to disclosure
Commercial	Ps.	96,790,233	Ps.	(9,742,980)	Ps.	87,047,253
Consumer		51,307,910		(233,140)		51,074,770
Mortgage		16,725,892		(1,159,938)		15,565,954
Microcredit		410,710		-		410,710
Financial Leasing		-		11,136,058		11,136,058
Total portfolio	**Ps.**	**165,234,745**	**Ps.**	**-**	**Ps.**	**165,234,745**

December 31, 2017

Portfolio segment		Balance in Statement of financial position		Leasing presentation adjustment		Balance according to disclosure
Commercial	Ps.	99,428,894	Ps.	(9,892,400)	Ps.	89,536,494
Consumer		50,382,895		(226,764)		50,156,131
Mortgage		16,151,299		(1,047,766)		15,103,533
Microcredit		409,688		-		409,688
Financial Leasing		-		11,166,930		11,166,930
Total portfolio	**Ps.**	**166,372,776**	**Ps.**	**-**	**Ps.**	**166,372,776**

(1) Loan portfolio by economic sector

Below is the loan portfolio distribution of Grupo Aval by economic activity as of June 30, 2018 and December 31, 2017:

		June 30, 2018			December 31, 2017	
		Total	**%**		**Total**	**%**
Sector						
Trade and tourism	Ps.	2,240,422	1.36%	Ps.	2,182,437	1.31%
Mining products and oil		2,292,054	1.39%		2,377,188	1.43%
Government		3,583,706	2.17%		3,579,838	2.15%
Agricultural		4,029,405	2.44%		3,940,981	2.37%
Other industrial and manufacturing products		4,576,387	2.77%		4,469,427	2.68%
Public services		6,062,695	3.67%		5,421,328	3.26%
Chemical production		5,545,351	3.36%		5,672,310	3.41%
Transportation and communications		7,215,489	4.37%		7,566,374	4.55%
Food, beverage and tobacco		7,827,196	4.74%		8,165,975	4.91%
Construction		10,298,844	6.23%		10,313,655	6.20%
Commercial services		36,657,647	22.18%		37,676,822	22.65%
Consumer services		72,548,336	43.90%		72,059,477	43.31%
Other		2,357,213	1.42%		2,946,964	1.77%
Total loan portfolio	**Ps.**	**165,234,745**	**100.00%**	**Ps.**	**166,372,776**	**100.00%**

(Figures in millions of Colombian pesos)

(2) Portfolio by days past due

As of June 30, 2018 and December 31, 2017, a summary of the overdue portfolio by days past due is as follows:

	June 30, 2018				
	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	Total in arrears but not impaired	Impaired
Commercial	Ps. 1,087,675	Ps. 174,114	Ps. 116,518	Ps. 1,378,307	Ps. 4,304,939
Consumer	1,935,366	611,475	285,872	2,832,713	2,640,867
Mortgage	635,721	165,702	83,577	885,000	492,249
Microcredit	36,505	8,975	5,659	51,139	50,693
Financial Leases	564,201	52,106	35,353	651,660	678,193
Total loan portfolio value	**Ps. 4,259,468**	**Ps. 1,012,372**	**Ps. 526,979**	**Ps. 5,798,819**	**Ps. 8,166,941**

	December 31, 2017				
	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	Total in arrears but not impaired	Impaired
Commercial	Ps. 1,062,814	Ps. 124,401	Ps. 91,658	Ps. 1,278,873	Ps. 4,255,774
Consumer	1,881,589	593,525	295,676	2,770,790	2,708,335
Mortgage	536,926	165,971	69,120	772,017	445,347
Microcredit	38,827	9,285	6,230	54,342	58,733
Financial Leases	401,444	50,032	26,855	478,331	678,031
Total loan portfolio value	**Ps. 3,921,600**	**Ps. 943,214**	**Ps. 489,539**	**Ps. 5,354,353**	**Ps. 8,146,220**

(Figures in millions of Colombian pesos)

(3) Portfolio credit by risk level rating

As of June 30, 2018 and December 31, 2017, the following is a summary of the portfolio credit by risk level rating:

		June 30, 2018		December 31, 2017
Commercial				
"A" Normal Risk	Ps.	79,071,120	Ps.	82,217,135
"B" Acceptable Risk		2,319,028		2,093,079
"C" Appreciable Risk		2,866,440		2,735,103
"D" Significant Risk		1,984,864		1,620,293
"E" Risk of non-recoverability		805,801		870,884
	Ps.	**87,047,253**	**Ps.**	**89,536,494**
Consumer				
"A" Normal Risk		45,821,751		45,794,015
"B" Acceptable Risk		1,696,017		1,364,520
"C" Appreciable Risk		1,613,964		1,232,881
"D" Significant Risk		1,461,090		1,256,089
"E" Risk of non-recoverability		481,948		508,626
	Ps.	**51,074,770**	**Ps.**	**50,156,131**
Mortgage				
"A" Normal Risk		14,549,709		14,208,051
"B" Acceptable Risk		438,428		324,925
"C" Appreciable Risk		304,256		326,237
"D" Significant Risk		104,322		79,707
"E" Risk of non-recoverability		169,239		164,613
	Ps.	**15,565,954**	**Ps.**	**15,103,533**
Microcredit				
"A" Normal Risk		348,290		341,194
"B" Acceptable Risk		10,270		11,871
"C" Appreciable Risk		7,269		6,742
"D" Significant Risk		7,302		7,342
"E" Risk of non-recoverability		37,579		42,539
	Ps.	**410,710**	**Ps.**	**409,688**
Financial Leases				
"A" Normal Risk		9,635,816		9,874,243
"B" Acceptable Risk		591,135		489,323
"C" Appreciable Risk		447,107		394,534
"D" Significant Risk		364,266		309,726
"E" Risk of non-recoverability		97,734		99,104
Financial leasing portfolio gross balance	**Ps.**	**11,136,058**	**Ps.**	**11,166,930**
Gross balance of financial assets per credit portfolio	**Ps.**	**165,234,745**	**Ps.**	**166,372,776**

(Figures in millions of Colombian pesos)

(4) Loan impairment provision

The following is the balance of the provision for impairment of financial assets by loan portfolio as of June 30, 2018 and December 31, 2017:

		June 30, 2018		December 31, 2017
Modality				
Commercial	**Ps.**	3,062,462	**Ps.**	2,659,322
Consumer		3,232,752		2,456,791
Mortgage		194,872		130,882
Microcredit		78,060		74,167
Financial Leases		360,894		297,319
Allowance for impairment	**Ps.**	**6,929,040**	**Ps.**	**5,618,481**

The movement of the impairment provision of the financial assets of the credit portfolio for the first three months of 2018:

		Commercial		Consumer		Mortgage		Microcredit		Financial Leasing		Total
Balance as of December 31, 2017	**Ps.**	**2,659,322**	**Ps.**	**2,456,791**	**Ps.**	**130,882**	**Ps.**	**74,167**	**Ps.**	**297,319**	**Ps.**	**5,618,481**
IFRS 9 adoption (*)		257,072		795,360		56,195		11,118		45,152		1,164,897
Balance as of January 1, 2018 – IFRS 9		**2,916,394**		**3,252,151**		**187,077**		**85,285**		**342,471**		**6,783,378**
Allowance of the period charged against to profit or loss		803,312		1,749,821		45,120		27,835		140,207		2,766,295
Recovery of provisions with partial payment to profit or loss		(452,668)		(553,270)		(13,140)		(11,429)		(64,809)		(1,095,716)
Charged-offs of the period		(195,464)		(1,195,500)		(21,316)		(23,631)		(56,784)		(1,492,695)
Exchange differences		(9,112)		(20,450)		(2,469)		-		(191)		(32,222)
Balance as of June 30, 2018	**Ps.**	**3,062,462**	**Ps.**	**3,232,752**	**Ps.**	**194,872**	**Ps.**	**78,060**	**Ps.**	**360,894**	**Ps.**	**6,929,040**

(*) The Group adopted IFRS 15 and IFRS 9 as of January 1, 2018 prospectively. (See Note 2).

