INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Grupo Aval Acciones y Valores S.A and subsidiaries.:

Opinions on the Consolidated *Financial Statements and Internal Control Over Financial Reporting*

We have audited the accompanying consolidated statements of financial position of Grupo Aval Acciones y Valores S.A. and subsidiaries (Grupo Aval) as of December 31, 2019 and 2018, the related consolidated statements of income, other comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). We also have audited Grupo Aval's internal control over financial reporting as of December 31, 2019, based on "criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission".

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Grupo Aval as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board. Also in our opinion, Grupo Aval maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019 based on "criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission".

Change in Accounting Principle

As discussed in Note 2.4 to the consolidated financial statements, Grupo Aval changed its method of accounting for financial instruments and for revenue from contracts with customers in 2018 due to the adoption of IFRS 9 "*Financial instruments*" and IFRS 15 "*Revenue from contracts with customers*".

Basis for Opinions

Grupo Aval management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's annual report on internal control over financial reporting". Our responsibility is to express an opinion on Grupo Aval's consolidated financial statements and an opinion on Grupo Aval's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to Grupo Aval in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

(i) Assessment of the loss allowance on the loan portfolio

As discussed in Notes 2, 5, 4 and 11 to the consolidated financial statements, Grupo Aval's loss allowance for its loan portfolio was Ps.8,185,797 million as of December 31, 2019. The Group measures the loss allowance for its loan portfolio at an amount equal to lifetime Expected Credit Losses (ECL), except for those loans that have not experienced a Significant Increase in Credit Risk (SICR) since their initial recognition for which Grupo Aval calculates a twelve month ECL. The loss allowance for the loan portfolio reflects a probability weighted outcome that considers multiple economic scenarios based on forecasts of future economic conditions and is determined as a function of Grupo Aval's assessment of the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) associated with each loan. Grupo Aval uses complex models which incorporate inputs and assumptions that require significant judgment to estimate the loss allowance for loans.

We identified the assessment of the loss allowance on the loan portfolio as a critical audit matter. There is a high degree of measurement uncertainty associated with the loss allowance for loans as a result of the judgments required relating to the inputs, assumptions and models involved. Assessing the loss allowance required significant auditor attention and complex auditor judgment, the involvement of credit risk professionals, as well as knowledge and experience in the industry.

The primary procedures we performed to address this critical audit matter included the following:

- We tested certain internal controls over Grupo Aval's process for calculating the loss allowance for loans, including, amongst others, controls over (i) the models and assumptions used, (ii) the economic forecasting, (iii) the completeness and accuracy of data, and (iv) the review of the overall allowance for impairment losses, including the application of judgment applied by Grupo Aval's credit expert.

- We involved credit risk professionals with specialized skills and industry knowledge and experience who assisted in: (i) evaluating the models and key inputs used in determining PD, LGD and EAD parameters; (ii) evaluating the forecasts of macroeconomic variables and the probability weighting of scenarios, (iii) assessing the qualitative adjustments applied to the loss allowance for loans, (iv) for a sample of individually significant loans, recalculating the impairment and analyzing the values of the guarantees; and (v) for a sample of individually significant loans, review of the appropriate credit risk rating assigned by Grupo Aval.

(ii) Assessment of the revenue recognized from concession agreements in the construction phase and the fair value of financial assets related to concession agreements.

As discussed in Notes 2.20, 5 and 16 to the consolidated financial statements Grupo Aval is party to concession agreements with the government for the construction and subsequent maintenance of infrastructure, for a given period of time. In exchange Grupo Aval is entitled to receive direct payments from the government and / or fees charged to the end users of the infrastructure. During the construction phase Grupo Aval recognizes revenue and a financial asset for payments that are unconditionally guaranteed, and / or an intangible asset for payments which are linked to the use of the infrastructure. Performance obligations related to the construction services are satisfied over time and the amount of revenue recognized is dependent on the stage of completion of the construction services and the fair value of the asset being recognized. Grupo Aval has designated some of the financial assets related to concession agreements to be measured at fair value through profit or loss subsequent to initial recognition. As of December 31, 2019, Grupo Aval has Ps. 2,706,030 million of financial assets arising from concession contracts which are measured at fair value and classified as level 3 and Ps. 4,375,677 million of intangible assets derived from concession contracts in the construction phase.

We identified the assessment of the revenue recognized from concession agreements in the construction phase and the fair value of financial assets related to concession agreements as a critical audit matter because it involved significant auditor judgment and audit effort, including the involvement of valuation professionals with specialized skills and industry knowledge. For contracts in the construction phase, auditor judgment was required to assess the estimated costs to completion and to evaluate the models developed by Grupo Aval to estimate the fair value at recognition of the financial and intangible assets as well as the significant unobservable inputs and assumptions to these models. For financial assets related to concession agreements subsequently measured at fair value through profit or loss, auditor judgment was required to evaluate the models developed by Grupo Aval to estimate their fair value as well as the significant unobservable inputs and assumptions to these models. The significant unobservable inputs and assumptions to the models include the weighted average cost of capital (WACC), the future inflation rates and the projected income from the use of the infrastructure.

The primary procedures we performed to address this critical audit matter included the following:

- We tested certain internal controls over Grupo Aval's process to determine the fair value of financial assets arising from concession contracts and the revenue to be recognized from contracts in the construction phase. This included controls related to: (i) the approval and validation of the fair value models used; (ii) the review of the inputs and assumptions used; (iii) the review of the estimation of costs to completion; and (iv) the review and approval of the fair value of the assets and the amount of revenue to be recognized.

- We involved valuation professionals with specialized skills and industry knowledge who assisted in (i) assessing whether the internally developed models are consistent with valuation practices generally used for that purpose and IFRS; (ii) comparing the WACC to a range determined using market-verified macroeconomic assumptions; (iii) evaluating the future inflation rates by comparing to available market data; (iv) assessing estimated costs to completion including the assumptions used; and (v) evaluating the projected income from the use of the infrastructure by comparing to internal and external data, where available; and (vi) evaluating Grupo Aval ´s ability to accurately forecast inflation and construction costs, by comparing a sample of previously estimated values to the actual values realized.

We have served as Grupo Aval's auditor since 1985

/s/ KPMG S.A.S.

KPMG S.A.S

Bogotá, Colombia
April 24, 2020

Grupo Aval Acciones y Valores S.A.
Consolidated Statement of Financial Position
At December 31, 2019 and 2018
(Amounts expressed in millions of Colombian pesos)

	Notes		December 31, 2019		December 31, 2018
Assets					
Cash and cash equivalents	**6, 7**	**Ps.**	**30,117,236**	**Ps.**	**28,401,283**
Trading assets	**6, 8**		**9,113,668**		**7,204,312**
Investment securities	**6, 9**		**26,000,311**		**23,030,159**
Hedging derivative assets	**6, 10**		**166,598**		**30,138**
Loans:	**4.1, 6, 11**				
Commercial			101,655,660		102,408,977
Consumer			59,840,451		55,455,064
Mortgages			20,221,683		18,592,103
Microcredit			410,320		425,697
			182,128,114		**176,881,841**
Loss allowance	4.1.5		(8,185,797)		(8,196,187)
Total loans, net			**173,942,317**		**168,685,654**
Other accounts receivable, net	**6, 12**		**11,702,301**		**9,300,643**
Non-current assets held for sale	**13**		**206,193**		**186,714**
Investments in associates and joint ventures	**14**		**987,962**		**982,743**
Tangible assets:	**15**				
Property, plant and equipment for own-use and given in operating lease, net			5,791,430		5,667,953
Right-of-use assets (1)			2,125,558		—
Investment properties			928,566		836,324
Biological assets			104,857		84,206
			8,950,411		**6,588,483**
Intangibles					
Concession arrangement rights	16		7,521,488		5,514,481
Goodwill	17		7,348,587		7,318,594
Other intangible assets	18		1,206,491		1,033,884
			16,076,566		**13,866,959**
Income tax assets:	**19**				
Current			895,208		593,837
Deferred			246,598		341,338
			1,141,806		**935,175**
Other assets			**427,220**		**462,890**
Total assets		**Ps.**	**278,832,589**	**Ps.**	**259,675,153**

(1) See note 2.(2.4 (A)) Changes in accounting policies.

The accompanying notes are an integral part of the consolidated financial statements

Grupo Aval Acciones y Valores S.A.
Consolidated Statement of Financial Position
At December 31, 2019 and 2018
(Amounts expressed in millions of Colombian pesos)

	Notes		December 31, 2019		December 31, 2018
Liabilities and equity					
Liabilities					
Trading liabilities	**6, 8**	**Ps.**	**962,438**	**Ps.**	**811,305**
Hedging derivative liabilities	**10**		**94,298**		**195,539**
Customer deposits:	**20**				
Checking accounts			42,449,702		39,702,878
Savings accounts			59,352,760		57,221,439
Time deposits			73,225,189		66,853,012
Other			463,770		582,122
			175,491,421		**164,359,451**
Financial obligations:	**21**				
Interbank borrowings and overnight funds			9,240,479		6,814,078
Borrowings from banks and others (1)			19,803,344		20,610,766
Bonds issued			21,918,268		20,140,350
Borrowings from development entities			3,882,485		3,646,796
			54,844,576		**51,211,990**
Provisions:	**23**				
Legal related			194,680		125,929
Other			673,962		569,359
			868,642		**695,288**
Income tax liabilities:	**19**				
Current			387,274		413,456
Deferred			2,871,309		2,160,942
			3,258,583		**2,574,398**
Employee benefits	**22**		**1,234,980**		**1,264,881**
Other liabilities	**24**		**8,729,382**		**9,007,953**
Total liabilities			**245,484,320**		**230,120,805**
Equity					
Owners of the parent:	**25**				
Subscribed and paid-in capital			22,281		22,281
Additional paid-in capital			8,445,766		8,472,336
Retained earnings			10,289,073		8,598,319
Other comprehensive income			1,093,447		696,773
Equity attributable to owners of the parent			**19,850,567**		**17,789,709**
Non-controlling interests	**26**		**13,497,702**		**11,764,639**
Total equity			**33,348,269**		**29,554,348**
Total liabilities and equity		**Ps.**	**278,832,589**	**Ps.**	**259,675,153**

(1) See note 2.(2.4 (A)) Changes in accounting policies.

The accompanying notes are an integral part of the consolidated financial statements

Grupo Aval Acciones y Valores S.A.
Consolidated Statement of Income
For the years ended December 31, 2019, 2018 and 2017
(Amounts expressed in millions of Colombian pesos)

		For the years ended		
	Notes	December 31, 2019	December 31, 2018	December 31, 2017
Interest income calculated using the effective interest method				
Loan portfolio	**11**	Ps. 18,491,167	Ps. 17,390,615	Ps. 17,899,967
Investments in debt securities		1,061,568	966,021	841,866
Total interest income		**19,552,735**	**18,356,636**	**18,741,833**
Interest expense				
Deposits				
Checking accounts		(413,939)	(350,173)	(309,333)
Savings accounts		(1,503,277)	(1,497,038)	(1,978,986)
Time deposits		(3,595,611)	(3,296,508)	(3,560,478)
		(5,512,827)	**(5,143,719)**	**(5,848,797)**
Financial obligations				
Interbank borrowings and overnight funds		(380,858)	(266,064)	(287,361)
Borrowings from banks and others [(1)]		(1,014,304)	(769,184)	(770,015)
Bonds issued		(1,220,437)	(1,162,699)	(1,162,203)
Borrowing from development entities		(138,791)	(143,175)	(159,323)
		(2,754,390)	**(2,341,122)**	**(2,378,902)**
Net interest income		**11,285,518**	**10,871,795**	**10,514,134**
Impairment (losses) recoveries on financial assets				
Loans and other accounts receivable		(4,193,980)	(4,149,972)	(4,119,334)
Other financial assets		60,015	32,506	(142)
Recovery of charged-off financial assets		378,862	320,121	264,582
Net impairment loss on financial assets		**(3,755,103)**	**(3,797,345)**	**(3,854,894)**
Net interest income, after impairment losses		**7,530,415**	**7,074,450**	**6,659,240**
Income from commissions and fees		6,083,343	5,453,382	5,202,125
Expenses from commissions and fees		(627,999)	(613,763)	(623,114)
Net income from commissions and fees	**28**	**5,455,344**	**4,839,619**	**4,579,011**
Income from sales of goods and services		9,156,588	8,126,014	5,792,850
Costs and expenses of sales goods and services		(6,781,777)	(5,482,102)	(5,035,827)
Gross profit from sales of goods and services	**28**	**2,374,811**	**2,643,912**	**757,023**
Net trading income	**29**	**761,911**	**582,709**	**561,362**
Net income from other financial instruments mandatorily at fair value through profit or loss	**16**	**217,616**	**205,803**	**209,937**
Other income	**30**	**1,282,963**	**1,358,681**	**1,151,745**
Other expenses	**30**	**(10,171,349)**	**(9,371,033)**	**(9,003,091)**
Net income before tax expense		**7,451,711**	**7,334,141**	**4,915,227**
Income tax expense	19	(2,086,257)	(2,149,590)	(1,752,794)
Net income for the year		**Ps. 5,365,454**	**Ps. 5,184,551**	**Ps. 3,162,433**
Net income for the year attributable to:				
Owners of the parent	**25**	**3,034,409**	**2,912,694**	**1,962,414**
Non-controlling interests	**26**	**2,331,045**	**2,271,857**	**1,200,019**
		Ps. 5,365,454	**Ps. 5,184,551**	**Ps. 3,162,433**
Net income per share basic and diluted (in Colombian pesos, see note 25)		**136.188**	**130.725**	**88.076**

[(1)] See note 2.(2.4 (A)) Changes in accounting policies

The accompanying notes are an integral part of the consolidated financial statements

Grupo Aval Acciones y Valores S.A.
Consolidated Statement of Other Comprehensive Income
For the years ended December 31, 2019, 2018 and 2017
(Amounts expressed in millions of Colombian pesos)

	Notes	December 31, 2019	December 31, 2018	December 31, 2017
Net income for the year		**Ps. 5,365,454**	**Ps. 5,184,551**	**Ps. 3,162,433**
Other comprehensive income				
Items that will be reclassified to profit or loss				
Net gain (loss) on hedges of net investments in foreign operations:	**10, 25**			
Foreign currency translation differences from hedged foreign operations		95,329	1,124,732	(47,197)
Hedging derivative instrument		(50,318)	(547,310)	16,832
Hedging non-derivative instrument		(47,942)	(576,881)	30,568
Cash flow hedges	**10, 25**	**13,469**	**(19,789)**	**(2,340)**
Foreign currency translation differences from unhedged foreign operations	**25**	**128,135**	**(299,804)**	**(91,497)**
Unrealized gains (losses) on securities at FVOCI (2017: available for sale securities)				
Debt financial instruments	9, 25	426,300	(107,084)	284,480
Equity financial instruments		—	—	57,245
Investments in associates and joint ventures	**14, 25**	**(9,061)**	**22,400**	**1,128**
Income (expenses) tax	**19, 25**	**(40,038)**	**323,138**	**(97,698)**
		515,874	**(80,598)**	**151,521**
Items that will not be reclassified to profit or loss				
Effect of transfer investment properties for own use	25	5,288	—	—
Unrealized gains (losses) on equity securities at FVOCI	9.4, 25	237,781	(134,084)	—
Actuarial (losses) gains from defined benefit pension plans	22, 25	(61,222)	18,013	(100,232)
Income (expenses) tax	19, 25	4,009	(13,082)	24,081
		185,856	**(129,153)**	**(76,151)**
Total other comprehensive income		**Ps. 701,730**	**Ps. (209,751)**	**Ps. 75,370**
Total comprehensive income, net of taxes		**Ps. 6,067,184**	**Ps. 4,974,800**	**Ps. 3,237,803**
Total comprehensive income for the year attributable to:				
Owners of the parent		3,431,083	2,776,768	1,999,663
Non-controlling interests		2,636,101	2,198,032	1,238,140
		Ps. 6,067,184	**Ps. 4,974,800**	**Ps. 3,237,803**

The accompanying notes are an integral part of the consolidated financial statements

Grupo Aval Acciones y Valores S.A.
Consolidated Statement of Changes in Equity
For the years ended December 31, 2019, 2018 and 2017
(Amounts expressed in millions of Colombian pesos)

	Subscribed and paid-in capital	Additional paid – in capital	Appropriated retained earnings	Other comprehensive income (OCI)	Equity attributable to owners of the parent	Non-controlling interest (NCI)	Total equity
Balance at December 31, 2016	**Ps. 22,281**	**Ps. 8,307,527**	**Ps. 6,522,128**	**Ps. 749,617**	**Ps. 15,601,553**	**Ps. 9,057,669**	**Ps. 24,659,222**
Acquisition of non-controlling interest	—	(4,096)	—	—	**(4,096)**	—	**(4,096)**
Dividends declared	—	—	(1,310,124)	—	**(1,310,124)**	(711,578)	**(2,021,702)**
Other comprehensive income	—	—	—	37,249	**37,249**	38,121	**75,370**
Net income	—	—	1,962,414	—	**1,962,414**	1,200,019	**3,162,433**
Balance at December 31, 2017	**Ps. 22,281**	**Ps. 8,303,431**	**Ps. 7,174,418**	**Ps. 786,866**	**Ps. 16,286,996**	**Ps. 9,584,231**	**Ps. 25,871,227**
Change in accounting policies on January 1, 2018	—	—	(419,304)	45,833	**(373,471)**	(19,647)	**(393,118)**
Balance at January 1, 2018	**Ps. 22,281**	**Ps. 8,303,431**	**Ps. 6,755,114**	**Ps. 832,699**	**Ps. 15,913,525**	**Ps. 9,564,584**	**Ps. 25,478,109**
Issuance of shares	—	—	—	—	—	988,072	**988,072**
Dilution	—	181,579	—	—	**181,579**	(181,579)	—
Dividends declared	—	—	(1,069,489)	—	**(1,069,489)**	(749,987)	**(1,819,476)**
Acquisition of NCI without a change in control	—	(12,674)	—	—	**(12,674)**	(54,483)	**(67,157)**
Other comprehensive income	—	—	—	(135,926)	**(135,926)**	(73,825)	**(209,751)**
Net income	—	—	2,912,694	—	**2,912,694**	2,271,857	**5,184,551**
	Ps. 22,281	**Ps. 8,472,336**	**Ps. 8,598,319**	**Ps. 696,773**	**Ps. 17,789,709**	**Ps. 11,764,639**	**Ps. 29,554,348**
Change in accounting policies on January 1, 2019 [1]	—	—	(5,101)	—	**(5,101)**	(21,881)	**(26,982)**
Balance at January 1, 2019	**Ps. 22,281**	**Ps. 8,472,336**	**Ps. 8,593,218**	**Ps. 696,773**	**Ps. 17,784,608**	**Ps. 11,742,758**	**Ps. 29,527,366**
Dividends declared	—	—	(1,336,861)	—	**(1,336,861)**	(830,160)	**(2,167,021)**
Acquisition of NCI without a change in control [2]	—	(26,570)	—	—	**(26,570)**	(40,527)	**(67,097)**
Realized gain or loss on equity instruments	—	—	12,651	—	**12,651**	11,222	**23,873**
Withholding Tax over dividends	—	—	(14,344)	—	**(14,344)**	(21,692)	**(36,036)**
Other comprehensive income	—	—	—	396,674	**396,674**	305,056	**701,730**
Net income	—	—	3,034,409	—	**3,034,409**	2,331,045	**5,365,454**
Balance at December 31, 2019	**Ps. 22,281**	**Ps. 8,445,766**	**Ps. 10,289,073**	**Ps. 1,093,447**	**Ps. 19,850,567**	**Ps. 13,497,702**	**Ps. 33,348,269**

(1) See note 2.4 "Changes in accounting policies".