The movement of the impairment provision of the financial assets of the credit portfolio for the first three months of 2017:

		Commercial		Consumer		Mortgage		Microcredit		Financial Leasing		Total
Balance as of December 31, 2016	**Ps.**	**1,814,944**	**Ps.**	**2,022,825**	**Ps.**	**124,100**	**Ps.**	**63,137**	**Ps.**	**236,438**	**Ps.**	**4,261,444**
Allowance of the period charged against to profit or loss		844,234		1,696,281		26,714		29,516		121,619		2,718,364
Recovery of provisions with partial payment to profit or loss		(384,400)		(518,105)		(12,178)		(10,755)		(62,404)		(987,842)
Charged-offs of the period		(293,762)		(970,818)		(28,052)		(1,514)		(34,875)		(1,329,021)
Sale of loan portfolio		-		(24,031)		-		-		-		(24,031)
Net allowance with counterpart in ORI for the period		(30,178)		80,978		23,415		(10,524)		(25,353)		38,338
Exchange differences		3,804		16,525		386		-		165		20,880
Balance as of June 30, 2017	**Ps.**	**1,954,642**	**Ps.**	**2,303,655**	**Ps**	**134,385**	**Ps.**	**69,860**	**Ps.**	**235,590**	**Ps.**	**4,698,132**

(Figures in millions of Colombian pesos)

g) Credit Commitments

Following is the detail of the guarantees, letters of credit and credit commitments on non-used credit lines as of June 30, 2018 and December 31, 2017:

Commitments in unused lines of credit

		June 30, 2018			December 31, 2017		
		Notional amount	Fair value		Notional amount		Fair valued
Guarantees	Ps.	2,994,313	35,172	Ps.	3,495,921	Ps.	58,936
Unused letters of credit		1,137,675	4,337		1,177,697		10,314
Unused limits of overdrafts		258,196	-		75,225		-
Unused credit card limits		18,683,811	-		18,025,620		-
Opening of credit		2,113,448	-		2,239,417		-
Approved loans not disbursed		2,650,943	-		1,736,174		-
Other		389,366	-		473,184		-
Total	**Ps.**	**28,227,752**	**39,509**	**Ps.**	**27,223,238**	**Ps.**	**69,250**

Pending unused credit lines and guarantees do not necessarily represent future cash out flows, because such quotas may expire and not be used whole or in part.

Following is the detail of the credit commitments by type of currency:

		June 30, 2018		December 31, 2017
Colombian Pesos	Ps.	14,183,715	Ps.	10,271,676
U.S. dollars		13,679,269		16,589,399
Euro		81,838		85,887
Other		282,930		276,276
Total	**Ps.**	**28,227,752**	**Ps.**	**27,223,238**

NOTE 5 – HEDGE ACCOUNTING

In accordance with its risk management policies, Grupo Aval uses hedge accounting to manage foreign exchange risk relating to investments in foreign operations and in forecasted transactions of its subsidiaries, at June 30, 2018 and December 31, 2017 as follows:

a) Hedges of net investment in foreign operation

The purpose of hedge accounting is to mitigate and offset any adverse changes resulting from the fluctuation in exchange rate of the Colombian Peso and the functional currency of such investments. The impacts of those movements are reflected in the cumulative translation adjustment in other comprehensive income of the consolidated financial statements.

Changes in the fluctuation of the Colombian peso against the U.S. dollar during semesters ended on June 30, 2018 and December 31, 2017 are as follows:

(Figures in millions of Colombian pesos)

Date	Value of USD 1	Variation in pesos
June 30, 2018	2,930.80	(53.20)
December 31, 2017	2,984.00	(66.43)
June 30, 2017	3,050.43	49.72

According to information described above, the following table contains details of hedging operations carried out to cover foreign denominated equity investments. The analysis is presented gross of taxes:

June 30, 2018

	Thousands of USD				Ps. millions							
Detail of investment	**Investment amount**	**Amount of hedge by financial liabilities in foreign currency**	**Amount of hedge by forward contracts**		**Cumulative translation adjustment of the investments (1)**		**Exchange difference of financial liabilities (1)**		**Exchange difference in forward contracts**		**Net OCI account**
Leasing Bogotá Panamá	3,850,784	(2,067,100)	(1,776,306)	Ps.	2,883,569	Ps.	(935,902)	Ps.	(2,083,228)	Ps.	(135,561)
Other subsidiaries and branches Banco de Bogotá (2)	118,407	-	(117,846)		86,995		-		(84,502)		2,493
Occidental Bank Barbados	23,130	(23,130)	-		17,024		(17,024)		-		-
Banco de Occidente (Panamá)	20,688	(20,688)	-		28,274		(28,274)		-		-
Sociedad Portuaria El Cayao S.A. E.S.P. (3)	25,000	(25,000)	-		877		(877)		-		-
Gases del Pacífico S.A.C. (3)	10,214	(10,214)	-		358		(358)		-		-
Gas Natural de Lima y Callao S.A.C. – Calidda (3)	18,172	(18,172)	-		588		(588)		-		-
Total	**4,066,395**	**(2,164,304)**	**(1,894,152)**	**Ps.**	**3,017,685**	**Ps.**	**(983,023)**	**Ps.**	**(2,167,730)**	**Ps.**	**(133,068)**

(1) Includes exchange difference hedged
(2) Includes Banco de Bogotá Panamá, Banco Bogotá Finance, Ficentro and contributions of foreign branches in Miami, New York and Nassau.
(3) Includes only a portion of this investments hedged, since June 2, 2017

December 31, 2017

	Thousands of USD				Ps. millions							
Detail of investment	**Investment amount**	**Amount of hedge by financial liabilities in foreign currency**	**Amount of hedge by forward contracts**		**Cumulative translation adjustment of the investments (1)**		**Exchange difference of financial liabilities (1)**		**Exchange difference in forward contracts**		**Net OCI account**
Leasing Bogotá Panamá	3,781,475	(2,067,100)	(1,703,009)	Ps.	3,065,281	Ps.	(1,045,872)	Ps.	(2,155,488)	Ps.	(136,079)
Other subsidiaries and branches Banco de Bogotá (2)	113,909	-	(112,049)		92,891		-		(90,431)		2,460

(Figures in millions of Colombian pesos)

	Thousands of USD				Ps. millions						
Detail of investment	Investment amount	Amount of hedge by financial liabilities in foreign currency	Amount of hedge by forward contracts		Cumulative translation adjustment of the investments (1)		Exchange difference of financial liabilities (1)		Exchange difference in forward contracts		Net OCI account
Occidental Bank Barbados	26,396	(26,396)	-		18,740		(18,740)		-		-
Banco de Occidente (Panamá)	25,044	(25,044)	-		29,979		(29,979)		-		-
Sociedad Portuaria El Cayao S.A. E.S.P. (3)	25,000	(25,000)	-		2,207		(2,207)		-		-
Gases del Pacífico S.A.C. (3)	10,214	(10,214)	-		902		(902)		-		-
Gas Natural de Lima y Callao S.A.C. – Calidda (3)	15,895	(15,895)	-		1,272		(1,272)		-		-
Total	**3,997,933**	**(2,169,649)**	**(1,815,058)**	**Ps.**	**3,211,272**	**Ps.**	**(1,098,972)**	**Ps.**	**(2,245,919)**	**Ps.**	**(133,619)**

(4) Includes exchange difference hedged
(5) Includes Banco de Bogotá Panamá, Banco Bogotá Finance, Ficentro and contributions of foreign branches in Miami, New York and Nassau.
(6) Includes only a portion of this investments hedged, since June 2, 2017

b) Hedging of foreign exchange

Between December 21, 2015 and November 2, 2016, financial liabilities designated as hedging instruments described above included an intra-group liability amounting to US$ 500 million that Banco de Bogotá had as a hedging instrument of its investment in Leasing Bogotá Panamá. This operation was eliminated in the consolidation process of Grupo Aval and was excluded of the foreign investment hedge accounting. Starting May 1st and up to November 2nd, 2016 Grupo Aval designated financial assets in foreign debt securities amounting to US$ 500 million as cash flow hedge, the foreign exchange differences of this intra-group liability were not eliminated in the consolidation process and recorded in Other Comprehensive Income in the amount of Ps. 73,705. This value would be realized in the future as income only when the investment in Leasing Bogotá Panamá is sold. On November 2nd, 2016 Banco de Bogotá cancelled the intragroup liability amounting to US$ 500 million which was replaced in the foreign investment hedge accounting with other obligations in foreign currency with third parties, then Grupo Aval discontinued hedge accounting, its accumulated effect will be recognize on profit or loss when Leasing Bogotá Panamá will sell.

c) Hedging of Forecasted Transactions

In the ordinary course of its operations Promigas S.A. and its subsidiaries receive income in U.S. Dollars derived from the transportation of gas in their gas pipelines. Promigas and its subsidiaries hedge the exchange risk arising in future transactions of highly probable gas transportation income, entered into forward contracts for the sale of U.S. dollars with financial entities different from the ones consolidated into Grupo Aval.

d) Testing of Hedge Effectiveness

Grupo Aval considers hedging as highly effective if at the beginning and in subsequent periods, the hedging is highly effective at offsetting changes in fair value or in cash flows attributable to the risk hedged during the period for which the hedging has been designated. The hedging is considered as such if the effectiveness of the hedging is in a range between 80% and 125%. Such effectiveness is assessed by Grupo Aval‘s entities at least quarterly and at the end of each accounting period.