(2) See note 25.4.

The accompanying notes are an integral part of the consolidated financial statements

Grupo Aval Acciones y Valores S.A.
Consolidated Statement of Cash Flows
For the years ended December 31, 2019, 2018 and 2017
(Amounts expressed in millions of Colombian pesos)

	Notes	December 31, 2019 (1)	December 31, 2018	December 31, 2017
Cash flows from operating activities:				
Net income before tax expense		Ps. 7,451,711	Ps. 7,334,141	Ps. 4,915,227
Reconciliation of net income before taxes and net cash provided by operating activities:				
Depreciation of tangible assets and right-of-use assets	15, 28, 30	839,105	478,606	463,892
Amortization of intangible assets		459,576	478,568	437,822
Impairment losses on loans and other accounts receivable	4, 28	4,237,381	4,171,801	4,141,573
Net interest income		(11,285,518)	(10,871,795)	(10,514,134)
Accrued dividends	30	(84,686)	(71,487)	(50,439)
Impairment of investments in associates and joint ventures	14	225	111,783	140,691
Gains on sales of non-current assets held for sale	30	(18,989)	(14,862)	(6,611)
Gains on sale of property plant and equipment for own-use	15	(24,249)	(347,510)	—
Valuations and interest from concession agreements		(3,960,250)	(3,181,620)	(209,936)
Net (gains) losses on investment securities measured at FVOCI (2017: available for sale securities)		(52,908)	12,284	(51,712)
Writedown in concessions		5	1,136	2,875
Impairment loss on tangible assets		1,513	5,701	4,832
Foreign exchange losses (gains)		109,533	258,353	(98,977)
Share of undistributed profit of equity accounted investees, net of tax	14	(229,626)	(197,715)	(171,964)
Fair value adjustments of:				
Derivative financial instruments	29	(142,075)	(427,208)	(164,920)
Non-current assets held for sale	13	(2,296)	25,136	37,818
Investment property	15	(19,597)	(39,415)	(46,675)
Biological assets	15	(18,914)	(20,606)	(13,503)
Changes in operating assets and liabilities:				
Trading assets		(584,598)	709,398	2,316,539
Other accounts receivable		(374,435)	(630,394)	(804,970)
Derivative financial instruments		(154,614)	219,406	49,586
Other assets		(242,127)	13,710	177,648
Other liabilities and provisions		143,127	2,757,733	283,036
Employee benefits		(93,993)	42,617	46,514
Loans and receivables		(8,740,036)	(8,245,223)	(14,511,561)
Customer deposits		10,409,443	3,965,382	11,460,395
Interbank borrowings and overnight funds		2,358,074	1,712,600	(1,461,985)
Borrowings from development entities		9,115	(680)	(2,229)
Borrowings from banks and others		(3,197,960)	1,482,124	514,474
Interest received		**18,507,769**	**17,602,454**	**18,124,814**
Interest paid		**(7,860,077)**	**(7,135,811)**	**(8,326,553)**
Interest paid on leases		**(194,589)**	—	—
Income tax paid		**(1,610,046)**	**(1,467,045)**	**(1,474,250)**
Wealth tax and equity tax payments		—	—	**(99,001)**
Net cash provided by operating activities		**Ps. 5,634,994**	**Ps. 8,731,562**	**Ps. 5,108,316**

(1) See note (2.4 (A)), Changes in accounting policies.

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

Grupo Aval Acciones y Valores S.A.
Consolidated Statement of Cash Flows
For the years ended December 31, 2019, 2018 and 2017
(Amounts expressed in millions of Colombian pesos)

	Notes	December 31, 2019 (1)	December 31, 2018	December 31, 2017
Cash flows from investing activities:				
Acquisition of property plant and equipment	15	Ps. (679,016)	Ps. (548,984)	Ps. (473,752)
Acquisition of investment property	15	(2,371)	(54,405)	(75,817)
Additions of biological assets	15	(20,559)	(20,900)	(24,409)
Additions of concession arrangement rights		(651,355)	(465,273)	(610,909)
Additions of other intangible assets		(377,471)	(389,151)	(268,757)
Acquisition of FVOCI (2017 – available-for sale-financial-assets)		(25,378,675)	(16,380,948)	(14,908,266)
Proceeds from sales of FVOCI (2017 – available-for sale-financial-assets)		23,439,811	14,435,809	12,676,512
Proceeds from sales of property and equipment		77,070	56,346	69,793
Proceeds from sales of investment properties		57,027	80,854	28,431
Proceeds from sales of biological assets		41,114	32,239	19,775
Proceeds from sales of non-current assets held for sale		154,569	66,657	85,395
Purchases of financial assets at amortized cost (2017 held-to-maturity)		(3,678,335)	(3,887,773)	(3,704,730)
Redemptions of financial assets at amortized cost (2017 held-to-maturity)		3,642,470	3,810,438	3,365,150
Dividends received from investments		307,566	206,549	171,423
Acquisition of investments in associates and joint ventures	14	(2,789)	—	—
Proceeds from sales of investments in associates and joint ventures		6,060	—	—
Capitalized leasing cost		1,357	—	—
Business combination, net of cash		—	—	40,093
Effect of loss of control of subsidiaries		—	11,238	—
Net cash (used in) provided by investing activities		**Ps. (3,063,527)**	**Ps. (3,047,304)**	**Ps. (3,610,068)**
Cash flows from financing activities:				
Dividends paid to shareholders	21	(1,266,920)	(1,128,535)	(1,307,525)
Dividends paid to non-controlling interest	21, 26	(804,302)	(745,932)	(768,769)
Issuance of debt securities	21	3,148,887	1,095,892	4,548,108
Payment of outstanding debt securities	21	(1,544,225)	(1,139,897)	(3,913,694)
Leases	21	(362,334)	—	—
Issuance of common shares	21	—	988,072	—
Acquisition of NCI without a change in control	21	(67,097)	(67,157)	(4,096)
Net cash used in financing activities		**(895,991)**	**(997,557)**	**(1,445,976)**
Effect of foreign currency changes on cash and cash equivalents		**40,477**	**1,377,744**	**91,562**
Increase (decrease) in cash and cash equivalents		**1,715,953**	**6,064,445**	**143,834**
Cash and cash equivalents at beginning of year	**7**	**Ps. 28,401,283**	**Ps. 22,336,838**	**Ps. 22,193,004**
Cash and cash equivalents at end of year	**7**	**Ps. 30,117,236**	**Ps. 28,401,283**	**Ps. 22,336,838**

(1) See note (2.4 (A)), Changes in accounting policies.

The accompanying notes and appendices are an integral part of the consolidated financial statementS

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 commercial 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.

In performing its activities and pursuant to the corporate bylaws, Grupo Aval may (i) promote the creation of all types of companies relating to its corporate purpose; (ii) represent individuals and companies involved in similar or complementary activities; (iii) grant or receive loans with or without interest; (iv) submit its properties as collateral; (v) issue, endorse, acquire, protest, cancel, or pay bills of exchange, checks, promissory notes or any other type of financial instruments, accept or submit them as payment; (vi) acquire, sell, tax, lease or manage any kind of assets; (vii) subscribe or acquire any kind of investments and sell or otherwise dispose of them; (viii) acquire and sell shares in companies that purse similar or complementary corporate interests ; (ix) render services in areas relating to its activities, experience and knowledge; and (x) carry out or participate, in acts and contracts relating to the aforementioned activities, enabling the exercise of rights and compliance of the obligations of The Group.

The duration of Grupo Aval set forth under the bylaws is until May 24, 2044, but the Company may be dissolved before such term expires, or it may be extended by free decision of Grupo Aval shareholders meeting.

When preparing its consolidated financial statements, Grupo Aval Acciones y Valores S.A., directly consolidates the following entities:

Banco de Bogotá S.A.

Banco de Bogotá S.A., in which Grupo Aval holds 68.74% of the voting rights and 68.74% of the ownership interest as of December 31, 2019, was established as a bank on November 15, 1870. It was authorized to operate under the terms of the renewal resolution No. 3140 dated September 24, 1993 issued by the Superintendency of Finance. The commercial purpose of Banco de Bogotá is to participate and perform all operations and contracts legally authorized to commercial banking, subject to the limitations and requirements set forth under Colombian laws and regulations.

(Amounts expressed in millions of Colombian pesos)

The following table presents details of Banco de Bogotá's most significant subsidiaries which are indirectly consolidated by Grupo Aval as of December 31, 2019:

Subsidiary	Core business	Location	Total voting rights held by Grupo Aval	Total ownership interest held by Grupo Aval
Main local direct subsidiaries				
Almaviva S.A.	Logistics services.	Bogotá, Colombia	95.81 %	65.85 %
Fiduciaria Bogotá S.A.	Management of trust funds.	Bogotá, Colombia	94.99 %	65.29 %
Porvenir S.A.	Management of pension and severance funds.	Bogotá, Colombia	100 %	75.67 %
Main international direct subsidiaries				
Banco de Bogotá Panamá S.A.	Commercial banking services.	Panamá, Republic of Panamá	100 %	68.74 %
Leasing Bogotá Panamá S.A.	Holding company of BAC Credomatic Inc.	Panamá, Republic of Panamá	100 %	68.74 %
Main indirect subsidiaries				
BAC Credomatic Inc.	Holding company in charge of managing the banking and related subsidiaries in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panamá, among others. (Subsidiary of Leasing Bogotá Panamá S.A.).	Panamá, Republic of Panamá	100 %	68.74 %

Banco de Occidente S.A.

Banco de Occidente S.A., in which Grupo Aval holds 72.27% of the voting rights and 72.27% of the ownership interest as of December 31, 2019, was established as a banking entity on September 8, 1964. It was authorized to operate under the terms of the renewal resolution No. 3140 dated September 24, 1993 issued by the Superintendency of Finance. The commercial purpose of Banco de Occidente is to participate and perform all operations and contracts legally authorized to commercial banks, subject to the limitations and requirements set forth under Colombian laws and regulations.

The following table presents the details of Banco de Occidente's most significant subsidiaries, which are indirectly consolidated by Grupo Aval, as of December 31, 2019:

Subsidiary	Core business	Location	Total voting rights held by Grupo Aval	Total ownership interest held by Grupo Aval
Banco de Occidente (Panamá). S.A.	Commercial banking services.	Panamá, Republic of Panamá	95.00 %	68.66 %
Fiduciaria de Occidente S.A.	Management of trust funds.	Bogotá, Colombia	99.99 %	70.78 %
Occidental Bank Barbados Ltd.	Commercial banking services.	Barbados	100 %	72.27 %

Banco Popular S. A.

Banco Popular S. A., in which Grupo Aval holds 93.74% of the voting rights and 93.74% of the ownership interest as of December 31, 2019, was established as a banking entity on July 5, 1950. It was authorized to operate under the terms of the renewal resolution No. 3140 dated September 24, 1993 issued by the Superintendency of Finance. Its commercial purpose is to participate in and perform all operations and contracts legally authorized to commercial banks, subject to the limitations and requirements set forth under Colombian laws and regulations.

(Amounts expressed in millions of Colombian pesos)

The following table presents the details of Banco Popular's most significant subsidiaries which are indirectly consolidated by Grupo Aval, as of December 31, 2019:

Subsidiary	Core business	Location	Total voting rights held by Grupo Aval	Total ownership interest held by Grupo Aval
Alpopular S.A.	Conservation and custody of documents; transportation of products at national and international levels.	Bogotá, Colombia	71.10 %	66.65 %
Fiduciaria Popular S.A.	Management of trust funds.	Bogotá, Colombia	94.85 %	88.91 %

Banco Comercial AV Villas S. A.

Banco Comercial AV Villas S. A., in which Grupo Aval holds 80.39% of the voting rights and 79.87% of the ownership interest as of December 31, 2019, was incorporated as a banking entity on November 24, 1972. It was authorized to operate under the terms of the renewal resolution No. 3352 dated August 21, 1992 issued by the Superintendency of Finance. The commercial purpose of Banco AV Villas is to participate and perform all operations and contracts legally authorized to commercial banks, subject to the limitations and requirements imposed by Colombian laws and regulations.

The following table presents the details of Banco AV Villas' most significant subsidiary which is indirectly consolidated by Grupo Aval, as of December 31, 2019:

Subsidiary	Core business	Location	Total voting rights held by Grupo Aval	Total ownership interest held by Grupo Aval
A Toda Hora S.A. ATH	ATM network services and maintenance and software development	Bogotá, Colombia	100 %	78.90 %

Corporación Financiera Colombiana S.A. – Corficolombiana S.A.

Corficolombiana S.A., in which Grupo Aval and its subsidiaries own 53.45% of the aggregate voting rights and Grupo Aval has 38.63% of the ownership interest as of December 31, 2019 is a merchant bank authorized to operate by the Superintendency of Finance by the resolution of October 18, 1961. Corficolombiana´s core business is the active management of an equity portfolio through controlling and non-controlling investments in key strategic sectors that including infrastructure, energy and gas, agribussines and hotels.

(Amounts expressed in millions of Colombian pesos)

The following table presents the details of Corficolombiana´s most significant subsidiaries which are indirectly consolidated by Grupo Aval, at December 31, 2019:

Main Indirect Subsidiaries **Subsidiary**	**Core business**	**Location**	**Total voting rights held by Grupo Aval**	**Total ownership interest held by Grupo Aval**
Promigas S.A. E.S.P.	Transportation and distribution of natural gas.	Barranquilla, Colombia	50.88 %	19.65 %
Estudios y Proyectos del Sol S.A.S.	Infrastructure projects.	Bogotá, Colombia	100 %	38.63 %
Colombiana de Licitaciones y Concesiones S.A.S.	Infrastructure projects.	Bogotá, Colombia	100 %	38.63 %
Proyectos y Desarrollos Viales del Pacífico S.A.S.	Infrastructure projects.	Bogotá, Colombia	100 %	38.63 %
CFC Gas Holding S.A.S.	Investment Company	Bogotá, Colombia	100 %	38.63 %
Concesionaria Vial Del Pacifico S.A.S.	Infrastructure projects.	Sabaneta Antioquia	89.90 %	34.73 %

Grupo Aval Limited

Grupo Aval Limited is a subsidiary of Grupo Aval in Cayman Islands. It was established on December 29, 2011. Grupo Aval Limited is a limited liability company registered with the Assistant of the Registrar of Companies of Cayman Islands under registry number MC-265169, with its Main Office located in Ugland House, South Church Street, George Town, Grand Cayman KY1-1104. It was constituted as a special purpose vehicle for issuing foreign debt.

Grupo Aval International Limited

Grupo Aval International Limited, was a wholly owned subsidiary of Grupo Aval in Cayman Islands, originally established on October 8, 2012, which was merged in December 2019 with Grupo Aval Limited. This transaction did not impact the results reported as of December 31, 2019.

Other relevant events

Leasing Bogotá S.A. Panamá (“Leasing Bogotá”), a wholly owned subsidiary of Banco de Bogotá, entered into an agreement on October 31, 2019 to acquire 99.1% of the share capital of Multi Financial Group, Inc. (“MFG”), the holding company for Multibank Panama for an estimated cash purchase price of U.S.$728.0 million. The agreement provides for the possibility that shareholders of the remaining 0.9% of MFG’s share capital, adhere to the transaction prior to the closing date.

The transaction is expected to close in the second quarter of 2020 after the required regulatory approval process is completed.

Legal and regulatory restrictions

Grupo Aval and its Colombian subsidiaries are subject to the following restrictions to transfer profits or perform transactions, in accordance with the legal requirements in Colombia:

- Before distributing any dividends to their shareholders, the companies should assign 10% of their profits to a legal reserve until the reserve equals 50% of paid-in capital.

- The Subsidiaries operating in the financial sector may not grant loans to other companies of Grupo Aval that exceed 10% of their regulatory capital if the loan is unsecured or 25% if it is granted with an acceptable security or third party guarantee, as per Superintendency of Finance rules. There is an exception to this rule that extends the maximum quota up to 25% (without guarantee) when it comes to loans to 4G infrastructure projects. These same limits apply to companies which are not part of Grupo Aval.
- Pursuant to article 2.1.2.1.8 of Decree 2555 of 2010, banks in Colombia have a lending limit of 30% of their regulatory capital with respect to loans granted to financial entities. These same limits apply all financial entities.

Foreign subsidiaries of Grupo Aval do not have any restriction to transfer dividends to the parent company. Lending operations in general have restrictions similar to those of banks in Colombia, as described above.

Grupo Aval and its subsidiaries do not have significant restrictions on their ability to access or use their assets and settle their liabilities other than those resulting from the supervisory frameworks within which subsidiaries of the financial sector operate. The supervisory frameworks require subsidiaries of the financial sector to keep certain levels of regulatory capital (see note 4.4) and liquid assets (see note 4.3), limit their exposure to other parts of Grupo Aval and its subsidiaries and comply with other ratios.

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

The consolidated financial statements of Grupo Aval have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on the basis of historical cost, except for financial assets at Fair Value Through Profit or Loss ("FVTPL"), at Fair Value Through Other Comprehensive Income ("FVOCI") (2017: available-for-sale), derivative financial instruments, investment properties, assets held for sale and biological assets which are measured at fair value. Additionally, non-current assets held for sale are measured at the lower value of their carrying value at the time of transfer and fair value, minus estimated costs of disposal and employee benefits which are measured at the present value of the defined benefit obligation (see note 2.24).

The consolidated financial statements were authorized for issuance by the Audit Committee on April 24, 2020.

The following are the main accounting policies applied in preparing the consolidated financial statements of Grupo Aval as of December 31, 2019, 2018 and 2017

2.1 Basis of preparation

a) Presentation of Consolidated Financial Statements

The consolidated financial statements are prepared as follows:

- The consolidated statement of financial position presents the company´s assets and liabilities based on liquidity since it provides reliable and more relevant information than separate current and non-current classifications.

- The consolidated statements of income and other comprehensive income are presented separately. The Consolidated Statement of Income is presented according to their function of expense, as this method provides reliable and more relevant information.

- The consolidated statement of cash flows is presented using the indirect method. Accordingly, net cash flows from operating activities are determined by reconciling net income before tax expense, with the effects of non-cash items, net changes in assets and liabilities from operating activities, and for any other effects that are not classified as investing or financing activities. Revenue and expenses due to interest received and paid are part of operating activities.

b) Consolidated financial statements

Grupo Aval prepares its consolidated financial statements incorporating its controlled entities. Grupo Aval controls an investee if and only if it complies with the following elements:

- Power over the investee entitling Grupo Aval to direct any relevant activities that significantly affect the investee's performance.
- Exposure, or rights to variable returns from its involvement with the investee.
- Ability to affect those returns through its power over the investee.

In order to comply with this requirement, Grupo Aval carries out an annual reassessment of all its contractual relationships. No new entities are required to be consolidated as a result of this process, including no structured entities.

The financial statements of Grupo Aval´s subsidiaries are included in the consolidated financial statements since the date on which Grupo Aval acquires control or following control until the date on which control is lost.

During the consolidation process, Grupo Aval combines the assets, liabilities and profits or losses of those entities under control, previously aligning the accounting policies in all the subsidiaries. Such process includes eliminating intra-group balances and transactions and any unrealized and realized income and expense (except for foreign currency translation gains or losses and those taxes which are not subject to elimination) arising from intra-group transactions. Unrealized and realized losses are eliminated in the same way as unrealized and realized gains but only to the extent that there is no evidence of impairment. Non-controlling interests are presented in the equity of the consolidated statement of financial position of Grupo Aval separately from the equity attributable to owners of the parent company.

For consolidation purposes, the statements of financial position and income of Grupo Aval´s foreign subsidiaries are translated to Colombian pesos, as follows:

- Assets and liabilities are translated at the closing exchange rate at the reporting date;
- Income, expense and cash flows of foreign operations are translated at monthly average exchange rates since those averages approximate the exchange rates of each specific transaction;
- All resulting exchange differences are recognized in other comprehensive income and accumulated in the foreign currency translation reserve, except to the extent that the translation difference is allocated to non-controlling interests.

c) Investments in associates

Associates are companies in which Grupo Aval has significant influence but not control and are accounted for under the equity method. They are presented in the statement of financial position as “Investments in associates and joint ventures” (additionally see Note 2.1 “d Joint arrangements”). Grupo Aval exercises significant influence over another entity if it owns, directly or indirectly, 20% or more of the voting power of the investee, unless it is clearly evidenced that such influence does not exist. Under the equity method, investments in associates are initially recognized at cost and subsequently adjusted by Grupo Aval´s share in the associate’s income and other comprehensive income with credit or charge to Grupo Aval’s profit or loss account and other comprehensive income, respectively of the net income, and other comprehensive income of the investee.

Dividends received from associates and joint ventures are recognized as a reduction in the carrying amount of the investment.

Where Grupo Aval´s share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, Grupo Aval does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between Grupo Aval and its associates are eliminated to the extent of Grupo Aval's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by Grupo Aval.

The carrying amount of associates are tested for impairment.

d) Joint arrangements

A joint arrangement is one in which two or more parties have joint control of the arrangement. Joint arrangements are divided into joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement, the joint operations in which the parties having joint control of the agreement have rights to the assets and obligations with respect to the liabilities relating to the agreement. The joint ventures, wherein the parties having joint control, are entitled to the net assets of the agreement.

Grupo Aval recognizes joint operations in the consolidated financial statements based on their proportional and contractual participation in each of the assets, liabilities and profit or loss of the contract or entity wherein the agreement is held. Grupo Aval recognizes joint ventures through the equity method, in the same manner as investments in associates.

2.2 Functional and presentation currency

Considering that the majority of the Group´s business activities as well as the generation and use of cash of Grupo Aval is in Colombian pesos, the Colombian peso is the currency that most accurately represents the economic environment of Grupo Aval's operations, both for the consolidated financial statements and for the parent company. Foreign subsidiaries have functional currencies different from the Colombian peso, which are translated to Colombian pesos for presentation purposes.

2.3 Transactions in foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the prevailing exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies in terms of historical costs are measured using the exchange rate at the transaction date. Financial instruments measured at fair value are converted using the exchange rate at the date the fair value was determined. Profits or losses resulting from the translation process are recognized in profit or loss, except for financial instruments designated as hedging instruments.

As of December 31, 2019 and 2018, the representative market rates as computed and certified by the Superintendency of Finance (for the U.S. $ which is the most representative foreign currency for Grupo Aval´s transactions) were Ps. 3,277.14 and Ps. 3,249.75 per U.S. $1, respectively.

2.4 Changes in accounting policies

A . IFRS 16 "Leases"

Grupo Aval has adopted IFRS 16 using the modified retrospective approach with the cumulative effect of initial application being recognized on January 1, 2019. Grupo Aval has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening Condensed Consolidated Statement of Financial Position on January 1, 2019.

IFRS 16 introduced a single lessee's accounting model. As a result, Grupo Aval, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains unchanged from previous accounting policies.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payments that are based on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain it will exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or Grupo Aval's incremental borrowing rate.

Right-of-use assets are measured at cost comprised of the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Payments associated to short-term leases and leases of low-value assets are recognized on a straight-line basis as a rent expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value leased assets comprise IT-equipment and small items of office furniture.

Extension and termination options are included in a number of property and equipment leases across Grupo Aval. These terms are used to maximize operational flexibility in terms of managing contracts.

Adjustments recognized on adoption of IFRS 16

Upon adoption of IFRS 16, Grupo Aval recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019.

Some right-of-use assets related with property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as of January, 1, 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(Amounts expressed in millions of Colombian pesos)

Recognition of right-of-use		**January 1, 2019**
Right of use assets	Ps.	2,217,380
Deferred tax liabilities		(636,017)
Total		1,581,363
Retained earnings	Ps.	(40,272)
Retained earnings related to right-of-use net deferred tax		13,290
Total	**Ps.**	(26,982)
Net effect	**Ps.**	**1,608,345**

Recognition of financial liabilities		**January 1, 2019**
Financial liabilities - Lease liabilities	Ps.	2,225,545
Provisions for right-of-use dismantling		32,107
Deferred tax assets		(649,307)
Net effect	**Ps.**	**1,608,345**

When measuring lease liabilities for leases thar were classified as operating leases, Grupo Aval discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied was 6.07%

		January 1, 2019
Operating lease commitments at December 31, 2018 as disclosed under IAS 17 in the Group's consolidated financial statements	Ps.	1,636,550
Discounted using the incremental borrowing rate		869,191
Add/(less): adjustments as a result of a different treatment of extension and termination options		1,275,475
Add/(less): adjustments relating to changes in the index or rate affecting variable payments		125,486
(Less): Recognition exemption for leases of low-value assets		(35,987)
(less): Recognition exemption for leases with less than 12 months of lease term at transition		(8,620)
Lease liabilities recognised at 1 January 2019	**Ps.**	**2,225,545**

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases,
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Grupo Aval has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date Group Aval relied on its assessment made applying IAS 17 and IFRIC 4 for determining whether an arrangement contains a lease.

Impact on changes in accounting policies, as of January 1, 2018

The following table summarizes the impact, net of taxes, of the adoption of IFRS 15 and IFRS 9 in the statement of financial position as of January 1, 2018.

(Amounts expressed in millions of Colombian pesos)

	Reference		Impact of the adoption
IFRS 15 Revenue from contracts with customers	B	Ps.	391,281
IFRS 9 Financial Instruments	C		(784,399)
Net impact at January 1, 2018		**Ps.**	**(393,118)**

B. IFRS 15 "Revenue from contracts with customers"

Grupo Aval has adopted Revenue from Contracts with Customers IFRS 15 using the cumulative effect method, with the effect of initial adoption recognized on January 1, 2018. Accordingly, the information presented for 2017, has not been restated – i.e. it is presented, as previously reported, under – IAS 18 Revenue, IAS 11 Construction Contracts, IFRIC 12 "Service Concession Arrangements" and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

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.

Operation and construction services (Concessions)	**Impact of the adoption of IFRS 15 as of January 1, 2018**	
Commissions related to funding (see note 16)	**Ps.**	12,744
Contract liability (see note 24)		(531,804)
Financial assets (see note 16)		450,878
Intangible assets (see note 16)		619,949
Deferred tax effect		(181,680)
	Ps.	**370,087**
Customer loyalty programs		
Customer loyalty programs		32,232
Deferred tax effect		(11,038)
	Ps.	**21,194**
Net impact retained earnings at January 1, 2018	**Ps.**	**391,281**

C. IFRS 9 "Financial Instruments"

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 Other Comprehensive Income ("OCI") as of January 1, 2018 (for a description of the transition method, see (iv) below).

	Impact of adopting IFRS 9 on opening balance of:		
	Reserves and retained earnings	**OCI**	**Total equity**
Recognition of changes in measurement due in classification under IFRS 9	Ps. —	Ps. 71,229	Ps. 71,229
Recognition of expected credit losses under IFRS 9	(1,255,060)	56,198	(1,198,863)
Impact on equity method due to impairment of other accounts receivable from associates	—	(3,691)	(3,691)
Deferred tax effect	366,650	(19,725)	346,926
Impact as of January 1, 2018	**Ps. (888,411)**	**Ps. 104,011**	**Ps. (784,399)**

(Amounts expressed in millions of Colombian pesos)

Impairment of financial assets

Loss allowance as of December 31, 2017 under IAS 39	**(5,875,018)**
Additional impairment recognized as of January 1, 2018 on:	
Loans	(1,163,009)
Credit Commitments	(16,217)
Other accounts receivable	(18,907)
Impact on equity method investees due to impairment of other accounts receivable from associates	(3,691)
Debt securities measured at amortized cost	(672)
Other financial assets	(58)
Loss allowance as of January 1, 2018 under IFRS 9	**(7,077,572)**

- Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI impacts OCI and retained earnings at the same time, therefore the net impact on total equity is zero. The table below shows the impact on retained earnings from impairment:

Impairment loss due to credit risk as of December 31, 2017 under IAS 39	**(71,708)**
Additional impairment recognized as of January 1, 2018 on:	
Debt securities measured at FVOCI	(56,198)
Loss allowance as of January 1, 2018 under IFRS 9	**(127,906)**

2.5 Financial assets and financial liabilities

i. Recognition and initial measurement

Grupo Aval initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-purchases and sales of financial assets) are recognized on the trade date, which is the date in which Grupo Aval becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value and in addition for instruments measured at amortized cost or FVOCI, transaction costs are added if directly attributable to its acquisition or issuance.

ii. Classification

Financial assets

On initial recognition, a financial asset is classified as: amortized cost, Fair Value Through Other Comprehensive Income (“FVOCI”) or Fair Value Through Profit or Loss (“FVTPL”).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model in which the objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On 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 Other Comprehensive Income ("OCI"). This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

Business model assessment

Grupo Aval makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- The established policies and objectives for the portfolio and their actual application. In particular, whether management's strategy focuses 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 the assets;
- How the performance of the portfolio is evaluated and reported to Grupo Aval's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and its expectations about future sale activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how Grupo Aval's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading and which performance is evaluated on a fair value basis are 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)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and 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 profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, Grupo Aval considers the contractual terms of the instrument. This includes 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, Group Aval considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage covenants;
- Prepayment and extension terms;

- Terms that limit Grupo Aval's claim to cash flows from specified assets; and
- Features that modify consideration of the time value of money.

Interest rates on certain commercial and consumer loans originated by Grupo Aval are pegged to standard variable rates (SVRs) generally used in each country where Grupo Aval operates and includes a discretional spread. In Colombia, the SVRs are based on the DTF (the DTF rate is the weighted average interest rate paid by commercial banks, merchant banks and financing companies for certificates of deposit with maturities of 90 days) or the interbank rate (Interés Bancario de Referencia), or "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 Grupo Aval 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:

- Borrowers are able to prepay the loans without significant penalties,
- 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.

Financial liabilities

Grupo Aval classifies its financial liabilities, other than derivatives, financial guarantees and loan commitments, as measured at amortized cost.

iii. Reclassifications

Financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after Grupo Aval's entities changes their business model for managing financial assets.

iv. Derecognition

Financial assets

Grupo Aval derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire (see also (v)), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which Grupo Aval neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities, as explained in (2.10). Any interest in transferred financial assets that qualify for derecognition that is created or retained by Group Aval is recognized as a separate asset or liability.

Grupo Aval enters into transactions whereby it transfers assets recognized on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because Grupo Aval retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which Grupo Aval neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, Grupo Aval continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, Grupo Aval retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

Grupo Aval derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

v. Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then Grupo Aval assesses whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized (see (iv)) and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If Group Aval plans to modify a financial asset in a way that would result in foregoing of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write‑off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then Grupo Aval first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a recovery or impairment through in the Consolidated Statement of Income. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred, and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

Financial liabilities

Grupo Aval derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in the Consolidated Statement of Income.

If the modification of a financial liability measured at amortized cost does not result in derecognition of the financial liability, then Grupo Aval first recalculates the gross carrying amount of the financial liability using the original effective interest rate of the liability and recognizes the resulting adjustment as interest expense through in the Consolidated Statement of Income. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred, and fees received as part of the modification adjust the gross carrying amount of the modified financial liability and are amortized over the remaining term of the modified financial liability.

vi. Offsetting

Financial assets and liabilities are offset, and the net amount is recognized in the consolidated statement of financial position, when there is a legally enforceable right to offset recognized amounts and management intends to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in Grupo Aval's trading activity.

vii. Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which Grupo Aval has access at that date.

When one is available, Grupo Aval measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then Grupo Aval uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If Grupo Aval determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized the Consolidated Statement of Income on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by Grupo Aval on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

Grupo Aval recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred. See Note 5.

viii. Repurchase agreements and reverse repurchase agreements

Purchases of financial instruments under a non-optional resale agreement are measured at fair value and recognized as financial assets in the consolidated statement of financial position under loans and receivables to credit institutions.

The excess of the purchase prices over the resale prices is recognized as interest income over the contractual term.

Sales of financial instruments under a non-optional repurchase agreement are measured at fair value and recognized as liabilities in the consolidated statement of financial position under Deposits from the Central Bank – Repurchase agreements, Deposits from credit institutions – Repurchase agreements or Customer deposits – Repurchase agreements.

The excess of the sales prices over the repurchase prices is recognized as interest expense over the contractual term.

Retained interests (i.e. the assets that collateralize the repurchase agreements) are primarily classified as fair value through OCI and measured at fair value.

ix. Impairment of financial assets

Grupo Aval recognizes loss allowances for Expected Credit Losses – "ECL" on the following financial instruments that are not measured at FVTPL:

- Debt instruments;
- Loans and lease receivables;
- Financial guarantee contracts issued;
- Loan commitments issued, and
- Other accounts receivable

No credit impairment loss is recognized on equity investments.

Grupo Aval measures loss allowances at an amount equal to lifetime ECL (Stage 2 and stage 3), except for the following, for which they are measured as 12-month ECL (Stage 1):

- Debt investment securities that are determined to have low credit risk at the reporting date; and

- Other financial instruments (other than loans and lease receivables) on which credit risk has not increased significantly – "SICR" from their initial recognition.

A financial asset is classified as a low credit risk asset if the issuer is related to an investment grade credit rating.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

Measurement of ECL is described in Note 4(4.1.5 Amounts arising from ECL).

Modified Financial Assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized (see (iv)) and ECL are measured as follows:

- If the restructuring is not expected to result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4(4.1.1)).
- If the restructuring is expected to result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, Grupo Aval assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by Grupo Aval on terms that Grupo Aval' entities would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days (for mortgages when overdue for 180 days) or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, Grupo Aval considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.

- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as "other provisions";
- Where a financial instrument includes both a drawn and an undrawn component, and Grupo Aval cannot identify the ECL on the loan commitment component separately from those on the drawn component: Grupo Aval presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as an "other provision"; and
- Debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the ECL is disclosed and is recognized as part of the net movement recognized in the fair value reserve OCI.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when Grupo Aval determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Recoveries of amounts previously written off are included in "impairment losses (recoveries) on financial assets" in the Consolidated Statement of Income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with Grupo Aval's procedures for recovery of amounts due. The contractual amount outstanding on the financial assets that were written off during the reporting period are disclosed in note 4.1.5 Amounts arising from ECL; Loss Allowance reconciliation tables.

2.6 Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits, and other short-term investments with original maturities of three months or less from the date of their acquisition that are subject to an insignificant risk of changes in their fair value and are used by Grupo Aval in the management of its short-term commitments.

2.7 Trading assets and liabilities

'Trading assets and liabilities' are those assets and liabilities that Grupo Aval acquires or incurs principally for the purpose of selling or repurchasing in the near term or holds as part of a portfolio that is managed together for short-term profit or position taking. Trading assets and liabilities are initially recognized and subsequently measured at fair value in the Statement of Financial Position, with transaction costs recognized in Statement of Income. All changes in fair value are recognized as part of net trading income in Statement of Income.

2.8 Derivatives

a) Derivative financial instruments and hedge accounting

A derivative is a financial instrument in which value changes respond to changes in one or more variables denominated as an "underlying" (a specific interest rate, the price of a financial instrument, a listed commodity, a foreign currency exchange rate, etc.), that has an initial net investment smaller than would be required for other instruments that have a similar response to the mentioned variable and that is settled in a future date.

Grupo Aval trades in financial markets, forward contracts, future contracts, swaps and options that fulfil the definition of a derivative.

Financial assets and liabilities from transactions with derivatives are generally not offset in the consolidated statement of financial position. However, when there is a legal and exercisable right to offset the recognized values and Grupo Aval intends to be settle them on a net basis or to realize the assets and settle the liability simultaneously, derivatives are presented as net values in the consolidated statement of financial position.

Derivative transactions are initially recognized at fair value. Subsequent changes in the fair value are recognized in profit or loss, unless the derivative instrument is designated as a hedging instrument and, in this case, the accounting criteria will depend on the nature of the hedged item, as described below.

At the beginning of the hedging transaction, Grupo Aval formally documents the existing relationship between the hedging instrument and the hedged item, including the risk management objective and strategy in undertaking the hedging relationship. It also documents its assessment, both initially as well as on a recurring basis, of whether the hedging relationship is highly effective in offsetting the changes in fair value or cash flows of the hedged items.

(i) For fair value hedge of assets or liabilities and firm commitments, changes in the fair value of the derivative instrument are recognized in profit or loss, as well as any other change in the fair value of the asset, liability or firm commitment attributable to the hedge risk,

(ii) For cash flow hedge of a particular risk associated with a recognized asset or liability or a projected highly probable transaction, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income. The gain or loss relating to the portion that is not effective for hedging or that does not relate to the hedged risk is immediately recognized in profit or loss.

The values accumulated in other comprehensive income are transferred to profit or loss in the same period in which the hedged item is recognized in profit or loss.

(iii) Hedging of net investments in a foreign operation is recognized similarly to cash flow hedging: the effective portion of changes in fair value of the hedging instrument is recognized in other comprehensive income, and the ineffective portion of the changes in fair value of the derivative is recognized in profit or loss. The hedging instrument's gains or losses accumulated in equity will be recognized in profit or loss when the net investment in foreign operations is sold in whole or proportionally, if partially disposed of.

b) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). Grupo Aval accounts for an embedded derivative separately from the host contract when:

- The host contract is not an asset in the scope of IFRS 9;
- The host contract is not itself carried at FVTPL;

- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognized in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

2.9 Loans

'Loans and receivables' captions in the statement of financial position include:

- Loans measured at amortized cost (see 2.5(ii)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- Finance lease receivables.

When Grupo Aval purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan, and the underlying asset is not recognized in Grupo Aval's financial statements.

The effective interest rate method is a method of calculating the amortized cost of a financial asset and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that discounts future cash payments or receipts (without consideration of future credit losses, over the expected life of the financial instrument) to the net carrying amount of the financial asset at initial recognition. In the process of calculating the effective interest rate, Grupo Aval estimates the cash flows considering the contractual terms including prepayment expectations of the financial instrument for portfolios with high prepayment levels, except for future credit losses and considering the initial fair value plus transaction costs and premiums granted, minus commissions and discounts received which form integral part of the effective rate.

2.10 Investment securities

The 'investment securities' line in the statement of financial position includes:

- Debt investment securities measured at amortized cost (see 2.6(ii)); These are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- Debt and equity investment securities mandatorily measured at FVTPL (see 2.6(ii)); These are at fair value with changes recognized immediately in profit or loss;
- Debt securities measured at FVOCI; and
- Equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- Interest revenue using the effective interest method;
- ECL and reversals; and
- Foreign exchange gains and losses.

When a debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity and recognized as profit or loss in the Consolidated Statement of Income.

Grupo Aval elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI. Cumulative gains and losses recognized in OCI are transferred to retained earnings upon disposal of an investment.

2.11 Financial liabilities

A financial liability is any contractual liability of Grupo Aval to deliver cash or other financial asset to another entity or person, or to exchange financial assets or financial liabilities under potentially unfavorable conditions for Grupo Aval, or a contract which will be terminated or could be settled using equity instruments owned by the entity. Financial liabilities are initially recognized based on their fair value, which is usually equal to the transaction value less directly attributable costs. Subsequently, such financial liabilities are measured at their amortized cost according to the effective interest rate method determined at initial recognition and recognized in profit or loss.