(Figures in millions of Colombian pesos)

According this the hedging were effective at June 30, 2018 and December 31, 2017.

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment		June 30, 2018		December 31, 2017
Properties, plant and equipment for own use (*)	Ps.	5,573,162	Ps.	5,799,997
Properties, plant and equipment given in operating lease		4,323		4,076
Investment properties		808,854		783,794
Biological Assets		75,093		66,139
Total	**Ps.**	**6,461,432**	**Ps.**	**6,654,006**

(*) the decrease for the six-month period ended June 30 is driven by: I) The deconsolidation Pizano S.A. and its subsidiaries for Ps. (122,031); II) Withdrawals and Sales for Ps. (52,558) and III) Foreign exchange gains Net for Ps. (30,347).

Following is the detail of the balance at June 30, 2018 and December 31, 2017, by type.

		Cost		Accumulated depreciation		Impairment loss		Carrying amount
June 30, 2018								
Land	Ps.	974,127	Ps.	-	Ps.	(3,741)	Ps.	970,386
Buildings		2,590,899		(532,079)		-		2,058,820
Office equipment and accessories		948,316		(635,979)		(226)		312,111
Information technology equipment		1,608,186		(1,178,248)		(11)		429,927
Vehicles		133,127		(62,929)		-		70,198
Equipment and machinery		1,300,471		(192,592)		(2,874)		1,105,005
Silos		8,613		(5,250)		-		3,363
Warehouses		43,592		(26,203)		-		17,389
Advanced payments for the acquisition of plant property and equipment		1,427		-		-		1,427
Improvements in leaseholds properties		351,028		(194,408)		-		156,620
Construction in progress		226,890		-		-		226,890
Bearer plants		229,005		(7,979)		-		221,026
Balance as of June 30, 2018	**Ps.**	**8,415,681**	**Ps.**	**(2,835,667)**	**Ps.**	**(6,852)**	**Ps.**	**5,573,162**

		Cost		Accumulated depreciation		Impairment loss		Carrying amount
December 31, 2017								
Land	Ps.	1,007,788	Ps.	-	Ps.	(3,741)	Ps.	1,004,047
Buildings		2,640,640		(485,920)		(116)		2,154,604
Office equipment and accessories		944,127		(613,400)		(226)		330,501
Information technology equipment		1,572,568		(1,120,463)		(11)		452,094
Vehicles		131,301		(62,304)		-		68,997
Equipment and machinery		1,362,242		(187,500)		(3,299)		1,171,443
Silos		8,613		(4,760)		-		3,853
Warehouses		43,592		(25,734)		-		17,858
Advanced payments for the acquisition of plant property and equipment		6,974		-		-		6,974
Improvements in leaseholds properties		348,431		(182,318)		-		166,113
Construction in progress		211,120		-		-		211,120
Bearer plants		219,441		(7,048)		-		212,393
Balance as of December 31, 2017	**Ps.**	**8,496,837**	**Ps.**	**(2,689,447)**	**Ps.**	**(7,393)**	**Ps.**	**5,799,997**

(Figures in millions of Colombian pesos)

NOTE 7 – GOODWILL

Following is the roll-forward of goodwill balances during the period ended June 30, 2018 and December 31, 2016:

		June 30, 2018		December 31, 2017
Balance at the beginning of the period	**Ps.**	**6,901,056**	**Ps.**	**6,824,935**
Additions / Purchases		-		102,376
Foreign exchange adjustment		(83,586)		(26,255)
Balance at the end of the period	**Ps.**	**6,817,470**	**Ps.**	**6,901,056**

NOTE 8 – INTANGIBLE ASSETS

Below is the detail of the balances of intangible assets as of June 30, 2018 and December 31, 2017:

Concept		June 30, 2018		December 31, 2017
Concession arrangements (*)	Ps.	3,493,262	Ps.	3,114,167
Other intangibles assets		915,338		848,681
Total	**Ps.**	**4,408,600**	**Ps.**	**3,962,848**

(*) The Group adopted IFRS 9 and IFRS 15 as of January 1, 2018 prospectively. (See Note 2.)

The following is the balance for Grupo Aval for concession contracts at June 30, 2018 and December 31, 2017:

June 30, 2018

Subsidiaries		Cost		Accumulated amortization		Book value
Promigas S.A.	Ps.	2,710,546	Ps.	(430,975)	Ps.	2,279,571
Concesionaria Vial de los Andes S.A. (*)		752,720		(586,105)		166,615
Proyectos de Infraestructura S.A. - PISA		283,405		(43,846)		239,559
Estudios y Proyectos del Sol S.A.S. - EPISOL		814,826		(7,309)		807,517
Total	**Ps.**	**4,561,497**	**Ps.**	**(1,068,235)**	**Ps.**	**3,493,262**

December 31, 2017

Subsidiaries		Cost		Accumulated amortization		Book value
Promigas S.A.	Ps.	2,546,056	Ps.	(369,893)	Ps.	2,176,163
Concesionaria Vial de los Andes S.A.		731,680		(512,618)		219,062
Proyectos de Infraestructura S.A. - PISA		302,864		(38,541)		264,323
Estudios y Proyectos del Sol S.A.S. - EPISOL		461,084		(6,465)		454,619
Total	**Ps.**	**4,041,684**	**Ps.**	**(927,517)**	**Ps.**	**3,114,167**

(Figures in millions of Colombian pesos)

NOTE 9 – INCOME TAX

The current period income tax expense and deferred tax expense are recognized in each interim period based on the best estimate.

The effective income tax rate of Grupo Aval consolidated regarding continuous operations for the three-month period ended on June 30 of 2018 was 28.53% and for the period ended on June 30 of 2017 was 33.97%.

The effective tax rate presented variation of 5.44%, which is higher in the second quarter of 2017 compared to the same period of the actual year.

Following are some important events that influenced the recognition of the income tax expense and the variation of the effective rate for the period:

- The nominal tax rate decreased by 3%, from 40% in 2017 to 37% in 2018, in accordance with Law 1819 of 2016.

- During the second quarter of 2018 Banco de Occidente recorded an income associated to income tax of previous periods on the amount of Ps.23,258, supported by the judgment C-10/18 that allowed the bank to make use of the excess of minimum taxable base of the CREE tax generating a lower tax charged in 2017. During the same period of 2017, Banco de Occidente recorded income associated to taxes of previous periods in the amount of Ps. 4.795.

The effective income tax rates for Grupo Aval, associated to continuous operations, were 30.67% and 32.0%for the six-month period ended on June 30 of 2018 and for the period ended on June 30 of 2017, respectively.

Despite the aforementioned 3% decrease in the nominal tax rate, Grupo Aval's effective tax rate only decreased by 1.33% due to the fact that there was a higher value of reimbursements of the taxes in Banco de Bogotá in 2017 associated to a correction of the income tax of the fiscal year 2014 of Ps. 66,466. This reimbursement generated an adjustment of the surplus of income tax provision for 2016, recording an income of Ps. 29,498 and an income associated to deferred tax adjustment on loans from previous periods of Ps. 14.287.

Grupo Aval adopted IFRS 15, IFRS 9, and made changes in the accounting policies as of January 1, 2018. With the transition methods, the comparative information is not re-expressed. See note 2.

NOTE 10 – EMPLOYEE BENEFITS

The detail of the balance of liabilities for employee benefits as of June 30, 2018 and December 31, 2017 is as follows:

		June 30, 2018 (*)		December 31 , 2017
Short term	Ps.	389,462	Ps.	404,292
Post-employment		549,039		548,534
Long term		240,213		229,770
Total	**Ps.**	**1,178,714**	**Ps.**	**1,182,596**

(*) (See the note 2.)