2.12 Financial guarantees

Financial guarantees are those contracts requiring that the issuer carries out specific payments to reimburse the creditor for losses incurred when a specific debtor defaults in its payment obligation, in accordance with the original or modified conditions, of a debt instrument; regardless of its legal form.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- At the higher of the loss allowance determined in accordance with IFRS 9 (see 2.5 (vii)) and the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15; and

As the reporting date Grupo Aval has no issued loan commitments that are measured at FVTPL.

For credit risk impairment losses established over financial guarantee contracts under IFRS 9, are recognized as liabilities under “Provisions – other provisions” and recognized in profit or loss, see note 2.5 ix “Impairment of financial assets in the statement of financial position”.

2.13 Non-current assets held for sale

Foreclosed assets and non-current assets held for sale, which Grupo Aval intends to sell in a period of less than one year, and it is considered highly probable that their value will be recovered primarily through sale rather than through continuing use, are recognized as "non-current assets held for sale". These assets are measured at the lower of their carrying value at the time of transfer and fair value, less estimated disposal costs.

2.14 Property, plant and equipment for own use

Property, plant and equipment include the assets, owned or under financial leases held by Grupo Aval for current or future use for more than one period.

(Amounts expressed in millions of Colombian pesos)

They are recognized in the consolidated statement of financial position at their acquisition or construction cost, less the corresponding accumulated depreciation and, if applicable, the estimated impairment losses resulting from comparing the carrying amount of each asset with its recoverable value.

Depreciation is calculated by applying the straight-line method over the acquisition cost of the assets (except for the bearer plants, which are depreciated based on production units), less any residual value; land is not depreciated.

Depreciation is estimated on a straight-line basis during the estimated useful life of the asset. The annual depreciation rates for each type of assets are:

Asset	Useful Life
Own use buildings	According to appraisals
Equipment, furniture and accessories	From 3 to 10 years
Machinery and equipment	From 5 to 25 years
Computer equipment	From 3 to 12 years
Vehicles	From 5 to 10 years
Bearer plants	From 25 to 35 years

Conservation and maintenance expense is recognized when incurred as "Administrative Expense" (see note 2.21 impairment of non-financial assets).

A bearer plant is a live plant that meets the following requirements:

a) It is used for the manufacturing or supply of agricultural products;
b) It is expected to produce for more than one period; and
c) It has a remote probability of being sold as an agricultural product, except for irregular sales related to thinning and trimming.

Bearer plants that are under the set-up and growing phase are subject to a biological transformation which is reflected through cost accumulation until they reach their maturity level. In the case of the African oil palm, maturity is reached in the second year, while for rubber plants maturity is reached in the seventh year. After reaching their maturity, bearer plants are considered developed and the future economic benefits arise from the sale of the fruit produced during the life of the plant.

Bearer plants are measured at their cost less accumulated depreciation and any impairment losses. The useful life is equal to the plants´ production periods. The useful life of the rubber plant is 35 years while the useful life of the African oil palm is 25 years. The depreciation method used is the estimated production units as it accurately reflects the use of the assets. If the bearer plant is sold for timber at the end of the useful life the value received is considered the residual value of the asset.

2.15 Investment properties

Land and buildings, considered in whole or in part, that are held to earn rental income or for capital appreciation, rather than for own use or sale in the ordinary course of business. Investment properties are recognized initially at cost, including all costs associated with the transaction, and subsequently measured at fair value, with changes in fair value recognized in profit or loss.

2.16 Leases

Grupo Aval has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 "Accounting for Leases" and IFRIC 4 "Determining whether an Arrangement contains a Lease". The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from January 1, 2019

Lessee accounting

At inception of a contract, Grupo Aval assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

Grupo Aval recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Grupo Aval determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Grupo Aval presents right-of-use assets in 'Tangible asstes' and lease liabilities in 'Borrowings from banks and others' in the statement of financial position.

Short-term leases and leases of low-value assets

Grupo Aval has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Grupo Aval recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Lessor accounting

When Grupo Aval acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Policy applicable before January 1, 2019

Leases - Lessor accounting

Leases are classified as a financial or operating lease. A lease is classified as a financial lease when it substantially transfers all the risks and rewards inherent to the property. A lease is classified as operating if it does not substantially transfer all the risks and rewards inherent to the property. Lease contracts classified as financial leases are included in the consolidated statement of financial position as "Loans" and are recognized in the same way as other loans, as explained in note 2.11. Lease contracts classified as operating lease continue to be classified as property, plant and equipment or investment

Leases - Lessee accounting

Up on initial recognition, leases are classified as financial or operating leases, in the same way as described above.

Lease agreements classified as financial leases are included in the consolidated statement of financial position as property, plant and equipment or as investment properties, in accordance with the intention of Grupo Aval in relation to the asset and are initially recognized in assets and in liabilities simultaneously for an amount equal to the lesser of the fair value of the leased asset or the present value of the minimum lease payments. The present value of the minimum lease payments is established by using the implicit interest rate in the lease contract, or if such rate is not determinable, the average interest rate of the bonds placed by Group in the market. Any initial direct cost of the lessee is added to the recognized asset amount.

After initial recognition, these assets are accounted for in the same manner as other property, plant and equipment or investment properties. The value recognized as a liability is included as a financial liability.

Payments under lease contracts classified as operating are recognized on a straight-line basis in profit or loss over the lease term. Incentives received from leasing are recognized as an integral part of the total lease payments during its term.

2.17 Biological assets

Biological assets, are measured at fair value less disposal cost, both at the time of initial recognition and at the end of reporting period, except for biological assets for which their fair value cannot be measured reliably; in which case they are measured at cost less accumulated depreciation and impairment loss. Gains and losses arising from the initial and subsequent fair value measurement of the agricultural products are included in the Consolidated Statement of Income. Costs incurred in the agricultural production process are also recognized directly in the Consolidated Statement of Income.

The fair value of biological assets is determined using valuations performed by experienced internal professionals, using discounted cash flow models. The expected cash flows of the crop's total life are determined by using the market price of the agricultural product currently in effect and the estimated productive life of plants, net of maintenance and harvest costs and of any other costs required for plant maintenance during the production period. The productive life of plants is estimated considering the age, location and type of product. The fair value of the biological assets is dependent on current market prices for each product.

2.18 Business combinations and goodwill

Business combinations are accounted for using the "acquisition method" when control is transferred to the controlling entity. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. If non-controlling interests arise during the acquisition of control of the entity, such non-controlling interests are recognized at either fair value or at the proportionate interest in the recognized amount of the identifiable net assets of the acquiree.

Goodwill is measured as the excess of the aggregate of consideration transferred, over the amount of any interest previously acquired and the net of identifiable assets acquired and liabilities assumed at acquisition date. Goodwill acquired in a business combination is assigned to each of the groups of cash-generating units from which benefit are expected as a result of the acquisition. Goodwill is not subsequently amortized; however, it is subject to an annual impairment assessment in relation to the cash-generating unit to which it has been assigned and, from which benefits are expected deriving from the synergies of business combinations. A loss due to impairment recognized on Goodwill cannot be reversed in subsequent periods.

2.19 Other intangibles assets

Other intangible assets mainly comprise software and licenses, which are initially measured at the cost of acquisition or cost of development. Costs incurred during the research phase are expensed as incurred.

Development expenses which are directly attributable to design and performance tests of software and identifiable, unique and controlled by Grupo Aval are recognized as intangible assets, when the following conditions are met:

- Technically, it is possible to complete the intangible asset production, so it can be available for use;
- Management intends to complete the corresponding intangible asset for use;
- Management has the capacity of using the intangible asset;
- It is probable that future economic benefits that are attributable to the asset will flow to the entity;
- There is availability of adequate technical or financial resources or other type, for completion and usage of the intangible asset; and
- Costs attributable to intangible asset during its development phase can be estimated and measured in a reliable manner.

Costs that are directly attributable and capitalized as part of intangible assets include personnel expense directly related to developing such programs and an adequate percent of overhead expense.

Expenses that do not satisfy these criteria are recognized as incurred expenses. Disbursements over intangible assets are initially recognized as expenses of the period and they are not be subsequently recognized as intangible assets.

Subsequent to their initial recognition, these assets are measured at cost less amortization, which is carried out during their estimated useful lives as follows: amortization is recognized on a straight-line basis, according to the estimated useful lives. At the end period, Grupo Aval analyzes if there is evidence based on each CGU (Cash Generating Unit), both external and internal, indicating that the intangible asset is impaired. Any loss due to subsequent impairment or reversal is recognized in the Consolidated Statement of Income; such impairment is determined by the excess of the carrying amount over the recoverable value.

2.20 Concession arrangements rights

Concession contracts, are those in virtue of which certain subsidiaries of Grupo Aval make a commitment with the Government for the construction or maintenance of infrastructure, for a period of time during which, said entities receive the revenue derived from the contract, either through direct payments from the Government, through tolls or other types of fees charged to the end users of the project, which, are recognised as financial assets or intangible assets.

A financial asset is recognized when pursuant to the contractual conditions, the subsidiary is entitled to an unconditional contractual right of receiving cash or other financial assets from the grantor or from the Government, due to construction services or when the Government guarantees minimum income from tolls or fees charged to the users of the concession work during the term of the concession agreement. An intangible asset is recognized when the Grupo Aval subsidiary in the concession contract does not have an unconditional right to receive cash and, on the contrary, its revenue depends of the right it has for the use of the infrastructure under concession. In some cases, contracts can contain both financial and intangible assets.

Concession arrangements are recognized as follows:

(a) During the construction stage, all estimated income for construction services as well as the costs associated to the construction are recognized in the Consolidated Statement of Income based on the stage of completion of the work performed. In the event that there is an expected loss, this is recognized as an expense inmediately.

(b) If all or part of the concession agreement is classified as a financial asset, it is recognized in accordance with the accounting policy for financial assets as set out in note 2.5.

(c) If all or part of the concession contract is classified as an intangible asset, the revenues accumulated as assets during the construction phase of the project, are recorded as intangible assets and are amortised over the term of the arrangement in a manner that reflects the pattern in which the concession asset's economic benefits are consumed by the entity, from the moment the asset enters into service.

2.21 Impairment of non-financial assets

At each reporting date, Grupo Aval reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Goodwill is tested annually for impairment. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or Cash Generating Units (CGU). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Grupo Aval´s corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss of goodwill cannot be reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

2.22 Employee Benefits

Grupo Aval´s entities provide the following benefits to employees in exchange of services rendered to the Group:

a) Short-term employee benefits
Pursuant to Colombian labor rules, such benefits are comprised of salaries, premiums, vacations, severance payments and payroll tax contributions to the Colombian Government designated agencies which are paid within 12 months following the end of the reporting period. Such benefits are accumulated on an accrual basis and recognized in profit or loss.

b) Post-employment benefits (defined benefit plans)
These are benefits that Grupo Aval pays to its employees when they retire or upon completion of their employment period, other than indemnities. These benefits include retirement pensions which are directly assumed by Grupo Aval's entities, pending severance payments to employees belonging to the labor regime prior to Law 50 1990 and certain extra-legal benefits or benefits agreed in collective labor conventions.

Post-employment benefits liabilities are determined based on the present value of estimated future payments, calculated based on actuarial assessments using the projected unit of credit method, and applying actuarial assumptions about mortality rate, increase of salaries and personnel turnover, and interest rates determined with reference to bond market returns of Colombian Government' bonds or high-quality business liabilities in effect at the reporting date. Under the projected unit of credit method, future benefits to be paid to employees are assigned to each accounting period in which the employee renders the service. Therefore, the corresponding expense due to these benefits recognized in profit or loss of Grupo Aval includes the present service cost assigned in the actuarial calculation plus the financial cost of calculated liabilities. Changes in liabilities due to changes in actuarial assumptions are recognized in Other Comprehensive Income.

Changes in actuarial liabilities due to changes in employment benefits granted to employees that have a retroactive effect are recognized as an expense in the earlier of the following dates:

- When a modification of the granted employment benefits takes place, or
- When provisions for restructuring costs are recognized by a subsidiary or a business of Grupo Aval.

c) Other long-term employee benefits

Long term benefits are different from employee short-term benefits, post-employment benefits and termination benefits. In accordance with the collective conventions and regulations of each company of Grupo Aval, such benefits are mainly related to seniority bonuses.

Long-term liabilities for employee benefits are determined in the same manner as post-employment benefits described in item (b) above; the only difference is that the changes in the actuarial liability due to changes in the actuarial assumptions are recognized in profit or loss.

d) Termination benefits

These benefits are payments which most be made by Grupo Aval´s entities derived from their making a unilateral decision of terminating and employee´s labor contract or from and employee´s decision to accept benefits offered by an entity in exchange for terminating the employment contract. Pursuant to Colombian law, such payments correspond to compensation for dismissal or redundancy and other benefits that entities unilaterally decide to grant to their employees under such circumstances.

Termination benefits are recognized as a liability and in profit or loss at the earlier of the following dates:

- When Grupo Aval formally informs to the employee about its decision of dismissal; or
- When provisions for restructuring costs are recognized by a subsidiary or business of Grupo Aval.

2.23 Income taxes

Income tax expense includes both current and deferred tax. Tax expense is recognized in profit or loss except for items recognized in Other Comprehensive Income or directly in equity.

The current income tax is calculated based on the tax laws in force (enacted or substantively enacted) in Colombia as of the reporting date of the consolidated financial statements or, in the country where subsidiaries of Grupo Aval are located and subject to tax payment. Management of each entity of Grupo Aval periodically assesses tax return positions with respect to situations where the applicable tax regulation is subject to interpretation and establishes provisions, when appropriate, on the basis of amounts expected to be paid to tax authorities.

Deferred taxes are recognized in respect of temporary differences arising between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred taxes are not recognized for: temporary differences on the initial recognition of goodwill; temporary differences on the initial recognition of an asset or liability in a transaction that is not a business combination and that affects neither accounting or taxable profit or loss and temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured using the tax rates that are expected to be applied to the temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes assets are only recognized to the extent it is probable that future taxable income is expected to be available to offset temporary differences.

Deferred tax liabilities arise from taxable temporary differences, except for the deferred tax liabilities on investments in subsidiaries, when the opportunity of reversal of temporary differences is controlled by Grupo Aval and it is not expected to be reversed in the near future. Generally, Grupo Aval has the ability to control the temporary differences of investments in associates.

Current taxes are offset only when the entity has a legally enforceable right to offset and the entity intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Deferred taxes are offset when the entity has a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities are related to income taxes levied by the same tax authority over the same taxable entity or over different entities but these entities have an intention to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously for each period in which these differences reverse.

In determining the amount of current and deferred taxes, Grupo Aval considers the impact of uncertain tax exposures on current tax liabilities, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes Grupo Aval to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

2.24 Non-Income taxes (levies)

Levies are recognized as liabilities when Grupo Aval has accomplished the activities on which taxes must be paid, according to legislation in effect.

A wealth tax was created by the Colombian Congress in late 2014, which is calculated based on the equity of companies in Colombia, determined under tax rules as of January 1, 2014, for every year from 2015 through 2017 on January 1, and is recognized on an annual basis as a liability when incurred and charged to profit or loss.

2.25 Provisions

Provisions for environmental dismantling and recovery, restructuring costs and legal claims are recognized when Grupo Aval has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic benefits will be required to settle the obligation. Restructuring provisions include penalties due to cancelation of leases and employee dismissal payments.

Provisions are measured at the present value of outflows expected to be necessary to settle the obligation, using a discount rate before taxes, reflecting the assessments of the time value of money of the current market as well as the specific risks of the obligation. The subsequent increase of the provision due to the unwinding of the discount rate is recognized as "financial expense".

2.26 Non-voting rights of preferred shares

Preferred shares represent partial ownership and do not provide shareholders with any of the voting rights of common shares. Grupo Aval has classified as an equity instrument all the non-voting preferred shares. See note 25 controlling interest equity.

2.27 Revenues

- **Net interest income**

(i) Effective interest rate

Interest income and expense are recognized in the Consolidated Statement of Income using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, Grupo Aval estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

(ii) Amortized cost and gross carrying amount

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance until December 31, 2017).

The 'gross carrying amount' of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

(iii) Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see note 2(2.5) (ix).

(iv) Presentation

Interest income and expense presented in the Consolidated Statement of Income include:

- Interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis, see note 2.27 (i);
- Interest on debt instruments measured at FVOCI calculated on an effective interest basis see note 2.27 (i);

Interest income and expense on all trading assets and liabilities are considered to be incidental to Grupo Aval's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in "net trading income".

Interest income and expense on other financial assets and financial liabilities mandatory at FVTPL are presented in "Net trading income".

Net trading income

'Net trading income' comprises net gains or losses related to held for trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

Revenue from contracts with customers (other than interest income).

Contract assets

A contract asset is Grupo Aval's right to consideration in exchange for goods or services that Grupo Aval has transferred to a customer when that right is conditional on something other than the passage of time (for example, invoicing or delivery of other elements of the contracts).

Contract costs eligible for capitalization as incremental costs of obtaining a contract are recognized as a contract asset. Contract costs are capitalized when are incurred if Grupo Aval expects to recover those costs. Contract contracts are amortized on a systematic basis that is consistent with the transfer to the customer of the services when the related revenues are recognized. Contract costs capitalized are impaired if the customer is retired or if the asset's carrying amount exceeds projected discounted cash flows relating to the contract.

Contract liabilities

Contract liabilities comprise Grupo Aval's obligation to transfer goods or services to a customer for which Grupo Aval has received consideration from the end customer or the amount is due. Additionally, it includes deferred income relating to goods or services that will be delivered in the future, which are charged to a customer in advance but not yet due.

Steps for revenue recognition

Grupo Aval recognizes revenue from contracts with customers based on a five step model as set out in IFRS 15:

- Step 1. Identify contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met. Contracts can be written, oral or implied by an entity's customary business practices.
- Step 2. Identify performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
- Step 3. Determine the transaction price: The transaction price is the amount of consideration to which Grupo Aval expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
- Step 4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, Grupo Aval allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which Grupo Aval expects to be entitled in exchange for satisfying each performance obligation.
- Step 5. Recognize revenue when (or as) Grupo Aval satisfies a performance obligation.

Grupo Aval satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

a) Grupo Aval´s performance does not create an asset with an alternate use to Grupo Aval, and Grupo Aval has as an enforceable right to payment for performance completed to date.
b) Grupo Aval´s performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
c) The customer simultaneously receives and consumes the benefits provided as Grupo Aval´s performs its obligation.

For performance obligations where one of the above conditions are not met, revenue is recognized at the point in time at which the performance obligation is satisfied.

When Grupo Aval satisfies a performance obligation by delivering the promised goods or services it creates a contract asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognized this gives rise to a contract liability.

Revenue is measured based on consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Grupo Aval recognizes revenue when it transfers control over a good or service to a customer. Revenue is presented net of value added tax (VAT), rebates and discounts and after eliminating intra-group sales.

Grupo Aval assesses its revenue arrangements to determine if it is acting as principal or agent.

Revenue is recognized to the extent it is probable that the economic benefits will flow to Grupo Aval and the revenue and costs, if applicable, can be measured reliably.

The following is a description of principal activities from which Grupo Aval generates revenue from contracts with customers:

(i) Banking (Financial Services)

Grupo Aval often enter into contracts that cover a number of different services. Such contracts might contain components within, and components outside, the scope of IFRS 15. Therefore, Grupo Aval only applies the IFRS 15 guidance where it has contracts that are all or partly outside the scope of IFRS 9.