(Figures in millions of Colombian pesos)

NOTE 11 – PROVISIONS FOR LEGAL AND OTHERS

Below are the balances for legal provisions and other provisions during the periods ended on June 30, 2018 and December 31, 2017:

Concepts		June 30, 2018 (*)		December 31, 2017
Legal Provisions	**Ps.**	175,211	**Ps.**	165,353
Other provisions		569,066		527,262
Total	**Ps.**	**744,277**	**Ps.**	**692,615**

(*) The Group adopted IFRS 9 and IFRS 15 as of January 1, 2018 prospectively. (See Note 2.)

NOTE 12 – OTHERS LIABILITIES

Accounts payable and others liabilities comprise the following:

Items		June 30,2018 (*)		December 31,2017
Suppliers and services payable	Ps.	1,586,840	Ps.	1,818,103
Dividends payable (1)		1,291,292		590,040
Non-financial liabilities		574,337		500,209
Collection on behalf of third parties		542,518		272,206
Cashier checks		460,493		697,575
Commissions and fees		362,871		399,155
Withholdings taxes and labor contributions		326,197		456,411
Collection service		254,293		285,017
Affiliate establishments		173,904		248,064
Tax levies		74,015		73,696
Checks drawn and not paid		47,719		39,624
Financial transactions tax		35,499		37,042
Canceled accounts		29,069		81,841
Insurance payables		27,745		32,410
Promissory buyers		23,552		24,049
Contributions and affiliations		16,303		23,173
Cash Surplus		11,060		9,272
Leases		9,510		10,912
Deferred credits		949		1,012
Compensation to customers		884		778
Other liabilities		641,053		634,877
Total	**Ps.**	**6,490,103**	**Ps.**	**6,235,466**

(*) The Group adopted IFRS 9 and IFRS 15 as of January 1, 2018 prospectively. (See Note 2.)

(1) In March 2018 the annual meeting was held where dividends were decreed see note 13.

(Figures in millions of Colombian pesos)

NOTE 13 – CONTROLLING INTEREST EQUITY

Declared dividends

The dividends are declared and paid to shareholders based on unconsolidated net income under Colombian IFRS for the immediately preceding period:

		June 30, 2018		June 30, 2017(*)
Net income for the periods ended in	Ps.	2,001,178	Ps.	1,053,594
Statutory and voluntary reserves		5,333,761		5,591,387
Total available to the Assembly	Ps.	**7,334,939**	Ps.	**6,644,981**
Cash dividends declared		48 pesos per share payable in twelve (12) installments of 4 pesos per share, from April 2018 to March 2019		58.80 pesos per share payable in twelve (12) installments of 4.90 pesos per share, from April 2017 to March 2018.
Common shares outstanding		15,170,666,914		15,240,124,702
Preferred shares outstanding		7,110,350,245		7,040,892,457
Total outstanding shares		22,281,017,159		22,281,017,159
Total dividends declared		**1,069,489**		**1,310,124**
Total Statutory and voluntary reserves		**6,265,450**		**5,334,857**

(*) The base profits for 2016 for the purposes of distributing dividends were annualized.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Contingencies

Capital expenses commitments

As of June 30, 2018 and December 31, 2017 Grupo Aval had contractual disbursement commitments of capital expenditures for Ps.120,841 and Ps. 110,681, respectively. Grupo Aval has assigned the necessary resources to attend these commitments and consider that Net Income and funds will be sufficient to cover these and other similar commitments.

Operating Lease Commitments

During the development of its operations, Grupo Aval executes contracts in order to receive property, plant and equipment under operating leasing, as well as certain intangibles; following is the detail of rental fee commitments of operating leasing in the forthcoming years:

		June 30, 2018		December 31, 2017
Up to one year	Ps.	178,833	Ps.	246,373
Greater than one year and up to five years		591,700		526,557
More than five years		248,731		233,239
Total	**Ps.**	**1,019,264**	**Ps.**	**1,006,169**

(Figures in millions of Colombian pesos)

Legal contingencies

As of June 30, 2018, Grupo Aval and its subsidiaries handled administrative and judicial proceedings against the Company, with claims amounting to Ps. 736,217 and for December 31, 2017 for a value of Ps. 640,457, which based on analysis and concepts of the lawyers in charge, do not need to be provisioned given that they are uncertain obligations that do not imply outflow of resources.

NOTE 15 – INCOME FROM CONTRACTS WITH CUSTOMER FOR COMMISSION AND FEE

Below is a detail of the income, costs and expenses of contracts with customers for:

Income from contracts with customer for commission and fee:

	For the three-month periods ended June 30		For the six-month periods ended June 30	
Income from commissions and fees	**2018**	**2017**	**2018**	**2017**
Commissions on banking services	Ps. 691,857	Ps. 652,562	Ps. 1,327,953	Ps. 1,281,086
Fees on credit cards	280,048	270,605	561,256	532,163
Pension and severance fund management	235,164	227,527	488,750	468,301
Trust activities	77,348	76,407	154,253	153,194
Storage services	39,009	44,516	76,337	88,170
Commissions on drafts, checks and checkbooks	11,645	15,480	24,551	30,779
Offices network services	7,759	10,159	18,947	20,516
Others	3,012	2,855	5,599	5,081
Total	**Ps. 1,345,842**	**Ps. 1,300,111**	**Ps. 2,657,646**	**Ps. 2,579,290**

	For the three-month periods ended June 30		For the six-month periods ended June 30	
Expenses from commissions and fees	**2018**	**2017**	**2018**	**2017**
Banking services	Ps. 74,962	Ps. 79,451	Ps. 157,430	Ps. 157,477
Pension and severance fund management	19,648	20,412	37,493	37,005
Offices network Services	3,892	9,113	16,455	20,838
Information processing services of operators	5,468	5,635	12,950	11,139
Collection service of contributions to financial entities	2,097	1,286	3,834	2,211
Banking expenses	181	3,730	346	3,872
Banks guarantees	44	30	58	30
Administration and intermediation services	599	1,138	1,692	2,126
Sales and services commissions	19	25	42	47
Others	39,959	42,543	78,096	79,593
Total	**Ps. 146,869**	**Ps. 163,363**	**Ps. 308,396**	**Ps. 314,338**
Net income from commissions and fees	**Ps. 1,198,973**	**Ps. 1,136,748**	**Ps. 2,349,250**	**Ps. 2,264,952**

	For the three-month periods ended June 30		For the six-month periods ended June 30	
Income from the sale of goods and services from non-financial sector	Ps. 1,367,698	Ps. -	Ps. 2,711,990	Ps. -
Others operating income	87,401	-	119,825	-
Total income	**Ps. 1,455,099**	**Ps. -**	**Ps. 2,831,815**	**Ps. -**

(Figures in millions of Colombian pesos)

	For the three-month periods ended June 30				For the six-month periods ended June 30			
Cost of sales of companies from non-financial sector		802,058		-		1,603,561		-
Allowance for impairment of loans and receivables		5,281		-		14,038		-
General and administrative expenses		144,316		-		275,736		-
Personnel expenses		124,405		-		241,995		-
Amortization		76,979		-		149,168		-
Depreciation		23,552		-		46,212		-
Bonus payments		9,825		-		19,400		-
Commissions and fees expenses		4,478		-		9,469		-
Donations expenses		4,606		-		6,380		-
Labor severances		603		-		1,018		-
Total costs for goods and services	**Ps.**	**1,196,103**	**Ps.**	**-**	**Ps.**	**2,366,977**	**Ps.**	**-**
Net, income from non-financial sector	**Ps.**	**258,996**	**Ps.**	**-**	**Ps.**	**464,838**	**Ps.**	**-**

(*) The Group adopted IFRS 9 and IFRS 15 as of January 1, 2018 prospectively. (See Note 2.)

NOTE 16 – NET INCOME FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSSES

Net income trading from debt securities, equity securities, derivatives and others:

	For the three-month periods ended June 30				For the six-month periods ended June 30			
		2018		2017 (5)		2018		2017 (5)
Net income from investments securities at fair value through profit and losses (1)								
Fixed income	Ps.	17,150	Ps.	267,551	Ps.	49,554	Ps.	514,203
Equities and investment funds		47,374		66,472		27,870		108,540
	Ps.	**64,524**	**Ps.**	**334,023**	**Ps.**	**77,424**	**Ps.**	**622,743**
Derivatives income								
Net income (loss) on financial derivatives (2)	Ps.	139,287	Ps.	74,163	Ps.	(12,790)	Ps.	(40,603)
Other trading income (3)		40,844		71,798		89,687		128,771
	Ps.	**180,131**	**Ps.**	**145,961**	**Ps.**	**76,897**	**Ps.**	**88,168**
Income from other financial instruments designated at fair value through profit or loss								
Financial assets under concession contracts (4)		75,035		57,122		127,045		102,192
	Ps.	**75,035**	**Ps.**	**57,122**	**Ps.**	**127,045**	**Ps.**	**102,192**
	Ps.	**319,690**	**Ps.**	**537,106**	**Ps.**	**281,366**	**Ps.**	**813,103**

(1) Includes net trading income from investment securities held for trading, that reflects the interest from investment in debt securities, gains/losses from mark-to-market valuation from investment in equity and debt securities and net income from trading activities.
(2) Includes net trading income from derivatives, which reflects the gains/losses from mark-to-market valuation on trading derivatives.

(Figures in millions of Colombian pesos)

(3) Includes gains/losses from: (i) Net changes in the valuation of hedging derivatives from mark-to-market valuations from unhedged risk, (ii) the ineffective portion of the hedge, (iii) Transfers of due hedging derivatives from OCI to the income statement.
(4) See valuations details on note 4.b (3).
(5) The Group adopted IFRS 9 and IFRS 15 as of January 1, 2018 prospectively. (See Note 2.).

NOTE 17 – OTHER INCOME AND EXPENSE

Below is a detail of the others income and expense:

		For the three-month periods ended June 30				For the six-month periods ended June 30		
Other Income		**2018**		**2017(*)**		**2018**		**2017(*)**
Foreign exchange gains (losses), net	Ps.	(24,438)	Ps.	-	Ps.	265,276	Ps.	198,869
Share of profit of equity accounted investees, net of tax		48,356		49,941		88,546		89,337
Dividends		2,124		615		56,135		47,702
Net gain on asset valuation		(433)		12,782		7,811		11,740
Gain on the sale of non-current assets held for sale		3,900		2,673		6,173		6,972
Net gain on sale of debt and equity securities		23,670		7,321		(19,895)		10,858
Income from non-financial sector entities (*)		-		127,919		-		300,043
Other income		81,325		120,765		156,275		170,013
Total other income	**Ps.**	**134,504**	**Ps.**	**322,016**	**Ps.**	**560,321**	**Ps.**	**835,534**

(*) The Group adopted IFRS 9 and IFRS 15 as of January 1, 2018 prospectively. (See Note 2.)

		For the three-month periods ended June 30				For the six-month periods ended June 30		
Other Expense		**2018**		**2017**		**2018**		**2017**
Personal expenses		960,466		926,210		1,884,593		1,823,206
Taxes and fees		185,589		188,797		355,554		359,399
Depreciation y amortization		128,646		127,443		260,359		255,393
Consultancy, audit and other fees		137,503		134,153		257,129		209,914
Affiliation contributions and transfers		120,737		108,550		246,834		223,704
Leases (Rent)		116,135		143,937		233,396		212,354
Insurance		91,768		86,457		185,241		173,261
Maintenance and repairs		85,566		93,250		175,286		171,483
Advertising services		82,673		69,158		141,998		123,065
Public services		65,742		70,598		131,166		140,546
Transportation services		46,181		41,013		89,795		81,785
Temporary services		32,739		31,527		62,947		59,210
Cleaning and security services		31,728		33,470		62,632		65,593
Electronic data processing		20,103		17,310		38,017		34,653
Adaptation and installation		13,420		16,077		26,067		29,943
Travel expenses		14,374		12,327		25,704		22,777
Loss from sales of non-current assets held for sale		1,792		1,316		2,012		5,383
Other expense		116,192		129,661		249,623		300,320
Total other expense	**Ps.**	**2,251,354**	**Ps.**	**2,231,254**	**Ps.**	**4,428,353**	**Ps.**	**4,291,989**

(Figures in millions of Colombian pesos)

	For the three-month periods ended June 30		For the six-month periods ended June 30	
Income from the sale of goods and services from non-financial sector	Ps. -	Ps. 1,394,110	Ps. -	Ps. 2,738,837
Others operating income	-	11,107	-	25,807
Total income	**Ps. -**	**Ps. 1,405,217**	**Ps. -**	**Ps. 2,764,644**
Cost of sales of companies from non-financial sector	-	847,826	-	1,683,141
Allowance for impairment of loans and receivables	-	10,738	-	10,738
General and administrative expenses	-	162,912	-	313,101
Personnel expenses	-	122,186	-	236,608
Amortization	-	91,762	-	145,471
Depreciation	-	20,666	-	38,052
Bonus payments	-	10,727	-	18,777
Commissions and fees expenses	-	6,293	-	11,866
Donations expenses	-	3,489	-	5,617
Labor severances	-	699	-	1,230
Total costs for goods and services	**Ps. -**	**Ps. 1,277,298**	**Ps. -**	**Ps. 2,464,601**
Net, income from non-financial sector	**Ps. -**	**Ps. 127,919**	**Ps. -**	**Ps. 300,043**

(Figures in millions of Colombian pesos)

NOTE 18 – OPERATING SEGMENTS ANALYSIS

Following is the detail of the reportable financial information summarized for each segment as of June 30, 2018 and December 31, 2017:

Statement of Financial Position
June 30, 2018

		Banco de Bogotá S.A.		Banco de Occidente S.A.		Banco Popular S.A.		Banco Comercial AV Villas S.A.		Corficolombiana S.A.		Others [1]		Eliminations		Total
Assets																
Financial assets at fair value	Ps.	12,781,637	Ps.	5,423,494	Ps.	2,829,264	Ps.	1,284,981	Ps.	6,496,047	Ps.	1,082,452	Ps.	(2,302,648)	Ps.	27,595,227
Financial assets measured at amortized cost		2,796,853		846,824		681,571		423,914		2,660,361		815,261		(972,899)		7,251,885
Loans and receivables		102,133,049		26,402,900		17,784,879		10,166,748		2,718,186		1,859,900		(2,759,957)		158,305,705
Investments in associates and joint ventures		3,553,333		680,185		12,102		982		771,080		17,025,001		(21,056,652)		986,031
Other Assets		24,331,917		3,623,015		2,174,902		1,165,102		8,822,014		878,671		(587,119)		40,408,502
Total assets	**Ps.**	**145,596,789**	**Ps.**	**36,976,418**	**Ps.**	**23,482,718**	**Ps.**	**13,041,727**	**Ps.**	**21,467,688**	**Ps.**	**21,661,285**	**Ps.**	**(27,679,275)**	**Ps.**	**234,547,350**
Liabilities																
Customer Deposits		97,736,206		25,080,748		16,817,589		10,105,570		3,974,996		-		(1,757,020)		151,958,089
Financial Obligations		24,893,344		6,263,192		2,980,886		941,558		8,982,288		4,890,517		(2,559,301)		46,392,484
Other Liabilities		5,408,524		1,458,769		971,162		485,828		2,921,121		1,078,980		(1,397,518)		10,926,866
Total Liabilities	**Ps.**	**128,038,074**	**Ps.**	**32,802,709**	**Ps.**	**20,769,637**	**Ps.**	**11,532,956**	**Ps.**	**15,878,405**	**Ps.**	**5,969,497**	**Ps.**	**(5,713,839)**	**Ps.**	**209,277,439**

(1) Includes Grupo Aval, Grupo Aval Limited, Grupo Aval International Limited and ATH negocio conjunto.