The main revenue streams earned by the banks from contracts with customers are the following:

- *Credit cards: Interchange fees, Annual-quarterly-monthly fees, Loyalty schemes*

There are contracts that create enforceable rights and obligations between the Bank and the cardholders or merchants under which the bank will provide services, sometimes in exchange for annual and other fees. The following are some of the services that might exist in a contract with a cardholder:

- Issuance of loyalty points (which are options to acquire goods/services for free or at a discount in the future), usually based on the monetary volume of card transactions;
- Payment processing service;
- Insurance where the bank is not the insurer;
- Fraud protection; and
- Processing of certain transactions, such as purchases in a foreign currency and cash withdrawals.

The transaction price is allocated to each performance obligation based on the relative stand-alone selling prices of the goods or services being provided to the customer. The allocation of the transaction price to each of the separate performance obligations will not necessarily be required where there is more than one performance obligation but the performance obligations are all satisfied at the same time or evenly over the period.

Performance obligations are fulfilled over time, taking into account that customers receive benefits as time goes on. Because the entity's efforts or resources are expended evenly throughout the performance period, income is recognized on a linear basis during the period defined under the credit card conditions. The costs of plastic or security elements are capitalized as contract signing costs.

In connection with the credit and debit card purchase commissions of Grupo Aval, customers receive benefits every time they make purchases. In this context, income is recognized periodically (daily or monthly) on the basis of the amounts traded. Income that would be deferred by the valuation of the points granted to the cardholders will be extracted from the total amount of commissions recorded periodically. See section (vi) Customer Loyalty Program below.

- *Commissions*:

Banks receive insurance commissions for introducing new clients to third party insurers, where the bank does not underwrite the insurance policy itself. These commissions are usually paid periodically (for example, monthly) to banks based on the volume of new policies (and/or renewal of existing policies) originating from clients introduced by the bank. The transaction price might include an element of consideration that is variable or contingent on the outcome of future events, such as policy cancellations, which is estimated and included in the transaction price based on the most likely amount and it is included in the transaction price only when it is highly probable that the resolution of the uncertainty will not result in a significant reversal of revenue.

Performance obligations are fulfilled over time, taking into account that customers (insurers) receive benefits as time goes on. Where the commission calculation is made on a monthly basis or in a shorter period, the total amount of the commission is recognized in the results when its determination is made. If the settlement of commissions is defined in periods longer than a monthly basis, the expected income to recognize revenues is estimated as time goes on.

Loan commitment fees are within the scope of IFRS 15 where it is unlikely that a specific lending arrangement will be entered into and the loan commitment is not measured at FVTPL. Loan syndication fees received by a bank that arranges a loan and retains no part of the loan package for itself (or retains a part at the same Effective Interest Rate “EIR” for comparable risk as other participants) are within the scope of IFRS 15.

Income from performance obligations to provide such services, which are met at a point in time, are recognized when the particular event defined in the contracts occurs (e.g., approval of the syndicated loan). The obligations met over time are recognized during the period of the commitment; if they are received in advance, they are deferred for their periodic amortization; or if they are received upon expiration, they are estimated periodically.

- *Savings and current accounts: Account and transaction fees*

Savings and current accounts contracts usually allow customers to access a variety of services, which include processing of wire transfers, use of ATMs for cash withdrawals, the issuance of debit cards, and provision of account statements; sometimes, they might also include other benefits. Fees are charged on a periodically basis and give the customer access to banking services and additional benefits.

The performance obligations are fulfilled over time, taking into account that customers receive benefits as time goes on. As a result, the banks recognize the fees from providing services in the accounting period in which the services are rendered.

- *Investment banking: Underwriting fees and Advisory fees*

Advisory contracts with customers are not standardized. These contracts might be with different promises made to the customer, and they often include variable consideration including contingent fees that are only payable on meeting agreed milestones.

Income from performance obligations to provide such services, which are met at a point in time, are recognized when the particular event defined in the contracts occurs. The obligations met over time are recognized considering the method of milestones achieved (as there is usually only one milestone that considers the delivery of results, income is recognized at a single moment when the final delivery is made.)

(ii) Asset management

Asset management revenues consist of base management fees, advisory fees, incentive distributions and performance-based incentive fees and profit-sharing arrangements which arise from the rendering of services.

Revenues from base management fees, advisory fees incentive distributions, performance-based incentive fees and profit-sharing arrangements are recorded based on the amount that would be due under the formulas established by the contracts.

If the amount that the asset manager expects to be entitled to is variable, the variable consideration included in the transaction price is limited to the amount for which it is ‘highly probable that a significant reversal of the amount of cumulative revenue recognized will not occur when the uncertainty is resolved. In making this assessment, Grupo Aval considers both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, (i) the amount of consideration is highly susceptible to factors outside the entity's influence, (ii) the uncertainty about the amount of consideration is not expected to be resolved for a long period of time, and (iii) the contract has a large number and broad range of possible consideration amounts.

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

The contractual measurement period for performance fees for traditional fund managers is often the end of the month, the quarter or the year, and in some rare cases longer. In some cases, the performance fees will be constrained until this contractual measurement period is completed. This means that the revenue will generally not be recognized in full in the interim periods. However, management will need to determine if there is a portion (a minimum amount) of the variable consideration that should be recognized prior to the end of the contractual measurement period. The full amount of the fee will likely be recognized as of the end of the contractual measurement period when the asset manager becomes entitled to an amount that is fixed. In certain cases, the full amount of the fee will be recognized upon a redemption because the amount becomes fixed at that time and is no longer subject to reversal.

(iii) Construction and operation services (Concessions)

In Concession agreements, Grupo Aval determines that its performance obligations (construction, operation and maintenance) are satisfied over time and measure its progress toward completion to determine the timing of revenue recognition using a method that depicts the transfer of the goods or services to the customer. Grupo Aval considers the nature of the product or services provided and the terms of the contract, such as termination rights, the rights to demand or retain payments, and the legal title to work in process in determining the best input or output method for measuring progress toward satisfaction of a performance obligation.

Grupo Aval applies a single method to measure progress for each performance obligation within a contract. The method can be either an input method (cost incurred, labor hours) or output method (units produced, milestones reached).

Estimations of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

(iv) Power and utilities

Contracts between a customer and a public utility company establish the rates and terms of servicefor the purchase, delivery, and sale of electricity or gas. Grupo Aval determined that, in relation to this, its obligation is represented in a single performance obligation which is to sell electricity or gas, is satisfied over time (over the term of the agreement) thorugh a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Some contracts include multiple deliverables, such as the installation of fixtures or repairs, which are accounted as a separate performance obligation. The transaction price is allocated to each performance obligation based on the stand-alone selling prices (regulated rates). If contracts include the installation of fixtures, the associated revenue is recognized at the point in time when the goods are installed, the ownership has been transferred and the customer has accepted the goods.

(v) Logistic activities

The transport 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 Grupo Aval's usual business practices.

Revenue recognition criteria generally applies 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 program

Financial entities and hotels of Grupo Aval manage loyalty programs in which the customers accumulate points for their purchases, entitling them to redeem such points for prizes in accordance with the policies and the prize plan in force as of the redemption date. Reward points are recognized as an identifiable component separate from income for the service rendered, at their fair value. Income from loyalty programs is deferred and recognized in profit or loss until the entity has fulfilled its obligations to supply the products under the terms of the program or when it is no longer probable that the points under the program will be redeemed.

Grupo Aval is the principal in a customer loyalty program if it obtains control of the goods or services of another party in advance of transferring control of those goods or services to a customer. Grupo Aval is an agent if its performance obligation is to arrange for another party to provide the goods or services.

(vii) Agricultural produce

Grupo Aval sells agricultural products. Sales are recognized when control of the products has been transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or Grupo Aval has objective evidence that all criteria for acceptance have been satisfied.

Revenue from these sales is recognized based on the price specified in the contract, net of discounts. Accumulated experience is used to estimate and provide for the discounts, using the most likely amount, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(viii) Hotel Services

Revenue is derived from the following sources:

i) Management fees: earned from hotels managed by Grupo Aval, usually under long-term contracts with the hotel owner. Management fees include a base fee, generally a percentage of hotel revenue, which is recognized when earned in accordance with the terms of the contract and an incentive fee, generally based on the hotel’s profitability or cash flows and recognized when the related performance criteria are met under the terms of the contract.

ii) Owned and leased: primarily derived from hotel operations, including the guests accommodation and sales of food and beverage from owned and leased hotels operated under Grupo Aval brand names.

Revenue is recognized at the point when the goods are sold or services are rendered.

(Amounts expressed in millions of Colombian pesos)

(ix) Financing components

Grupo Aval adjusts transaction prices for the time value of money for contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year.

2.28 Earnings per share

Earning per share is calculated as net income for the period attributable to Grupo Aval's shareholders divided by the weighted average number of common and preferred shares outstanding during the period. Diluted earnings per share are determined in the same way, on the basis of net income, but the weighted average number of shares outstanding is adjusted to account for the potential dilutive effect of stock options. Grupo Aval does not have financial instruments with potential dilutive effects. As a consequence, only basic earnings per share are disclosed in these financial statements.

2.29 Operating segments

An operating segment is a component of an entity which:

a) Engages in business activities from which it can earn revenue and incur expenses (including revenue and expenses from transactions with other components of the same entity);
b) Operating profit or losses are regularly reviewed by the chief operating decision maker, who decides on the resources allocation to the segment and assesses its performance; and
c) Discrete financial information is available.

Management evaluates regularly the performance for each segment; Grupo Aval discloses information separately for each identified operating segment, meeting any of the following quantitative thresholds:

a) The segment´s reported revenue from the ordinary activities, including revenue from external customers as well as revenue from intersegment transfers, is equal or greater than 10% of the revenue of combined ordinary activities, internal and external, of all operating segments.
b) The amount of the segment´s reported net income is, in absolute terms, equal or greater than 10% of the amount greater of: (i) the combined reported net income of all the segments not reporting a loss; and (ii) the reported combined loss of all segments of the operations with incurred losses.
c) The segment´s assets are equal to or greater than 10 percent of the combined assets of all segments of the operation.

The information regarding other activities of the business of operating segments that do not have to be reported is combined and disclosed within the category of "Others".

2.30 New and Amended IFRS

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, Grupo Aval has not early adopted them in preparing these consolidated financial statements.

New or Amended Standard	Title of the Standard	Effective for Annual Periods Beginning on or After
Forthcoming requirements.		
Amendments to References to Conceptual Framework in IFRS Standards	Conceptual Framework	January 1, 2020
Definition of a Business	Amendment to IFRS 3	January 1, 2020
IFRS 17	Insurance contracts	January 1, 2021
Interpretation IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2020

Grupo Aval has preliminarily assessed the impacts of the adoption of the new or amended standards detailed above, concluding that these are not expected to have a significant impact on Grupo Aval's consolidated financial statements.

NOTE 3 – JUDGMENTS AND CRITICAL ACCOUNTING ESTIMATES IN APPLYING ACCOUNTING POLICIES

Grupo Aval's management makes estimates and assumptions that affect the amounts recognized in the consolidated financial statements and the carrying value of the assets and liabilities within the fiscal year. The judgments and estimates are continuously evaluated and are based on the experience of management and other factors, including the occurrence of future events that are believed to be reasonable under the current circumstances. Management also makes certain judgments besides those which involve estimates during the process of applying accounting policies. The judgments that have the most significant effects on the amounts recognized in the consolidated financial statements and the estimates that may cause an important adjustment to the value in the carrying value of assets and liabilities in the following year include the following:

A. Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes.

– Note 2 (2.5) (ii) – classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

– Note 2 (2.1) – determination of control over investees.

– Note 4 (4.1.5) – establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended is included in the following notes.

– Note 4 (4.1.5) – impairment of financial instruments: assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

– Note 16 – measurement and revenue recognition of concession arrangements.

– Note 5 – determination of the fair value of financial instruments with significant unobservable inputs.

– Note 22 – measurement of defined benefit obligations: key actuarial assumptions.

– Note 19 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.

– Note 17 – impairment testing for CGUs containing goodwill: key assumptions underlying recoverable amounts.

– Notes 23 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

– Note 4 (4.1.5) – impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

NOTE 4 – RISK MANAGEMENT

Grupo Aval and its subsidiaries in the financial sector, Banco de Bogotá, Banco de Occidente, Banco AV Villas, Banco Popular and Corficolombiana manage risk pursuant to the applicable regulations in each country where they operate and according to Grupo Aval's internal policies.

The risk framework requires that strong risk management practices are integrated in key strategic, capital and financial planning processes and day-to-day business processes across Grupo Aval, with a goal of ensuring risks are appropriately considered, evaluated and responded to in a timely manner. Grupo Aval employs a risk management process, referred to as identify, measure, monitor and control, as part of the daily activities, among all the risks Grupo Aval manages.

Lines of Defense: in addition to the role of Executive Officers in managing risk, management has had clear ownership and accountability across the three lines of defense: 1) First Line of defense: Business Units, 2) Second Line of defense: mainly concentrated in the Independent Risk Management departments and 3) Third line of defense: Corporate Audit.

- *Business Units:* include the business lines as well as the Technology and Operations areas which are responsible for appropriately assessing and effectively managing all of the risks associated with their processes.
- *Independent Risk Management Units:* risk management areas include risk management and compliance departments. Grupo Aval has other control functions that are not part of these areas but are key in the risk mitigation of non-financial risks, including legal, human resources and certain activities within the Financial and Administrative processes.
- *Corporate Audit:* corporate audit maintain its independence from the first and second lines of defense by reporting directly to the Audit Committee or the Board. Corporate Audit provides independent assessment and validation through testing of key processes and controls across Grupo Aval.

The following sections outline the key risks that are inherent in business activities of the subsidiaries in the financial sector:

A) Financial risks

i) **Credit risk:** the risk of financial loss if a debtor fails to meet its contractual obligations.

ii) **Market risk:** the risk of loss arising from potential adverse changes in the value of the subsidiaries in the financial sector assets and liabilities or future results, resulting from changes in market variables such as interest rates, foreign exchange rates, equity prices, commodity prices, implied volatilities or credit spreads; this includes the structural interest rate and foreign exchange risks.

iii) **Liquidity risk:** the risk of being unable to meet contractual and contingent obligations or that the subsidiaries in the financial sector do not have the appropriate amount, composition and tenor of funding and liquidity to support the financial assets and liabilities requirements (funding liquidity risk). Also includes the capability to manage its investment portfolio in terms of liquidity, duration and currency (market liquidity risk).

iv) **Interest rate risk:** it is the current or potential risk to equity and profits of a financial subsidiary that arise from adverse movements in interest rates, which affect the positions of the banking book.

v) **Capital risk:** the risk that any of the subsidiaries in the financial sector have an insufficient level and composition of capital to support its business activities and associated risks during both normal economic environments and under stressed conditions. Risk related to the management of capital requirements and adequacy.

Grupo Aval's subsidiaries in the financial sector have ALCO/ALM committees in order to establish risks policies, limits and systems to measure, monitor and control the funds transfer pricing curve, interest rate risk in banking book and liquidity risk management.

Objective and general guidelines of risk management

Grupo Aval's and its subsidiaries of the financial sector objective is to maximize returns for its investors, through proper risk management. The guiding principles of risk management at Grupo Aval are as follows:

a) Make risk management a part of every institutional process.
b) Collective decision making for commercial lending of significant amounts.
c) Extensive and in-depth industry and market knowledge, as a result of the leadership and experienced, stable and seasoned senior management.
d) Clear risk management policies based on a top-down approach with respect to:
    - Compliance with know-your-customer policies.
    - Commercial loans credit structure based on a clear identification of sources of repayment and of cash flow generation capacity of the borrower.
e) Use of common credit analysis tools for analysis and loan pricing tools across Grupo Aval's subsidiaries of financial sector.
f) Diversification of the commercial loan portfolio with respect to industries and economic groups.
g) Specialization in consumer product niches.
h) Extensive use of continuously updated scoring models and credit ratings updated permanently to ensure quality growth of consumer loans with high credit quality.
i) Conservative policies in terms of:
    - trading portfolio composition with bias towards lower volatility instruments,
    - proprietary trading position, and
    - the variable compensation for the trading staff.
j) Control the position-level based on market risk sensitivities (such as VaR, DV01, Delta, Rho and Vega) and credit risk exposures by counterparties.
k) Concentration and diversification limits which are based on market liquidity and volatility, operational capacity, valuation and credit quality of counterparties.
l) Control and follow up the funding and liquidity risk with independent oversight. This includes setting limits related with high quality liquid assets and maturity concentration of financial liabilities among others.
m) Ensuring compliance with regulatory limits and reviewing how the current and projected strategy can affect those limits.

Main premises for risk management

Grupo Aval´s risk culture is based on the principles indicated in the section above and they are transmitted to all subsidiaries of the financial sector and business units. The strategy related with risk management is supported by the following guidelines:

a) In all of Grupo Aval´s subsidiaries of the financial sector, the risk function is independent of the business units. The segregation of functions between the business areas and the risk areas in charge of risk measurement analysis, control and reporting, provide sufficient independence and autonomy for proper risk control.
b) The decision-making process at the subsidiaries of the financial sector requires that transactions of significant amounts are sent to decision centers such as risk committees. The frequency of meetings of these committees

ensures a high degree of agility regarding the resolution of proposals and continuous participation of senior management for management the different risks.

c) Grupo Aval has corporate policies for the risk to which it is exposed. The business and risk units of Grupo Aval and its subsidiaries of the financial sector hold orientation meetings based on approaches to risk that are consistent with Grupo Aval´s risk culture.
d) Grupo Aval has implemented a risk system that is updated on a regular basis to address new conditions in the markets and the risks to which Grupo Aval is exposed.
e) There are adequate information systems to monitor risk exposure, to ensure compliance and approval policies and, if necessary, to implement proper corrective actions.
f) Key risks are analyzed on a regular basis, not only when risks materialize or when problems occur during the normal course of business but in a continuous process of risk management.
g) Grupo Aval and its subsidiaries of the financial sector have training courses on risk culture for all hierarchy levels in the organization.
h) A risk culture integrated throughout the organization, consisting on a series of attitudes, values, skills and guidelines to action.

Corporate structure of the risk function

Governance of the risk function seeks to ensure that risk decisions are made appropriately and efficiently and that risks are effectively controlled. The goal is to guarantee that risks are managed in accordance with the guidelines set forth by Grupo Aval. The corporate structure for risk management at the subsidiaries of the financial sector is comprised of the following, top-level risk governance bodies:

- Board of Directors
- Risk Management committees
- Risks Management units
- Administrative process of risk management
- Internal Audit Departments

Responsibility for the control and management of risks rests ultimately on Financial Subsidiaries Board of Directors. The Board has the power to delegate the various committees and it is supported by risk management committees at the subsidiaries of the financial sector.

Financial Risk Review

4.1 Credit Risk

4.1.1 Consolidated Credit Risk Exposure

Grupo Aval´s subsidiaries are exposed to credit risk, consisting of the risk of financial loss as a result of the failure of the debtor to meet its contractual obligations in financial transactions on a timely and complete manner. Exposure to credit risk for Grupo Aval and its subsidiaries is a result of credit activities and transactions with counterparties.

(Amounts expressed in millions of Colombian pesos)

The maximum exposure to credit risk of Grupo Aval, at a consolidated level is reflected in the carrying value of financial assets in the statement of financial position of Grupo Aval as of December 31, 2019 and 2018 as follows:

Account Assets		**December 31, 2019**		**December 31, 2018**
Cash and cash equivalents (**)	Ps.	23,464,691	Ps.	21,955,901
Debt securities held for trading		4,673,113		3,762,978
Debt securities mandatorily FVTPL		10,102		31,256
Debt securities FVOCI		21,608,992		18,935,757
Debt securities at amortized cost		3,053,862		2,972,616
Derivatives instruments		917,434		768,686
Hedging derivatives		166,598		30,138
Loans				
Commercial		101,655,660		102,408,977
Consumer		59,840,451		55,455,064
Mortgage		20,221,683		18,592,103
Microcredit		410,320		425,697
Other accounts receivable FVTPL		2,706,030		2,488,414
Other accounts receivable at amortized cost		9,282,734		7,069,120
Total financial assets with credit risk	**Ps.**	**248,011,670**	**Ps.**	**234,896,707**
Financial instruments with credit risk outside of the statement of financial position at its nominal value				
Financial guarantees and letters of credit		3,341,641		3,446,601
Credit commitments		28,812,963		27,479,080
Total exposure to credit risk outside of the statement of financial position	**Ps.**	**32,154,604**	**Ps.**	**30,925,681**
Total maximum exposure to credit risk	**Ps.**	**280,166,274**	**Ps.**	**265,822,388**

(**) Not including funds in the entity’s custody (cash, tellers, vaults), because there is no credit risk regarding Grupo Aval entities.