(Figures in millions of Colombian pesos)

Statement of Financial Position
December 31, 2017

		Banco de Bogotá S.A.		Banco de Occidente S.A.		Banco Popular S.A.		Banco Comercial AV Villas S.A.		Corficolombiana S.A.		Others (1)		Eliminations		Total
Assets																
Financial assets at fair value	Ps.	7,217,091	Ps.	5,166,960	Ps.	2,483,999	Ps.	777,811	Ps.	4,727,168	Ps.	3,608	Ps.	(1,319,243)	Ps.	19,057,394
Financial assets measured at amortized cost		6,930,289		689,023		483,796		274,150		1,805,470		903,482		(1,024,463)		10,061,747
Loans and receivables		104,243,806		27,480,881		17,034,186		9,977,597		2,785,100		2,068,830		(2,836,105)		160,754,295
Investments in associates and joint ventures		3,391,458		672,169		10,965		1,597		820,125		17,507,725		(21,361,025)		1,043,014
Other Assets		27,622,480		3,756,018		2,367,698		1,320,555		11,013,458		1,204,191		(1,559,150)		45,725,250
Total assets	**Ps.**	**149,405,124**	**Ps.**	**37,765,051**	**Ps.**	**22,380,644**	**Ps.**	**12,351,710**	**Ps.**	**21,151,321**	**Ps.**	**21,687,836**	**Ps.**	**(28,099,986)**	**Ps.**	**236,641,700**
Liabilities																
Customer Deposits		100,947,244		26,169,109		15,968,499		10,086,106		4,095,692		-		(2,381,426)		154,885,224
Financial Obligations		25,294,735		5,802,728		2,778,675		212,914		8,875,171		4,947,839		(2,636,026)		45,276,036
Other Liabilities		4,952,925		1,382,835		888,086		557,043		2,900,994		581,996		(761,689)		10,502,190
Total Liabilities	**Ps.**	**131,194,904**	**Ps.**	**33,354,672**	**Ps.**	**19,635,260**	**Ps.**	**10,856,063**	**Ps.**	**15,871,857**	**Ps.**	**5,529,835**	**Ps.**	**(5,779,141)**	**Ps.**	**210,663,450**

(1) Includes Grupo Aval, Grupo Aval Limited, Grupo Aval International Limited and ATH negocio conjunto.

(Figures in millions of Colombian pesos)

Statement of Income for the six-month periods ended June 30, 2018

	Banco de Bogotá S.A.	Banco de Occidente S.A.	Banco Popular S.A.	Banco Comercial AV Villas S.A.	Corficolombiana S.A.	Others [1]	Eliminations	Total
External Income								
Interest income	Ps. 5,368,022	Ps. 1,543,675	Ps. 1,108,855	Ps. 665,739	Ps. 291,537	Ps. 77	Ps. -	Ps. 8,977,905
Commission and fee income	2,133,433	197,644	120,482	128,008	37,550	40,529	-	2,657,646
Income from sales of goods and services	63,649	36,441	5,651	-	2,726,074	-	-	2,831,815
Participation in profit or loss associates and joint business	1,635	1,042	1,158	1,259	83,452	-	-	88,546
Dividends	2,575	273	1,286	1,398	50,603	-	-	56,135
Other Income	334,289	74,945	34,413	27,528	223,831	2,000	-	697,006
	Ps. 7,903,603	**Ps. 1,854,020**	**Ps. 1,271,845**	**Ps. 823,932**	**Ps. 3,413,047**	**Ps. 42,606**	**Ps. -**	**Ps. 15,309,053**
Intersegment Income								
Interest income	38,625	3,988	789	170	17,744	70,387	(131,703)	-
Commission and fee income	1,477	5,499	4,353	11,073	779	176,485	(199,666)	-
Income from sales of goods and services	267	44,104	-	-	2,937	-	(47,308)	-
Participation in profit or loss associates and joint business	133,268	58,275	(1,837)	(1,873)	367	1,270,858	(1,459,058)	-
Dividends	12,898	7,834	9,355	707	1,211	-	(32,005)	-
Other Income	64,556	1,993	245	773	455	1,952	(69,974)	-
	251,091	**121,693**	**12,905**	**10,850**	**23,493**	**1,519,682**	**(1,939,714)**	**-**
Total income	**Ps. 8,154,694**	**Ps. 1,975,713**	**Ps. 1,284,750**	**Ps. 834,782**	**Ps. 3,436,540**	**Ps. 1,562,288**	**Ps. (1,939,714)**	**Ps. 15,309,053**
Expenses								
Interest expense	Ps. 2,108,236	Ps. 574,594	Ps. 432,069	Ps. 179,196	Ps. 402,955	Ps. 131,009	Ps. (125,152)	Ps. 3,702,907
Impairment loss on loan and other accounts receivable	1,042,704	396,520	81,563	144,324	23,411	-	-	1,688,522
Depreciations and amortizations	174,954	38,044	23,390	16,131	3,997	3,821	22	260,359
Commission and fee expense	188,267	36,935	44,508	50,870	6,449	808	(19,441)	308,396
Cost of goods and services sold	131,699	111,442	6,435	-	2,142,927	(1,704)	(23,822)	2,366,977
Administrative Expenses	1,478,255	367,522	268,146	190,878	36,119	94,973	(211,849)	2,224,044
Other expense	1,234,762	205,384	182,243	87,518	53,071	36,653	(57,216)	1,742,415
Income tax expense	546,583	(13,433)	92,119	55,042	211,691	32,427	404	924,833
Total Expenses	**6,905,460**	**1,717,008**	**1,130,473**	**723,959**	**2,880,620**	**297,987**	**(437,054)**	**13,218,453**
Net income for the year	**Ps. 1,249,234**	**Ps. 258,705**	**Ps. 154,277**	**Ps. 110,823**	**Ps. 555,920**	**Ps. 1,264,301**	**Ps. (1,502,660)**	**Ps. 2,090,600**

(1) Includes Grupo Aval, Grupo Aval Limited, Grupo Aval International Limited and ATH negocio conjunto.

(Figures in millions of Colombian pesos)

Statement of Income for the six-month periods ended June 30, 2017

		Banco de Bogotá S.A.		Banco de Occidente S.A.		Banco Popular S.A.		Banco Comercial AV Villas S.A.		Corficolombiana S.A.		Others (1)		Eliminations		Total
External Income																
Interest income	Ps.	5,450,814	Ps.	1,647,009	Ps.	1,024,272	Ps.	609,156	Ps.	290,237	Ps.	129	Ps.	-	Ps.	9,021,617
Commission and fee income		2,036,450		195,300		109,309		121,703		47,093		69,435		-		2,579,290
Participation in profit or loss associates and joint business		2,448		1,059		1,076		899		83,855		-		-		89,337
Dividends		792		(75)		1,230		1,453		44,302		-		-		47,702
Other Income		441,771		54,992		104,772		94,359		822,361		(6,657)		-		1,511,598
	Ps.	**7,932,275**	**Ps.**	**1,898,285**	**Ps.**	**1,240,659**	**Ps.**	**827,570**	**Ps.**	**1,287,848**	**Ps.**	**62,907**	**Ps.**	**-**	**Ps.**	**13,249,544**
Intersegment Income																
Interest income		43,236		817		616		2,670		39,607		67,659		(154,605)		-
Commission and fee income		1,368		2,478		1,917		7,777		398		89,346		(103,284)		-
Participation in profit or loss associates and joint business		46,438		80,332		1,299		1,372		(96)		1,125,210		(1,254,555)		-
Dividends		3,101		5,934		7,254		1,232		1,242		-		(18,763)		-
Other Income		115,164		23,814		20,340		1,120		(220,681)		69,093		(8,850)		-
		209,307		**113,375**		**31,426**		**14,171**		**(179,530)**		**1,351,308**		**(1,540,057)**		**-**
Total income	**Ps.**	**8,141,582**	**Ps.**	**2,011,660**	**Ps.**	**1,272,085**	**Ps.**	**841,741**	**Ps.**	**1,108,318**	**Ps.**	**1,414,215**	**Ps.**	**(1,540,057)**	**Ps.**	**13,249,544**
Expenses																
Interest expense	Ps.	2,362,007	Ps.	735,294	Ps.	532,056	Ps.	236,407	Ps.	441,450	Ps.	140,382	Ps.	(166,415)	Ps.	4,281,181
Impairment loss on loan and other accounts receivable		1,081,871		410,914		80,164		141,867		31,113		-		-		1,745,929
Depreciations and amortizations		178,599		34,033		21,213		14,072		2,637		4,839		-		255,393
Commission and fee expense		177,934		50,395		39,985		51,777		9,447		(265)		(14,935)		314,338
Administrative Expenses		1,418,996		330,649		238,051		169,785		46,951		92,452		(158,328)		2,138,556
Other expense		1,229,819		197,799		173,275		90,980		52,306		33,600		(701)		1,777,078
Income tax expense		437,095		98,279		69,883		46,758		207,716		15,217		971		875,919
Total Expenses		**6,886,321**		**1,857,363**		**1,154,627**		**751,646**		**791,620**		**286,225**		**(339,408)**		**11,388,394**
Net income for the year	**Ps.**	**1,255,261**	**Ps.**	**154,297**	**Ps.**	**117,458**	**Ps.**	**90,095**	**Ps.**	**316,698**	**Ps.**	**1,127,990**	**Ps.**	**(1,200,649)**	**Ps.**	**1,861,150**

(1) Includes Grupo Aval, Grupo Aval Limited, Grupo Aval International Limited and ATH negocio conjunto.

(Figures in millions of Colombian pesos)

Statement of Income for the three-month periods ended June 30, 2018

		Banco de Bogotá S.A.		Banco de Occidente S.A.		Banco Popular S.A.		Banco Comercial AV Villas S.A.		Corficolombiana S.A.		Others [1]		Eliminations		Total
External Income																
Interest income	Ps.	2,620,822	Ps.	723,528	Ps.	544,602	Ps.	343,029	Ps.	156,732	Ps.	2	Ps.	-	Ps.	4,388,715
Commission and fee income		1,071,435		100,903		63,082		64,095		17,531		28,796		-		1,345,842
Income from sales of goods and services		30,674		14,651		2,221		-		1,407,553		-		-		1,455,099
Participation in profit or loss associates and joint business		1,717		807		803		877		44,152		-		-		48,356
Dividends		(3,484)		4		1		1,349		4,254		-		-		2,124
Other Income		224,544		33,615		16,609		13,559		115,926		(539)		-		403,714
	Ps.	**3,945,708**	**Ps.**	**873,508**	**Ps.**	**627,318**	**Ps.**	**422,909**	**Ps.**	**1,746,148**	**Ps.**	**28,259**	**Ps.**	**-**	**Ps.**	**7,643,850**
Intersegment Income																
Interest income		24,864		3,587		559		165		6,692		34,753		(70,620)		-
Commission and fee income		585		3,998		3,346		6,044		487		80,334		(94,794)		-
Income from sales of goods and services		260		26,441		-		-		1,508		-		(28,209)		-
Participation in profit or loss associates and joint business		58,626		31,523		(697)		(916)		441		687,259		(776,236)		-
Dividends		4,259		-		-		561		-		-		(4,820)		-
Other Income		4,759		1,089		(35)		362		971		(599)		(6,547)		-
		93,353		**66,638**		**3,173**		**6,216**		**10,099**		**801,747**		**(981,226)**		**-**
Total income	**Ps.**	**4,039,061**	**Ps.**	**940,146**	**Ps.**	**630,491**	**Ps.**	**429,125**	**Ps.**	**1,756,247**	**Ps.**	**830,006**	**Ps.**	**(981,226)**	**Ps.**	**7,643,850**
Expenses																
Interest expense	Ps.	1,051,832	Ps.	277,831	Ps.	211,155	Ps.	89,761	Ps.	207,469	Ps.	64,670	Ps.	(60,732)	Ps.	1,841,986
Impairment loss on loan and other accounts receivable		473,724		135,301		11,105		71,375		12,816		-		(52)		704,269
Depreciations and amortizations		87,130		18,938		11,922		8,212		545		1,877		22		128,646
Commission and fee expense		90,206		16,703		22,327		23,898		3,242		397		(9,904)		146,869
Cost of goods and services sold		67,217		56,695		2,871		-		1,089,852		(623)		(19,909)		1,196,103
Administrative Expenses		766,760		184,832		141,279		99,122		14,223		46,936		(123,892)		1,129,260
Other expense		645,471		86,004		91,718		38,864		28,973		18,639		(6,914)		902,755
Income tax expense		262,902		(11,809)		52,512		31,698		97,141		16,745		5,517		454,706
Total Expenses		**3,445,242**		**764,495**		**544,889**		**362,930**		**1,454,261**		**148,641**		**(215,864)**		**6,504,594**
Net income for the year	**Ps.**	**593,819**	**Ps.**	**175,651**	**Ps.**	**85,602**	**Ps.**	**66,195**	**Ps.**	**301,986**	**Ps.**	**681,365**	**Ps.**	**(765,362)**	**Ps.**	**1,139,256**

(1) Includes Grupo Aval, Grupo Aval Limited, Grupo Aval International Limited and ATH negocio conjunto.

(Figures in millions of Colombian pesos)

Statement of Income for the three-month periods ended June 30, 2017

		Banco de Bogotá S.A.		Banco de Occidente S.A.		Banco Popular S.A.		Banco Comercial AV Villas S.A.		Corficolombiana S.A.		Others (1)		Eliminations		Total
External Income																
Interest income	Ps.	2,675,128	Ps.	792,317	Ps.	493,939	Ps.	293,827	Ps.	149,660	Ps.	81	Ps.	-	Ps.	4,404,952
Commission and fee income		1,028,544		98,327		54,535		62,006		20,819		35,880		-		1,300,111
Participation in profit or loss associates and joint business		1,613		679		478		417		46,754		-		-		49,941
Dividends		(1,448)		(134)		200		1,404		593		-		-		615
Other Income		247,175		65,980		50,811		42,096		407,495		(4,991)		-		808,566
	Ps.	**3,951,012**	**Ps.**	**957,169**	**Ps.**	**599,963**	**Ps.**	**399,750**	**Ps.**	**625,321**	**Ps.**	**30,970**	**Ps.**	**-**	**Ps.**	**6,564,185**
Intersegment Income																
Interest income		21,577		354		389		1,228		17,168		33,438		(74,154)		-
Commission and fee income		651		632		957		4,082		(204)		67,182		(73,300)		-
Participation in profit or loss associates and joint business		13,994		41,408		(129)		(908)		(56)		469,152		(523,461)		-
Dividends		1,795		756		1,441		1,171		-		-		(5,163)		-
Other Income		65,335		20,176		11,248		697		(109,901)		24,887		(12,442)		-
		103,352		**63,326**		**13,906**		**6,270**		**(92,993)**		**594,659**		**(688,520)**		**-**
Total income	**Ps.**	**4,054,364**	**Ps.**	**1,020,495**	**Ps.**	**613,869**	**Ps.**	**406,020**	**Ps.**	**532,328**	**Ps.**	**625,629**	**Ps.**	**(688,520)**	**Ps.**	**6,564,185**
Expenses																
Interest expense	Ps.	1,155,205	Ps.	368,238	Ps.	253,837	Ps.	110,984	Ps.	214,105	Ps.	69,882	Ps.	(80,193)	Ps.	2,092,058
Impairment loss on loan and other accounts receivable		614,044		232,519		24,536		73,046		26,445		-		(2,009)		968,581
Depreciations and amortizations		90,081		16,625		10,762		7,359		259		2,357		-		127,443
Commission and fee expense		89,596		27,415		20,604		27,033		6,675		(106)		(7,854)		163,363
Administrative Expenses		738,797		178,437		123,368		91,486		19,368		53,752		(71,453)		1,133,755
Other expense		627,667		99,277		88,708		45,003		26,697		17,063		(386)		904,029
Income tax expense		209,207		21,905		32,268		16,730		103,400		14,795		776		399,081
Total Expenses		**3,524,597**		**944,416**		**554,083**		**371,641**		**396,949**		**157,743**		**(161,119)**		**5,788,310**
Net income for the year	**Ps.**	**529,767**	**Ps.**	**76,079**	**Ps.**	**59,786**	**Ps.**	**34,379**	**Ps.**	**135,379**	**Ps.**	**467,886**	**Ps.**	**(527,401)**	**Ps.**	**775,875**

(1) Includes Grupo Aval, Grupo Aval Limited, Grupo Aval International Limited and ATH negocio conjunto.

Reconciliation of net income, assets and liabilities of reportable operating segments

Main eliminations of total income, expenses, assets and liabilities between segments with the corresponding consolidated entries at the level of Grupo Aval are:

- Loans with financial obligations of entities mainly from non-financial sector.
- Investments in term deposits and outstanding bonds of in other segments.
- Investments in subordinates elimination and record of non- controlling interests.
- Intercompany leasings and commissions paid between Grupo Aval's entities.
- Expenses and incomes for commissions.

18.1 Analysis of Revenues by Products and Services

Grupo Aval's revenues are analyzed by products and services, in the statement of income.