With regards to guarantees and commitments to extend the credit amounts, the maximum credit risk exposure is the amount of the commitment. Credit risk is mitigated by guarantees and collaterals as described in note 4.1.4 Mitigation of Credit Risk, Collateral and Other Credit Risk Enhancements.

Each of Grupo Aval´s financial subsidiaries assume the credit risk for both the credit activity itself, which includes commercial, consumer, mortgage and microcredit credit lending and treasury activities, including interbank loans, investment portfolio management, derivatives and foreign currency trading activities, among others. Despite being independent businesses, the nature of insolvency risk of the borrower or counterparty is similar and therefore the criteria in which they are evaluated is similar.

Loans are recorded at amortized cost on the statement of financial position and are classified as commercial, consumer, mortgages, and microcredit. Due to the significance of the financial leasing portfolio for Grupo Aval, these amounts are also presented separately in all the tables for disclosure purposes:

(Amounts expressed in millions of Colombian pesos)

December 31, 2019

Portfolio segment		Balance in Statement of financial position		Leasing presentation adjustment		Balance according to disclosure
Commercial	Ps.	101,655,660	Ps.	(10,348,941)	Ps.	91,306,719
Consumer		59,840,451		(252,522)		59,587,929
Residential mortgage		20,221,683		(1,560,294)		18,661,389
Microcredit		410,320		—		410,320
Financial leasing		—		12,161,757		12,161,757
Total portfolio	**Ps.**	**182,128,114**	**Ps.**	**—**	**Ps.**	**182,128,114**

December 31, 2018

Portfolio segment		Balance in Statement of financial position		Leasing presentation adjustment		Balance according to disclosure
Commercial	Ps.	102,408,977	Ps.	(9,858,952)	Ps.	92,550,025
Consumer		55,455,064		(254,483)		55,200,581
Residential mortgage		18,592,103		(1,312,741)		17,279,362
Microcredit		425,697		—		425,697
Financial leasing		—		11,426,176		11,426,176
Total portfolio	**Ps.**	**176,881,841**	**Ps.**	**—**	**Ps.**	**176,881,841**

4.1.2 Loan and Counterparty Approval Process for subsidiaries in the financial sector

The principles and rules for credit management and credit risk for each financial subsidiary are contained in the credit manual, both for commercial banking activities and treasury activities. Evaluation criteria to measure credit risk follows the principal instructions set forth by the Treasury and Credit Risk Committees.

The maximum authority regarding lending is the Board of Directors for each bank, which approves the general policy and has the capacity to approve large size transactions. In the normal banking operation, authorizations for approval of loans and lines of credit depend on the amounts, credit quality, tenor and security collateral or guarantees offered by the client. The Board of Directors of each bank has delegated part of its lending authorities to different committees and executives who process the credit requests and are responsible for the analysis and follow-up.

Additionally, for the approval of credits, certain considerations are taken into account including but not limited to, the probability of default and the recovery percentage of guarantees received, tenor and concentration by economic sector.

Regarding the operations for treasury activities, the Board of Directors of the financial subsidiaries, approves the lines of credit for counterparties. Risk control is essentially carried out through three mechanisms: annual approval of lines of credit, semiannual solvency evaluations for issuers and a report on concentrations for each client or economic group.

Although each financial subsidiary is responsible for its credit decisions and risk management, Grupo Aval as a holding, through the Corporate Risk Unit oversees the implementation of appropriate risk management controls at the financial subsidiaries and has established upward loan reporting processes. The holding's risk management staff meets on a weekly basis to discuss the subsidiaries' loan portfolio, developments in industry, risks and opportunities. Grupo Aval also coordinates loan syndication among its banks to effectively leverage the combined equity of its banks and manage any risk issues.

Each subsidiary of the financial sector has a Credit Risk Management System, which is managed by the credit vice-presidency or its equivalent, and includes, among others, the design, implementation and evaluation of policies and risk mechanisms defined by the Credit and Treasury Risk Committee and the Board of Directors. The operation of the Credit

Risk Management System has resulted in the integration of risk measurement tools into the credit approval process in each of the financial subsidiaries.

Each subsidiary of the financial sector has two models for evaluating credit risk for the approval of commercial loans: the financial ratings model, statistical models based on financial information of the client, which are used in the approval process and for the management and follow-up of the portfolio. The second model is based on the client´s financial ratings and its historical payment behavior with the bank, used in the process of client rating. For retail loans (including mortgage loans and auto loans) models are based on sociodemographic variables and the historical payment behavior of the clients.

4.1.3 Credit quality analysis

The Credit-risk Monitoring Process and Credit rating of the loan portfolio

The monitoring process and follow-up of credit risk of each financial subsidiary is carried out in several steps including portfolio analysis by vintages, risk level rating, permanent follow-up of high risk clients, restructuring processes of operations and the receipt of foreclosed assets as payment.

On a monthly basis the financial subsidiaries classify each client in one of these categories: Category A-Normal, B-Subnormal, C-Deficient, D-Doubtful recovery and E- Unrecoverable, based on the statistical models that each subsidiary has.

On a quarterly basis each financial subsidiary evaluates the commercial portfolio by economic sectors, where macro-sectors are evaluated with the purpose of monitoring the concentration per economic sector and the risk level of each one.

Every six-months each financial subsidiary carries out an individual analysis of the credit risk based on updated financial information of the client, payment record, collateral security/guarantees received, credit bureau reports and other qualitative information available; based on the information, clients are classified by risk level as mentioned above.

Each of the risk categories is explained as follows:

Category 1 (0% >= PD[*] <=7.5%) — "Normal risk": Loans and finance leases in this category are appropriately serviced. The debtor's financial statements or its projected cash flows, as well as all other credit information available to us, reflect adequate paying capacity.

Category 2-3 (7.5% > PD <=15% - 15% > PD <=22.5%) — "Acceptable risk, above normal": Loans and finance leases in this category are adequately serviced and protected. But there are weaknesses which may potentially affect, on a transitory or permanent basis, the debtor's paying capacity or its projected cash flows, to the extent that, if not timely corrected, would affect the collection of the credits as contracted.

Category 4-5 (22.5% > PD <=30% - 30% > PD <=45%) — "Appreciable risk": Loans and finance leases in this category have debtors with insufficient paying capacity or relate to projects with insufficient cash flow, which may compromise the normal collection of the obligations.

Category 6-7 (45% > PD <=60% - 60% > PD <=90%)— "Significant risk": Loans and finance leases in this category have the same deficiencies as loans in category 4-5, but to a larger extent; consequently, the probability of collection is highly doubtful.

(*) Probability of default – "PD" is the probability that the counterpart defaults in its payment obligations of capital and/or interest.

(Amounts expressed in millions of Colombian pesos)

Category 8 (PD > 90%) — "Risk of non-recoverability": Loans and finance leases in this category are deemed uncollectible.

For mortgage loans and microcredits, the previous classification by risk levels is carried out monthly considering the number of days past due.

In addition, the credit risk exposure is managed through a periodic analysis of the borrowers (or potential borrowers) to determine the repayment capacity of capital and interest. The credit risk exposure is also mitigated partly by obtaining collateral security, corporate and personal guarantees.

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. Based on the foregoing classifications, each financial subsidiary establishes and executes collection strategies directed at maximizing the collection of the loan portfolio.

As of December 31, 2019, and 2018, the following is a summary of the credit portfolio by probability of default. Explanation of the terms: Stage 1, Stage 2 and Stage 3 are included in Note 2 (2.6) (ix), and explained in detail in Note 4.1.5 (Measurement of ECL).

Commercial

	December 31, 2019			
	Total Exposure			
PD Range	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
0%- 7.5%	Ps. 82,094,981	Ps. 310,595	Ps. -	Ps. 82,405,576
7.5% - 15%	855,476	368,086	-	1,223,562
15% - 22.5%	44,548	178,046	-	222,594
22.5% - 30%	45,596	86,323	-	131,919
30% - 45%	30,026	928,098	-	958,124
45% - 60%	1,437	471,156	-	472,593
60% - 90%	1,495	47,979	-	49,474
> 90%	1,573	1,976	5,839,328	5,842,877
TOTAL	**Ps. 83,075,132**	**Ps. 2,392,259**	**Ps. 5,839,328**	**Ps. 91,306,719**

	December 31, 2018			
	Total Exposure			
PD Range	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
0%- 7.5%	Ps. 83,210,772	Ps. 243,089	Ps. -	Ps. 83,453,861
7.5% - 15%	865,784	172,278	-	1,038,062
15% - 22.5%	52,906	180,853	-	233,759
22.5% - 30%	47,739	130,769	-	178,508
30% - 45%	20,889	665,253	-	686,142
45% - 60%	2,448	234,853	-	237,301
60% - 90%	1,117	27,679	67,162	95,958
> 90%	16,814	8,838	6,600,782	6,626,434
TOTAL	**Ps. 84,218,469**	**Ps. 1,663,612**	**Ps. 6,667,944**	**Ps. 92,550,025**

(Amounts expressed in millions of Colombian pesos)

Consumer

	December 31, 2019			
	Total Exposure			
PD Range	Stage 1	Stage 2	Stage 3	Total
0%- 7.5%	Ps. 45,471,761	Ps. 541,845	Ps. -	Ps. 46,013,606
7.5% - 15%	6,436,998	311,027	-	6,748,025
15% - 22.5%	469,685	317,644	-	787,329
22.5% - 30%	138,510	334,167	-	472,677
30% - 45%	378,371	649,855	-	1,028,226
45% - 60%	3,457	603,034	146,626	753,117
60% - 90%	422,442	1,065,686	210,585	1,698,713
> 90%	104	70,290	2,015,842	2,086,236
TOTAL	**Ps. 53,321,328**	**Ps. 3,893,548**	**Ps. 2,373,053**	**Ps. 59,587,929**

	December 31, 2018			
	Total Exposure			
PD Range	Stage 1	Stage 2	Stage 3	Total
0%- 7.5%	Ps. 42,839,139	Ps. 555,398	Ps. -	Ps. 43,394,537
7.5% - 15%	4,692,330	452,823	-	5,145,153
15% - 22.5%	815,373	456,525	-	1,271,898
22.5% - 30%	179,065	392,878	-	571,943
30% - 45%	91,846	946,658	61,075	1,099,579
45% - 60%	4,378	521,213	91,089	616,680
60% - 90%	2,587	964,704	177,569	1,144,860
> 90%	455	76,265	1,879,211	1,955,931
TOTAL	**Ps. 48,625,173**	**Ps. 4,366,464**	**Ps. 2,208,944**	**Ps. 55,200,581**

Mortgage

	December 31, 2019			
	Total Exposure			
PD Range	Stage 1	Stage 2	Stage 3	Total
0%- 7.5%	Ps. 16,666,766	Ps. 155,866	Ps. -	Ps. 16,822,632
7.5% - 15%	116,157	183,028	-	299,185
15% - 22.5%	16,035	234,666	-	250,701
22.5% - 30%	4,187	162,339	-	166,526
30% - 45%	8,606	254,878	-	263,484
45% - 60%	171	184,340	-	184,511
60% - 90%	65	120,355	-	120,420
> 90%	13	3,687	550,230	553,930
TOTAL	**Ps. 16,812,000**	**Ps. 1,299,159**	**Ps. 550,230**	**Ps. 18,661,389**

	December 31, 2018			
	Total Exposure			
PD Range	Stage 1	Stage 2	Stage 3	Total
0%- 7.5%	Ps. 15,521,416	Ps. 202,634	Ps. -	Ps. 15,724,050
7.5% - 15%	32,076	201,068	-	233,144
15% - 22.5%	6,950	193,391	-	200,341
22.5% - 30%	1,941	143,322	-	145,263
30% - 45%	1,710	272,141	-	273,851
45% - 60%	121	175,454	-	175,575
60% - 90%	150	138,147	-	138,297
> 90%	1,694	9,584	377,563	388,841
TOTAL	**Ps. 15,566,058**	**Ps. 1,335,741**	**Ps. 377,563**	**Ps. 17,279,362**

(Amounts expressed in millions of Colombian pesos)

Microcredit

	December 31, 2019							
	Total Exposure							
PD Range	Stage 1		Stage 2		Stage 3		Total	
0%- 7.5%	Ps.	123,733	Ps.	17	Ps.	-	Ps.	123,750
7.5% - 15%		142,921		34		-		142,955
15% - 22.5%		29,829		-		-		29,829
22.5% - 30%		4,174		704		-		4,878
30% - 45%		20,263		570		-		20,833
45% - 60%		8,666		941		-		9,607
60% - 90%		336		22,535		-		22,871
> 90%		-		-		55,597		55,597
TOTAL	**Ps.**	**329,922**	**Ps.**	**24,801**	**Ps.**	**55,597**	**Ps.**	**410,320**

	December 31, 2018							
	Total Exposure							
PD Range	Stage 1		Stage 2		Stage 3		Total	
0%- 7.5%	Ps.	212,882	Ps.	23	Ps.	-	Ps.	212,905
7.5% - 15%		68,503		65		-		68,568
15% - 22.5%		35,880		139		-		36,019
22.5% - 30%		10		828		-		838
30% - 45%		19,413		947		-		20,360
45% - 60%		7,737		911		-		8,648
60% - 90%		297		22,447		-		22,744
> 90%		-		14		55,601		55,615
TOTAL	**Ps.**	**344,722**	**Ps.**	**25,374**	**Ps.**	**55,601**	**Ps.**	**425,697**

Financial Leasing

	December 31, 2019							
	Total Exposure							
PD Range	Stage 1		Stage 2		Stage 3		Total	
0%- 7.5%	Ps.	10,516,783	Ps.	97,462	Ps.	-	Ps.	10,614,245
7.5% - 15%		149,809		82,300		-		232,109
15% - 22.5%		1,177		51,329		-		52,506
22.5% - 30%		16		31,619		-		31,635
30% - 45%		297		115,423		-		115,720
45% - 60%		72		62,957		-		63,029
60% - 90%		152		4,062		-		4,214
> 90%		-		1,888		1,046,411		1,048,299
TOTAL	**Ps.**	**10,668,306**	**Ps.**	**447,040**	**Ps.**	**1,046,411**	**Ps.**	**12,161,757**

	December 31, 2018							
	Total Exposure							
PD Range	Stage 1		Stage 2		Stage 3		Total	
0%- 7.5%	Ps.	9,977,306	Ps.	55,600	Ps.	-	Ps.	10,032,906
7.5% - 15%		135,444		51,838		-		187,282
15% - 22.5%		4,802		32,186		-		36,988
22.5% - 30%		10,000		14,297		-		24,297
30% - 45%		1,446		137,667		-		139,113
45% - 60%		2,590		30,542		-		33,132
60% - 90%		459		7,634		1,413		9,506
> 90%		323		182		962,447		962,952
TOTAL	**Ps.**	**10,132,370**	**Ps.**	**329,946**	**Ps.**	**963,860**	**Ps.**	**11,426,176**

(Amounts expressed in millions of Colombian pesos)

Credit quality of financial assets (excluding loan portfolio)

The following is the breakdown of the different financial assets excluding loan portfolio, by credit risk level and type of issuer based on the rating issued by the independent credit rating agency. A financial asset is considered investment grade if its credit rating is BBB- or higher by Standard & Poor's or Fitch Ratings scale, Baa3 or higher by Moody's scale, F3 or higher by Fitch Ratings Colombia S.A or BRC3 or higher by BRC of Colombia. Otherwise, the financial asset is considered speculative.

a) Trading investment in debt securities

	December 31, 2019	December 31, 2018
Investment grade		
Sovereign (*)	Ps. 2,428,981	Ps. 2,270,642
Other public entities (**)	175,793	128,546
Corporate	61,001	30,207
Financial entities	1,370,232	1,101,157
Total investment grade	Ps. **4,036,007**	**Ps. 3,530,552**
Speculative grade		
Sovereign (*)	Ps. 136,314	Ps. 98,155
Central banks	13,966	12,914
Corporate	4,084	—
Financial entities	480,189	117,594
Total Speculative grade	**Ps. 634,553**	**Ps. 228,663**
Without grade or not available		
Corporate	Ps. 2,553	Ps. 3,763
Total without grade or not available	**Ps. 2,553**	**Ps. 3,763**
	Ps. 4,673,113	**Ps. 3,762,978**

(*) A sovereign credit rating considers the risk of Treasury issuer or similar agency (government debt portfolio).
(**) Derived from operations with government entities; including public administrations in general including regional and local governments.

b) Investments in debt securities mandatorily at FVTPL

	December 31, 2019	December 31, 2018
Investment grade		
Corporate	10,102	31,256
Total investment grade	**Ps. 10,102**	**Ps. 31,256**

(Amounts expressed in millions of Colombian pesos)

c) Investments in debt securities at FVOCI

	December 31, 2019							
	Stage 1		Stage 2		Stage 3		Total	
Investment grade								
Sovereign (*)	Ps.	12,590,020	Ps.	—	Ps.	—	Ps.	12,590,020
Other public entities (**)		465,677		—		—		465,677
Corporate		228,447		—		—		228,447
Financial entities		2,504,060		—		—		2,504,060
Multilaterals		96,171		—		—		96,171
Total investment grade	**Ps.**	**15,884,375**	**Ps.**	**—**	**Ps.**	**—**	**Ps.**	**15,884,375**
Speculative grade								
Sovereign (*)	Ps.	4,051,354	Ps.	—	Ps.	—	Ps.	4,051,354
Central banks		970,095		—		—		970,095
Corporate		152,303		—		—		152,303
Financial entities		550,865		—		—		550,865
Total speculative grade	**Ps.**	**5,724,617**	**Ps.**	**—**	**Ps.**	**—**	**Ps.**	**5,724,617**
	Ps.	**21,608,992**	**Ps.**	**—**	**Ps.**	**—**	**Ps.**	**21,608,992**

(*) Sovereign credit rating is considered as the risk of the Treasury issuer or a similar agency (government debt portfolio).
(**) Derived from operations with government entities; including public administrations in general (includes regional and local governments).

	December 31, 2018							
	Stage 1		Stage 2		Stage 3		Total	
Investment grade								
Sovereign (*)	Ps.	11,492,538	Ps.	—	Ps.	—	Ps.	11,492,538
Other public entities (**)		497,634		—		—		497,634
Corporate		135,985		—		—		135,985
Financial entities		2,732,127		—		—		2,732,127
Multilaterals		118,657		—		—		118,657
Total investment grade	**Ps.**	**14,976,941**	**Ps.**	**—**	**Ps.**	**—**	**Ps.**	**14,976,941**
Speculative grade								
Sovereign (*)	Ps.	1,994,205	Ps.	54,587	Ps.	—	Ps.	2,048,792
Central banks		1,066,822		64,918		—		1,131,740
Corporate		61,485		132,817		—		194,302
Financial entities		375,352		201,002		—		576,354
Total speculative grade	**Ps.**	**3,497,864**	**Ps.**	**453,324**	**Ps.**	**—**	**Ps.**	**3,951,188**
Default								
Corporate	Ps.	—	Ps.	—	Ps.	7,628	Ps.	7,628
Total default	**Ps.**	**—**	**Ps.**	**—**	**Ps.**	**7,628**	**Ps.**	**7,628**
	Ps.	**18,474,805**	**Ps.**	**453,324**	**Ps.**	**7,628**	**Ps.**	**18,935,757**

(*) Sovereign credit rating is considered as the risk of the Treasury issuer or a similar agency (government debt portfolio).
(**) Derived from operations with government entities; including public administrations in general (includes regional and local governments).