NOTA 19 – TRANSFERS OF FINANCIAL ASSETS

Grupo Aval and its subsidiaries enters into transactions in the normal course of business by which it transfers financial assets to third parties. Depending on the circumstances, these transfers may either result in these financial assets being derecognized or continuing to be recognized in Grupo Aval´s financial statements.

A. Transferred financial assets not qualifying for full derecognition

i. Sale and repurchase agreements

The debt securities of financial investments at fair value through profit or loss that are being used as guarantees in repurchase transactions amounted to Ps. 579,741 as of June 30, 2018 and Ps. 1,905,396 as of December 31, 2017, and financial assets at amortized cost that are being used as guarantees in repurchase transactions amounted to Ps. 246,111 as of June 30, 2018 and Ps. 1,822,746 as of December 31, 2017.

ii. Securities lending

As of June 30, 2018 and as of December 31, 2017, Grupo Aval has not recorded securities lending.

B. Transfer of financial assets that are derecognized in their entirety

I. Securitizations

As of June 30, 2018 and as of December 31, 2017, Grupo Aval has not transfer financial assets for special purpose vehicles.

(Figures in millions of Colombian pesos)

NOTE 20 – UNCONSOLIDATED STRUCTURED ENTITIES

The table below shows the total assets of unconsolidated structured entities in which Grupo Aval had an interest at the reporting date and its maximum exposure to loss in relation to those interests:

June 30, 2018		Securitizations		Grupo Aval´s managed funds		Total
Grupo Aval's interest-assets						
Investments at fair value through profit or loss	Ps.	15,261	Ps.	1,647,928	Ps.	1,663,189
Other account receivables		-		51,758		51,758
Total assets in relation to the Grupo Aval's interests in the unconsolidated structured entities		**15,261**		**1,699,686**		**1,714,947**
Grupo Aval's maximum exposure	**Ps.**	**15,261**	**Ps.**	**1,699,686**	**Ps.**	**1,714,947**

December 31, 2017		Securitizations		Grupo Aval´s managed funds		Total
Grupo Aval's interest-assets						
Investments at fair value through profit or loss	Ps.	19,602	Ps.	3,030,499	Ps.	3,050,101
Other account receivables		-		37,606		37,606
Total assets in relation to the Grupo Aval's interests in the unconsolidated structured entities		**19,602**		**3,068,105**		**3,087,707**
Grupo Aval's maximum exposure	**Ps.**	**19,602**	**Ps.**	**3,068,105**	**Ps.**	**3,087,707**

(Figures in millions of Colombian pesos)

NOTE 21 – RELATED PARTIES

Balances as of June 30, 2018 and December 31, 2017, with related parties, are detailed in the following tables:

June 30, 2018

	Individuals		Entity		
	Natural persons with control over Grupo Aval	Key management personnel	Associates and joint ventures	Entities controlled by individuals	Entities with significant influence by individuals
Assets					
Cash and equivalents	Ps. -	Ps. -	Ps. -	Ps. -	Ps. 26,564
Financial assets in investments	-	-	977,202	-	-
Financial assets in credit operations	2,768	12,352	1,486,555	1,221,970	2,993
Accounts receivable	9	858	88,089	2,143	400
Other assets	3	-	28,945	2,338	-
Liabilities					
Deposits	Ps. 46,876	Ps. 28,743	Ps. 1,788,313	Ps. 757,856	Ps. 1,251
Accounts payables	110	1,279	23,143	771,833	4
Financial obligations	-	6	26	5	29
Others liabilities	-	141	44,657	4,671	-

December 31, 2017

	Individuals		Entity		
	Natural persons with control over Grupo Aval	Key management personnel	Associates and joint ventures	Entities controlled by individuals	Entities with significant influence by individuals
Assets					
Cash and equivalents	Ps. -	Ps. -	Ps. 11	Ps. -	Ps. 67
Financial assets in investments	-	-	910,310	1,249	-
Financial assets in credit operations	3,066	10,665	1,492,067	1,301,697	3,385
Accounts receivable	11	33	59,588	4,421	-
Other assets	-	-	156,636	3,661	18
Liabilities					
Deposits	Ps. 21,257	Ps. 20,192	Ps. 2,535,339	Ps. 1,566,160	Ps. 1,275
Accounts payables	103	700	15,353	322,275	18,671
Financial obligations	4	10	16,435	1,249	-
Others liabilities	-	4	7,424	49	-

(Figures in millions of Colombian pesos)

For the six-month periods ended June 30, 2018

	Individuals				Entity					
		Natural persons with control over Grupo Aval		Key management personnel		Associates and joint ventures		Entities controlled by individuals		Entities with significant influence by individuals
Interest income	Ps.	111	Ps.	386	Ps.	34,354	Ps.	65,447	Ps.	4,035
Financial expenses		134		376		34,180		10,318		440
Fee income and commissions		3		29		9,456		30,628		-
Leases		-		-		174		179		-
Fee expenses and commissions		116		1,736		7,273		947		-
Other income		2		138		127,941		2,188		-
Operating expenses		-		7,216		23		1,804		-
Other expenses		384		2,316		18,105		14,299		-

For the six-month periods ended June 30, 2017

	Individuals				Entity					
		Natural persons with control over Grupo Aval		Key management personnel		Associates and joint ventures		Entities controlled by individuals		Entities with significant influence by individuals
Interest income	Ps.	142	Ps.	283	Ps.	94,349	Ps.	64,741	Ps.	1,267
Financial expenses		126		817		74,161		13,260		3
Fee income and commissions		2		31		17,107		29,704		-
Leases		-		-		139		145		-
Fee expenses and commissions		2		727		9,627		695		33
Other income		-		1		130,297		5,221		15
Operating expenses		-		5,274		22		2,310		-
Other expenses		9		1,148		19,710		11,846		-

For the three-month periods ended June 30, 2018

	Individuals				Entity					
		Natural persons with control over Grupo Aval		Key management personnel		Associates and joint ventures		Entities controlled by individuals		Entities with significant influence by individuals
Interest income	Ps.	88	Ps.	79	Ps.	(13,885)	Ps.	10,036	Ps.	3,981

(Figures in millions of Colombian pesos)

For the three-month periods ended June 30, 2018

	Individuals		Entity		
	Natural persons with control over Grupo Aval	**Key management personnel**	**Associates and joint ventures**	**Entities controlled by individuals**	**Entities with significant influence by individuals**
Financial expenses	(99)	(44)	4,951	(12,673)	437
Fee income and commissions	1	5	3,264	15,360	(1)
Leases	-	-	67	99	-
Fee expenses and commissions	115	1,292	1,429	188	-
Other income	(2)	79	68,199	1,187	-
Operating expenses	-	2,539	23	725	-
Other expenses	380	1,818	10,797	7,048	-

For the three-month periods ended June 30, 2017

	Individuals		Entity		
	Natural persons with control over Grupo Aval	**Key management personnel**	**Associates and joint ventures**	**Entities controlled by individuals**	**Entities with significant influence by individuals**
Interest income	Ps. 69	Ps. 105	Ps. 46,200	Ps. 31,622	Ps. 142
Financial expenses	63	447	33,668	7,970	1
Fee income and commissions	1	22	5,577	15,373	-
Leases	-	-	94	72	-
Fee expenses and commissions	1	317	5,590	372	26
Other income	-	1	69,049	4,971	15
Operating expenses	-	3,262	11	1,543	-
Other expenses	4	690	9,575	7,914	-

(Figures in millions of Colombian pesos)

Outstanding amounts are not guaranteed and shall be liquidated in cash. Guarantees have not been granted or received. No expense has been recognized during the current period nor in previous periods with respect to uncollectable or accounts of doubtful collection relating to amounts in debt by related parties.

Compensation of Key Management Personnel

The compensation received by the key personnel of the management comprises the following:

		For the three-month periods ended			For the six-month periods ended	
Concepts		**June 30 ,2018**	**June 30,2017**		**June 30 ,2018**	**June 30,2017**
Salaries	Ps.	4,445	4,149	Ps.	8,890	4,445
Short term benefits for employees		727	681		1,458	727
Total	**Ps.**	**5,172**	**4,830**	**Ps.**	**10,348**	**5,172**

NOTE 22 – SUBSEQUENT EVENTS

As of the date of issuance of the condensed consolidated financial statements, no subsequent events are known that need to be disclosed in the financial statements.