(Amounts expressed in millions of Colombian pesos)

d) Investments in debt securities at amortized cost

	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Investment grade				
Sovereign (*)	Ps. 23,043	Ps. —	Ps. —	Ps. 23,043
Other public entities (**)	3,029,802	—	—	3,029,802
Financial entities	1,017	—	—	1,017
Total investment grade	**Ps. 3,053,862**	**Ps. —**	**Ps. —**	**Ps. 3,053,862**
	Ps. 3,053,862	**Ps. —**	**Ps. —**	**Ps. 3,053,862**

(*) Sovereign credit rating is considered as the risk of the Treasury issuer or a similar agency (government debt portfolio).
(**) Derived from operations with government entities; including public administrations in general (includes regional and local governments).

	December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Investment grade				
Sovereign (*)	Ps. 32,321	Ps. —	Ps. —	Ps. 32,321
Other public entities (**)	2,931,172	—	—	2,931,172
Financial entities	9,123	—	—	9,123
Total investment grade	**Ps. 2,972,616**	**Ps. —**	**Ps. —**	**Ps. 2,972,616**
	Ps. 2,972,616	**Ps. —**	**Ps. —**	**Ps. 2,972,616**

(*) Sovereign credit rating is considered as the risk of the Treasury issuer or a similar agency (government debt portfolio).
(**) Derived from operations with government entities; including public administrations in general (includes regional and local governments).

e) Other accounts receivable at FVTPL

	December 31, 2019	December 31, 2018
Investment grade		
Sovereign (*)	Ps. 2,706,030	Ps. 2,488,414
Total investment grade	**Ps. 2,706,030**	**Ps. 2,488,414**

(*) Sovereign credit rating is considered as the risk of the Treasury issuer or a similar agency (government debt portfolio).

f) Other accounts receivable at amortized cost

	December 31, 2019				
	Stage 1	Stage 2	Stage 3	Simplified Approach	Total
Other receivables using general approach					
Other accounts receivables and contract assets for corporate customers	Ps. 4,719,510	Ps. —	Ps. —	Ps. —	Ps. **4,719,510**
Other accounts receivables related to gas, energy services, contributions and others	830,995	132,474	113,503	—	**1,076,972**
Other receivables using simplified approach					
Other accounts receivables from individual customers	—	—	—	3,486,252	**3,486,252**
Total other receivables	**Ps. 5,550,505**	**Ps. 132,474**	**Ps. 113,503**	**Ps. 3,486,252**	**Ps. 9,282,734**

(Amounts expressed in millions of Colombian pesos)

	December 31, 2018				
	Stage 1	**Stage 2**	**Stage 3**	**Simplified Approach**	**Total**
Other receivables using general approach					
Other accounts receivables and contract assets for corporate customers	Ps. 2,971,500	Ps. —	Ps. —	Ps. —	Ps. **2,971,500**
Other accounts receivables related to gas, energy services, contributions and others	395,849	138,082	175,847	—	**709,778**
Other receivables using simplified approach					
Other accounts receivables from individual customers	—	—	—	3,387,842	**3,387,842**
Total other receivables	**Ps. 3,367,349**	**Ps. 138,082**	**Ps. 175,847**	**Ps. 3,387,842**	**Ps. 7,069,120**

Evaluated using general approach

The following table provides information about the exposure to credit risk and ECLs for other accounts receivable and contract assets for corporate customers as of December 31, 2019 and 2018. The credit quality of these financial assets follows the methodology of the probability of default of Debt securities and other liquid financial assets (See note 4.1.5).

	December 31, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Investment grade				
Sovereign (*)	Ps. 4,328,028	Ps. —	Ps. —	Ps. 4,328,028
Financial entities	391,482	—	—	391,482
Total investment grade	**Ps. 4,719,510**	**Ps. —**	**Ps. —**	**Ps. 4,719,510**

(*) Sovereign credit rating is considered as the risk of the Treasury issuer or a similar agency (government debt portfolio).

	December 31, 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Investment grade				
Sovereign (*)	Ps. 2,631,235	Ps. —	Ps. —	Ps. 2,631,235
Financial entities	340,265	—	—	340,265
Total investment grade	**Ps. 2,971,500**	**Ps. —**	**Ps. —**	**Ps. 2,971,500**

(*) Sovereign credit rating is considered as the risk of the Treasury issuer or a similar agency (government debt portfolio).

(Amounts expressed in millions of Colombian pesos)

The following table provides information about the exposure to credit risk and ECLs by segment for accounts receivable related to gas and energy services, the methodology used to estimate the ECLs is the same used for Loan and Receivable (See note 4.1.5):

	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Segmentation				
Contributions	Ps. 99,852	Ps. —	Ps. —	Ps. 99,852
Gas	459,012	128,455	46,166	633,633
Energy	62,662	4,019	67,337	134,018
Other accounts receivable	209,469	—	—	209,469
Total segmentation	**Ps. 830,995**	**Ps. 132,474**	**Ps. 113,503**	**Ps. 1,076,972**

	December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Segmentation				
Contributions	Ps. 71,903	Ps. —	Ps. —	Ps. 71,903
Gas	232,445	134,519	77,693	444,657
Energy	37,455	3,563	98,154	139,172
Other accounts receivable	54,046	—	—	54,046
Total segmentation	**Ps. 395,849**	**Ps. 138,082**	**Ps. 175,847**	**Ps. 709,778**

Evaluated using simplified approach

Grupo Aval uses a probability matrix to measure the ECL for other receivables from individual customers, which have small balances.

The weighted-average loss rate is calculated using a "rolling rate" method based on the probability that a receivable will progress through successive stages of default until write off. The rolling rate is calculated for exposures in different segments and separately in accordance with the following common features of credit risk.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers as of December 31, 2019 and 2018.

December 31, 2019	Weighted-average loss rate	Gross carrying amount	Loss allowance	Credit-impaired
0–30 days past due	1.05 %	2,275,266	23,892	—
31–60 days past due	1.70 %	810,364	13,788	—
61–90 days past due	11.05 %	72,920	8,061	—
More than 90 days past due	65.50 %	327,702	214,660	327,702
		Ps. 3,486,252	**Ps. 260,401**	

December 31, 2018	Weighted-average loss rate	Gross carrying amount	Loss allowance	Credit-impaired
0–30 days past due	1.15 %	2,846,086	32,622	—
31–60 days past due	6.70 %	111,636	7,485	—
61–90 days past due	9.39 %	31,625	2,970	—
More than 90 days past due	47.32 %	398,495	188,583	398,495
		Ps. 3,387,842	**Ps. 231,660**	

(Amounts expressed in millions of Colombian pesos)

The loss rates are based on the experience of real credit loss in the last seven years. These rates are multiplied by factors to reflect the differences between the economic conditions during the period in which the historical data were collected, the current conditions and the opinion of the entities of Grupo Aval about the economic conditions during the expected lives of the accounts receivable.

g) Derivative instruments

The details of credit rating determined by independent credit rating agents of counterparties in trading derivative and hedge derivatives are as follows.

Credit worthiness		December 31, 2019		December 31, 2018
Investment grade	Ps.	734,959	Ps.	755,218
Speculative		21,037		9,926
Without grade or not available		328,036		33,680
Total	**Ps.**	**1,084,032**	**Ps.**	**798,824**

The following table shows an analysis of counterparty credit exposures that arise from derivative transactions. Transactions derived from the Group are generally fully guaranteed with cash:

Trading derivatives

	Total		Central counterparties	
	Notional amount	Fair value	Notional amount	Fair value
2019				
Derivative assets	38,957,370	917,434	4,720,381	—
Derivative liabilities	40,549,648	962,438	5,315,421	52
2018				
Derivative assets	34,950,958	768,686	5,997,311	—
Derivative liabilities	31,237,110	811,305	1,977,284	32

Hedging derivatives

	Total		Central counterparties	
	Notional amount	Fair value	Notional amount	Fair value
2019				
Derivative assets	7,322,445	166,598	3,252,561	—
Derivative liabilities	6,211,399	94,298	3,318,104	—
2018				
Derivative assets	2,493,849	30,138	1,280,402	—
Derivative liabilities	8,722,602	195,539	4,601,646	—

Derivative transactions of Grupo Aval are collateralized by cash of Ps.(38,618) as of December 31, 2019, and of Ps. 214,379 as of December 31, 2018, see note 4.1.10 “Offset of financial assets and financial liabilities”.

(Amounts expressed in millions of Colombian pesos)

h) Cash and cash equivalents

The Group held cash and cash equivalents of 30,117,236 as of December 31, 2019 (2018: 28,401,283). The cash and cash equivalents are held in central banks and financial institution counterparties. The following table shows an analysis of counterparty credit exposures:

	December 31, 2019	December 31, 2018
Investment grade	**Ps. 15,110,595**	**Ps. 13,988,666**
Central bank	4,755,515	3,794,411
Financial entities	10,353,061	10,194,255
Others	2,019	—
Speculative grade	**7,904,760**	**7,707,990**
Central bank	7,714,111	7,264,128
Financial entities	190,649	443,862
Without grade or not available	**449,336**	**259,245**
Central bank	—	2,338
Financial entities	333,864	256,907
Others	115,472	—
Cash and cash equivalent with third parties	**Ps. 23,464,691**	**Ps. 21,955,901**
Cash held by entity (**)	6,652,545	6,445,382
Total	**Ps. 30,117,236**	**Ps. 28,401,283**

(**) Cash held by each Grupo Aval's bank in custody in vaults, ATMs and cash.

4.1.4 Mitigation of Credit Risk, Collateral and Other Credit Risk Enhancements

The exposure to credit risk for each of Grupo Aval´s financial subsidiaries is reduced by collateral and other credit enhancements. The existence of collateral security or guarantees can be a necessary measure but not a determinant one for the approval of a credit. Credit risk policies of Grupo Aval require an evaluation of the debtor's payment capacity based on the debtor´s ability to generate the resources needed for the timely and complete payment of its obligations.

Credit risk management includes the following activities:

- Analysis of credit risk: For commercial lending, tools are used for the individual evaluation of credits based on payment capacity supported on cash generation, credit rating models with inputs from historical and projected financial condition, and on the payment history of the debtor with the financial sector. For consumer lending (including mortgages and auto financing), scoring models are based on socio-demographic variables and payment history.
- Evaluation of collateral security / guarantees with appropriate debt coverage in accordance with the credit policies of each financial subsidiary. Collateral security includes mortgages on real estate, pledge on assets, cash deposits and investments.
- Evaluation of the liquidity of the collateral security / guarantees received.

The methods used for the evaluation of collateral security / guarantees are aligned with the market practices and include the use of independent real estate appraisers or the market value of securities. All collateral security / guarantees must be legally evaluated and drafted following the parameters of applicable legal regulations.

Residential mortgage lending

The following tables stratify credit exposures for mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount of the loan commitments –

(Amounts expressed in millions of Colombian pesos)

to the value of the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals.

	December 31, 2019	December 31, 2018
LTV ratio		
Less than 50%	Ps. 7,030,135	Ps. 6,414,097
51 – 70%	7,050,550	6,678,883
71 – 90%	5,189,800	4,890,501
91 – 100%	731,266	426,810
More than 100%	219,932	181,812
Total (*)	**Ps. 20,221,683**	**Ps. 18,592,103**

(*) As of December 31, 2019 mortgage portfolio is made up for mortgage Ps. 18,661,389 and financial leases Ps.1,560,294. As of December 31, 2018 mortgage portfolio is made up of mortgages of Ps.17,279,362 and financial leases of Ps. 1,312,741.

Credit-impaired mortgage loans

	December 31, 2019	December 31, 2018
LTV ratio		
Less than 50%	Ps. 136,197	Ps. 99,462
51 – 70%	197,183	146,568
More than 70%	264,998	177,821
Total	**Ps. 598,378**	**Ps. 423,851**

As of December 31, 2019, and 2018, the following chart shows the detail of the credit portfolio per type of guarantees received as support of credits granted by Grupo Aval at a consolidated level:

December 31, 2019	Commercial	Consumer	Mortgages	Microcredit	Finance Leases (1)	Total
Unsecured credits	Ps. 50,267,803	Ps. 52,235,510	Ps. 5,936	Ps. 291,480	Ps. 54,217	Ps. 102,854,946
Loans secured by other banks	321,672	6,082	—	—	—	327,754
Collateralized credits:						
Mortgages	713,912	80,308	18,578,286	2,335	18,854	19,393,695
Other real estate	16,738,074	1,430,605	3,495	422	118,256	18,290,852
Investments in equity instruments	262,663	1,180	—	—	—	263,843
Deposits in cash or cash equivalents	1,251,884	154,016	—	—	—	1,405,900
Leased machineries and vehicles	—	—	—	—	10,051,776	10,051,776
Fiduciary agreements, standby letters and guarantee funds	10,063,264	42,865	72,711	92,874	123,494	10,395,208
Pledged income	4,255,779	703	—	—	5,728	4,262,210
Pledges	4,537,778	5,584,600	862	565	4,468	10,128,273
Other assets	2,893,890	52,060	99	22,644	1,784,964	4,753,657
Total gross loan portfolio	**Ps. 91,306,719**	**Ps. 59,587,929**	**Ps. 18,661,389**	**Ps. 410,320**	**Ps. 12,161,757**	**Ps. 182,128,114**

(Amounts expressed in millions of Colombian pesos)

December 31, 2018	Commercial	Consumer	Mortgages	Microcredit	Finance Leases [1]	Total
Unsecured credits	Ps. 49,721,150	Ps. 47,305,167	Ps. 3,572	Ps. 289,518	Ps. 44,221	Ps. 97,363,628
Loans secured by other banks	362,128	7,378	—	—	6,102	375,608
Collateralized credits:						
Mortgages	506,687	68,191	17,200,445	4,040	4,644	17,784,007
Other real estate	15,943,414	1,428,950	4,432	542	116,884	17,494,222
Investments in equity instruments	502,408	553	—	—	—	502,961
Deposits in cash or cash equivalents	1,147,457	156,229	—	—	—	1,303,686
Leased machineries and vehicles	—	—	—	—	9,221,950	9,221,950
Fiduciary agreements, standby letters and guarantee funds	9,316,479	38,516	70,174	97,946	361,515	9,884,630
Pledged income	3,262,967	303	—	—	10,397	3,273,667
Pledges	3,316,543	5,773,201	477	668	6,379	9,097,268
Other assets	8,470,792	422,093	262	32,983	1,654,084	10,580,214
Total gross loan portfolio	**Ps. 92,550,025**	**Ps. 55,200,581**	**Ps. 17,279,362**	**Ps. 425,697**	**Ps. 11,426,176**	**Ps. 176,881,841**

(1) See Note 4.1.1

As of December 31, 2019, and 2018, the following chart sets out the carrying amount and the value of identifiable collateral (mainly commercial property) for commercial loans held by Grupo Aval at a consolidated level:

	December 31, 2019		December 31, 2018	
	Carrying Amount	**Collateral**	**Carrying Amount**	**Collateral**
Stages 1 and 2	Ps. 20,203,110	Ps. 19,372,921	Ps. 18,133,215	Ps. 17,679,213
Stage 3	1,659,725	1,543,378	1,225,001	1,058,671
	Ps. 21,862,835	**Ps. 20,916,299**	**Ps. 19,358,216**	**Ps. 18,737,884**

4.1.5 Amounts arising from Expected Credit Loss (ECL)

Definition of Default

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 prejudice, Grupo Aval takes actions such as realizing collateral (if any is held);
- The borrower is more than 90 days past due on any material credit obligation other than mortgages to Grupo Aval. Overdrafts are considered past due once the customer has breached the allowed tenor or been advised of the reduction of the limit;
- For mortgages when the borrower is more than 180 days past due;
- The borrower has filed for bankruptcy proceedings, or
- In the case of fixed income financial securities, the following concepts among others apply:
  - External rating of the issuer or instrument in rating D under Standard & Poor's and Fitch Ratings scale or rating C under Moody's scale;
  - Contractual payments are not made on the due date;
  - There is a very high probability of suspension of payments;
  - The issuer likely to go bankrupt or file for bankruptcy or similar action; or
  - The financial asset no longer has an active market given its financial difficulties.

In assessing whether a borrower is in default, Grupo Aval considers indicators as follows:

- Qualitative: e.g. breaches of non-financial covenants;
- Quantitative: e.g. breaches of financial covenants, overdue status and non-payment of another obligation of the same issuer to Grupo Aval; and
- Based on internally historical or 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.

Inputs, assumptions and techniques used to estimate expected credit loss allowance

Credit risk models measures the exposure for individual counterparties, on the basis of the following parameters: Probability of default (PD), loss given default (LGD) and exposure at default (EAD). For a specific credit facility (Loans, debt securities, other liquid financial assets, other accounts receivable, loan commitments and financial guarantee contracts) the product of these three parameters results in the expected credit loss. See accounting policy in Note 2 (2.5 ix).

Measurement of ECL

The key inputs for the measurement of ECLs are usually the following variables:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

The estimation of these parameters depends on the credit facility. Loans and receivables methodology uses information derived from internally developed statistical models, comprising both quantitative and qualitative factors, and other historical data. On the other hand, debt securities methodology incorporates relevant external market information or international credit ratings.

Grupo Aval estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models considers 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/ guaranteed by real estate, loan-to-value (LTV) ratios will be a key parameter in determining LGD. Estimates are calibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices.

EAD represents the expected exposure in the event of default. Grupo Aval derives 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 is the gross carrying amount at default. For lending commitments and financial guarantees, the EAD considers the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which are estimated based on historical observations and forward-looking forecasts.

Subject to using the Lifetime PD for financial assets for which credit risk has significantly increased, Grupo Aval measures 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, credit cards, and certain corporate revolving facilities that include both a loan and an undrawn commitment component, Grupo Aval measures 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, but rather when Grupo Aval becomes aware of an increase in credit risk of a particular facility. This longer period is estimated considering the credit risk management actions that Grupo Aval expects to mitigate ECLs. These include a reduction in the limits and the cancellation of the credit.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped based on shared risk characteristics that include:

- Instrument type;
- Credit risk ratings;
- Collateral type;
- Date of initial recognition;
- Remaining term to maturity; and
- Industry.

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

Credit Risk Model: Loans and receivables

I. Transitions between stages

Significant Increase in Credit Risk

When determining whether the credit risk (i.e. risk of default) of a financial instrument has increased significantly since initial recognition, Grupo Aval considers 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.

The following criteria are used to determine if a significant increase in credit risk has occurred:

- Comparison of the remaining lifetime probability of default (PD) at the reporting date with the lifetime PD at initial recognition of the exposure.
- Qualitative aspects such as credits with 30 days past due.
- Qualitative criteria from analysts is also considered based on expert and supportable information.

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.

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 identifying 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.

II. PD – Probability of Default

Term structure of PD

Credit risk grades are the primary input in the determination of the term structure of PD for exposures. Grupo Aval collects 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 employs statistical models to analyze the data collected and generates 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 includes the identification and calibration of the relation 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 on the risk of default. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/ or real estate prices.

For stage 1 the PD estimates the probability that the credit will default in the next 12 months, while the PD in stage 2 is the result of the probabilities for the remaining life of the credit. The probability in Stage 3 is defined as 100%.

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

Forward-Looking Information

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 formulates a ‘base case’ view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on forecasts provided by economic experts and considering a forecast of multiple variables. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

The base case represents a most-likely outcome. It is aligned with information used by Grupo Aval for other purposes, such as strategic planning and budgeting. The other scenarios for Colombia represent more optimistic and more pessimistic outcomes. For the countries in Central America the other scenarios represent possible outcomes which are less probable than the “base case”.

Grupo Aval has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

(Amounts expressed in millions of Colombian pesos)

The economic scenarios used as of December 31, 2019 include the following expected scenarios of key indicators (among others) for Colombia for the years ending 31 December 2019 and 2020.

	2019			2020		
	Scenario A	Scenario B	Scenario C	Scenario A	Scenario B	Scenario C
Inflation	3.72 %	3.83 %	3.95 %	2.46 %	3.38 %	4.07 %
Interest rates	4.25 %	4.25 %	4.25 %	3.50 %	4.25 %	5.25 %
GDP growth	3.01 %	3.20 %	3.57 %	2.17 %	3.22 %	4.19 %
House prices	(2.68)%	(0.85)%	1.07 %	(3.29)%	0.96 %	7.03 %
Unemployment rate	10.72 %	10.25 %	10.01 %	11.12 %	10.22 %	9.30 %

The economic scenarios used at 31 December 2019 included the following expected variations of key indicators (among others) for 2020 for Guatemala.

	2020		
	Scenario A	Scenario B	Scenario C
Inflation	3.72 %	3.53 %	3.26 %
Interest rates	0.26 %	(0.03)%	(0.30)%
GDP growth	2.15 %	3.19 %	3.71 %
Exchange rate	1.54 %	(0.46)%	(0.95)%

The economic scenarios used at 31 December 2019 included the following expected variations of key indicators (among others) for 2020 for Honduras.

	2020		
	Scenario A	Scenario B	Scenario C
Inflation	5.07 %	4.61 %	3.34 %
Interest rates	(0.30)%	(1.45)%	(3.25)%
GDP growth	1.98 %	2.95 %	4.04 %
Exchange rate	4.50 %	3.34 %	0.72 %

The economic scenarios used at 31 December 2019 included the following expected variations of key indicators (among others) for 2020 for El Salvador.

	2020		
	Scenario A	Scenario B	Scenario C
Inflation	2.11 %	0.97 %	— %
Interest rates	0.34 %	0.03 %	(0.07)%
GDP growth	1.84 %	2.40 %	2.80 %

The economic scenarios used at 31 December 2019 included the following expected variations of key indicators (among others) for 2020 for Nicaragua.

	2020		
	Scenario A	Scenario B	Scenario C
Inflation	8.92 %	6.58 %	3.34 %
Interest rates	4.93 %	1.70 %	(0.99)%
GDP growth	(5.61)%	(3.08)%	(1.26)%
Exchange rate	3.74 %	3.01 %	2.72 %

(Amounts expressed in millions of Colombian pesos)

The economic scenarios used at 31 December 2019 included the following expected variations of key indicators (among others) for 2020 for Costa Rica.

	2020		
	Scenario A	**Scenario B**	**Scenario C**
Inflation	4.04 %	1.91 %	1.76 %
Interest rates	(0.99)%	(1.58)%	(1.81)%
GDP growth	1.76 %	2.59 %	3.03 %
Exchange rate	3.93 %	0.22 %	(1.07)%

The economic scenarios used at 31 December 2019 included the following expected variations of key indicators (among others) for 2020 for Panamá.

	2020		
	Scenario A	**Scenario B**	**Scenario C**
Inflation	1.71 %	0.77 %	0.54 %
Interest rates	0.56 %	0.08 %	(0.35)%
GDP growth	2.97 %	3.83 %	4.89 %

The scenario probability weightings applied as of December 31, 2019 and December 31,2018 in measuring ECL are as follows.

Colombia

	2019			2018		
	Scenario A	**Scenario B**	**Scenario C**	**Scenario A**	**Scenario B**	**Scenario C**
Scenario probability weighting	23 %	60 %	17 %	25 %	53 %	22 %

Guatemala

	2019			2018		
	Scenario A	**Scenario B**	**Scenario C**	**Scenario A**	**Scenario B**	**Scenario C**
Scenario probability weighting	10 %	70 %	20 %	20 %	60 %	20 %

Honduras

	2019			2018		
	Scenario A	**Scenario B**	**Scenario C**	**Scenario A**	**Scenario B**	**Scenario C**
Scenario probability weighting	10 %	65 %	25 %	30 %	55 %	15 %

El Salvador

	2019			2018		
	Scenario A	**Scenario B**	**Scenario C**	**Scenario A**	**Scenario B**	**Scenario C**
Scenario probability weighting	15 %	70 %	15 %	10 %	80 %	10 %

(Amounts expressed in millions of Colombian pesos)

Nicaragua

	2019			2018		
	Scenario A	Scenario B	Scenario C	Scenario A	Scenario B	Scenario C
Scenario probability weighting	15 %	70 %	15 %	5 %	50 %	45 %

Costa Rica

	2019			2018		
	Scenario A	Scenario B	Scenario C	Scenario A	Scenario B	Scenario C
Scenario probability weighting	20 %	60 %	20 %	40 %	50 %	10 %

Panamá

	2019			2018		
	Scenario A	Scenario B	Scenario C	Scenario A	Scenario B	Scenario C
Scenario probability weighting	15 %	60 %	25 %	5 %	70 %	25 %

The table below shows the loss allowance on loans assuming each forward-looking scenario (e.g. scenario A, B and C) were weighted 100% instead of applying scenario probability weights across the three scenarios.

	December 31, 2019			December 31, 2018		
	Scenario A	Scenario B	Scenario C	Scenario A	Scenario B	Scenario C
Gross Exposure						
Commercial	Ps. 91,306,719	Ps. 91,306,719	Ps. 91,306,719	Ps. 92,550,025	Ps. 92,550,025	Ps. 92,550,025
Consumer	59,587,929	59,587,929	59,587,929	55,200,581	55,200,581	55,200,581
Mortgages	18,661,389	18,661,389	18,661,389	17,279,362	17,279,362	17,279,362
Microcredit	410,320	410,320	410,320	425,697	425,697	425,697
Financial Leasing	12,161,757	12,161,757	12,161,757	11,426,176	11,426,176	11,426,176
Total gross exposure	**Ps. 182,128,114**	**Ps. 182,128,114**	**Ps. 182,128,114**	**Ps. 176,881,841**	**Ps. 176,881,841**	**Ps. 176,881,841**
Loss Allowance						
Commercial	Ps. 3,682,865	Ps. 3,730,491	Ps. 3,809,884	Ps. 3,827,201	Ps. 3,856,836	Ps. 3,907,811
Consumer	3,487,398	3,530,429	3,583,059	3,354,040	3,444,257	3,527,918
Mortgages	296,025	300,681	310,584	237,707	250,531	267,261
Microcredit	88,461	89,720	91,071	87,789	88,197	88,472
Financial Leasing	505,950	511,754	516,462	440,554	443,870	442,532
Total Loss Allowance	**Ps. 8,060,699**	**Ps. 8,163,075**	**Ps. 8,311,060**	**Ps. 7,947,291**	**Ps. 8,083,691**	**Ps. 8,233,994**
Proportion of Assets in Stage 2						
Commercial	4.1 %	4.1 %	4.2 %	4.0 %	4.1 %	4.0 %
Consumer	8.9 %	9.2 %	9.4 %	10.4 %	10.6 %	11.0 %
Mortgages	7.6 %	8.2 %	8.6 %	9.3 %	9.9 %	11.0 %
Microcredit	6.8 %	6.8 %	6.8 %	6.6 %	6.6 %	6.6 %
Financial Leasing	3.8 %	4.2 %	4.3 %	2.6 %	2.6 %	2.6 %

Credit Risk Rating

Grupo Aval allocates 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 judgment. Grupo Aval uses these grades with the purpose identifying significant increases in credit risk. 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 is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves using of the following data.

Loan Portfolio

Commercial	Consumer	Mortgage	Microcredit
-Information from the audited financial statements obtained during periodic reviews.	-Information collected internally about the behavior of customers.	-Information collected internally about the behavior of customers.	-Information collected internally about the behavior of customers.
-Data from credit bureau reports.	- Data from credit bureau reports.	- Data from credit bureau reports.	- Data from credit bureau reports.
-Information collected internally about the behavior of customers.			
-Information of the different sectors.			

III. LGD – Loss Given Default

LGD is a measure of the potential loss in the event of a default. To estimate LGD, Grupo Aval uses information of the collateral security / guarantee which covers each individual credit, when available. In any case, Grupo Aval uses historical and forward-looking information (the same information described above in II. PD – Probability of Default - Forward-Looking Information) to estimate the expected potential recovery in case of a default. The LGD is estimated in groups by type of credit, collateral security / guarantee or maturity.

IV. EAD – Exposure at Default

EAD represents the amount owed from a counterparty at the time of a possible default. For stage 2 Grupo Aval incorporates in the analysis of the exposure at default the probability of payments and increase in exposure during the lifetime of the credit.

These probabilities are estimated using the historical information collected by the financial subsidiaries and are grouped by type of product. The probabilities are constantly reviewed in order to accurately estimate them and calibrate them.

Credit Risk Model: Debt securities

This model estimates the impairment of credit risk in debt securities. In general, at the moment of inception, all financial assets originate ECLs for the next 12 months. If credit risk increases significantly and there is enough objective evidence of increase of probability of default, then the reserve is adjusted for the remaining life of the financial asset.

I. Transition between stages

A financial asset is classified as a low credit risk asset if the issuer is related to an investment grade credit rating.

Financial assets different than low credit risk must be evaluated individually. The first step in the methodology consist in evaluating a *significant increase in credit risk* by comparing the current status against the status at initial recognition of the security.

External elements related to a significant increase in credit risk are detailed below:

- Negative changes in external credit ratings.
- Changes in external market variables such as credit spreads, prices of issuer's CDS and other prices of debt instruments and equities.
- Changes in business, economic, financial, regulatory or technological environment which can affect the payment capacity of the issuer.
- Changes in operational results that can compromise the payment capacity of the issuer.

If the financial asset loses its low credit risk condition or if changes in external environment results in a review of the condition, then this probably shows a significant increase in credit risk. Consequently, the financial asset will be analyzed to determine if there is a significant increase of credit risk (stage 2) or if the asset should be classified as stage 3.

Objective evidence of impairment is the second step in making changes between stages. It is concluded that there is objective evidence of impairment if one the following situations is met:

- The external credit rating of the issuer, issuer or counterparty is reduced to D on the Standard & Poor´s and Fitch Ratings scale or up to C on the Moody´s scale.
- Contractual payments are not made on the established dates, terms or grace periods.
- There is a virtual certainty of suspension of payments.
- There is a probability that the issuer or counterparty will go into a bankruptcy process.
- Due to financial difficulties there is no market for financial assets.

II. PD – Probability of default

PD depends of the external credit rating of the issuance, issuer or counterparty. Credit rating information is published by international credit rating corporations, such as Standard & Poor's, Moody's and Fitch Ratings, or national credit rating corporations, such as Fitch Ratings Colombia S.A. or BRC. In any case, international ratings have priority over national ratings.

Credit ratings from S&P have priority over the other rating corporations. If the issuance, issuer or counterparty is not rated by S&P, credit ratings from Moody's or Fitch Ratings can be used but they must be translated to the S&P rating scale. The order of priority in credit rating corporations is as follows: S&P in first place, Moody's in second place and Fitch Ratings in the third one. The reason for choosing this hierarchy is to avoid discretion at the time of assigning a rating. National credit ratings can be used only if international credit ratings are not available, and the translation condition to the S&P rating scale must be followed as well.

For financial assets classified as stage 1, PD correspond to the probability of default for the next 12 months established in accordance to "Cumulative Default Rates by Rating Modifiers" for both sovereign and corporate issuers, expressed at an annual basis. If the remaining life of the assets is less than 12 months, the resulting PD will correspond to the weighted 12 months-PD with the remaining life of the financial asset.

For financial assets classified as stage 2, lifetime PD must be used and computed using the "Cumulative Default Rates by Rating Modifiers" for both sovereign and corporate issuers, expressed at an annual basis and according to the term of each flow.

For financial assets classified as stage 3, lifetime PD will equal 100% for any issuance, issuer or counterparty.

PD value tables are available in S&P Global Ratings: *"2018 Annual Sovereign Default Study and Rating Transitions" and "2018 Annual Global Corporate Default Study and Rating Transitions".*

Forward-Looking Information

Grupo Aval incorporates forward-looking information into its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL. This information will directly affect the PD and the stage classification.

When rating the sovereign and corporate issuers, credit ratings agencies incorporate prospective information, as well as forecasting of macroeconomic variables and the influence of these factors over the business conditions. Grupo Aval's methodology includes external credit ratings which, under the previous argument, have already considered prospective information.

Furthermore, credit ratings are also subject to rating outlooks which can modify the current credit ratings. Details are provided below. Rating outlooks are published by credit rating corporations and reflect the perspective of the potential long-term credit rating over the next 6 to 24 months.

- If the Rating Outlook is categorized as "STABLE", no adjustments in credit ratings are needed.
- If the Rating Outlook is "POSITIVE", PD will be adjusted as the average between the current PD and the applicable PD in the case credit rating improves one notch. However, this would only take place if the resulting PD is lower than the current PD.
- If the Rating Outlook is "NEGATIVE", PD will be adjusted as the average between the current PD and the applicable PD in the case credit rating deteriorates one notch. However, this would only take place if the resulting PD is higher than the current PD.

III. LGD – Loss given default

LGD is a measure of the potential loss if a default scenario occurs. To establish the LGD, Grupo Aval's methodology uses information published by Moody's credit rating corporation. LGD is based on relevant external default data, such as the historical recovery rates, which is defined as the complement of LGD calculation.

Moody's computes Recovery Rates as the ratio between market prices after 30 days of the default or the debt swap price at the closing date, and the market price of the issuance at the beginning of the default. In the case of unavailable market prices, recovery rates will be the resulting ratio between present value of expected cash flows of the new instruments received with the debt swap and the present value of the initial instruments.

As a result of the above, for 2019 Grupo Aval's methodology assigns the following weights for recovery rates: 55% for Sovereigns and 47.7% for corporates.

Further information is available and published annually by Moody's in the "Sovereign default and recovery rates 1983-2018" and "Annual Default Study" reports.

IV. EAD – Exposure at default

EAD represents the amount owed from a counterparty at the time of a possible default and only for securities classified at amortized cost or FVOCI. See accounting policy in Note 2 (2.5 ix).

For stage 1 and stage 3 financial assets, EAD will correspond to the full valuation of the assets at amortized cost.

For stage 2 financial assets, EAD will consider the financial asset amortized scheme assuming no default in the previous years.

In the case that financial assets present a guarantees or security collateral, these could reduce total EAD. This is a typical case of collateralized interbank loans.

Credit Risk Model: Other accounts receivable

Grupo Aval uses two approaches to estimate ECL of financial assets classified as other accounts receivables.

The first one is the simplified approach where Grupo Aval uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small amounts.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics like type of product purchased.

Loss rates are based on actual credit loss experience over the past seven years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and Grupo Aval entities' view of economic conditions over the expected lives of the receivables.

The second one is the general approach, it considers the methodologies explained above for loans and debt securities. For non-financial companies in the oil and gas sector, the loans methodology is considered, while the debt securities methodology is considered for government and other government related entities.

(Amounts expressed in millions of Colombian pesos)

Loss allowance

The table below shows the loss allowance balances as of December 31, 2019 and 2018.

	December 31, 2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Simplified approach	Total
Loan portfolio					
Loan commercial portfolio	Ps. 642,839	Ps. 190,697	Ps. 2,905,794	Ps. —	Ps. 3,739,330
Loan consumer portfolio	1,076,150	851,651	1,620,779	—	3,548,580
Loan mortgage portfolio	43,492	73,109	189,636	—	306,237
Loan microcredit portfolio	24,794	11,919	53,112	—	89,825
Loan financial leasing portfolio	65,863	31,356	404,606	—	501,825
Total loan portfolio	**Ps. 1,853,138**	**Ps. 1,158,732**	**Ps. 5,173,927**	**Ps. —**	**Ps. 8,185,797**
Investments in debt securities at amortized cost	737	—	—	—	737
Other accounts receivable	13,353	13,006	86,797	173,307	286,463
Total loss allowance financial assets at amortized cost	**Ps. 1,867,228**	**Ps. 1,171,738**	**Ps. 5,260,724**	**Ps. 173,307**	**Ps. 8,472,997**
Investments in debt securities at FVOCI	34,080	—	—	—	34,080
Loan commitments and financial guarantee contracts	45,509	2,945	1,508	—	49,962
Total loss allowance	**Ps. 1,946,817**	**Ps. 1,174,683**	**Ps. 5,262,232**	**Ps. 173,307**	**Ps. 8,557,039**

	December 31, 2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Simplified approach	Total
Loan portfolio					
Loan commercial portfolio	Ps. 695,728	Ps. 190,633	Ps. 3,051,088	Ps. —	Ps. 3,937,449
Loan consumer portfolio	998,390	890,556	1,553,365	—	3,442,311
Loan mortgage portfolio	35,187	73,461	148,595	—	257,243
Loan microcredit portfolio	23,348	11,962	52,867	—	88,177
Loan financial leasing portfolio	72,221	30,434	368,352	—	471,007
Total loan portfolio	**Ps. 1,824,874**	**Ps. 1,197,046**	**Ps. 5,174,267**	**Ps. —**	**Ps. 8,196,187**
Investments in debt securities at amortized cost	71	—	—	—	71
Other accounts receivable	19,700	11,561	66,327	159,303	256,891
Total loss allowance financial assets at amortized cost	**Ps. 1,844,645**	**Ps. 1,208,607**	**Ps. 5,240,594**	**Ps. 159,303**	**Ps. 8,453,149**
Investments in debt securities at FVOCI	20,757	31,980	46,280	—	99,017
Loan commitments and financial guarantee contracts	40,715	14,358	4,355	—	59,428
Total loss allowance	**Ps. 1,906,117**	**Ps. 1,254,945**	**Ps. 5,291,229**	**Ps. 159,303**	**Ps. 8,611,594**

(Amounts expressed in millions of Colombian pesos)

The table below shows for loans stage 3 individually assessed for ECL the gross amount and loss allowance balances as of December 31, 2019 and 2018.

	December 31, 2019					
	Gross Amount Registered		Collateral Guarantees		Allowance Recognized	
Without recognized provision						
Commercial	Ps.	67,450	Ps.	47,703	Ps.	—
Financial leasing		36,985		—		—
Subtotal	**Ps.**	**104,435**	**Ps.**	**47,703**	**Ps.**	**—**
With recognized provision						
Commercial	Ps.	5,002,372	Ps.	634,016	Ps.	2,150,877
Consumer		3,177		832		2,238
Financial leasing		795,952		137,855		284,496
Subtotal	**Ps.**	**5,801,501**	**Ps.**	**772,703**	**Ps.**	**2,437,611**
Totals						
Commercial		5,069,822		681,719		2,150,877
Consumer		3,177		832		2,238
Financial leasing		832,937		137,855		284,496
Total	**Ps.**	**5,905,936**	**Ps.**	**820,406**	**Ps.**	**2,437,611**

	December 31, 2018					
	Gross Amount Registered		Collateral Guarantees		Allowance Recognized	
Without recognized provision						
Commercial	Ps.	85,531	Ps.	126,642	Ps.	—
Financial leasing		115,881		320,797		—
Subtotal	**Ps.**	**201,412**	**Ps.**	**447,439**	**Ps.**	**—**
With recognized provision						
Commercial	Ps.	5,788,368	Ps.	511,605	Ps.	2,195,263
Consumer		2,604		560		1,813
Financial leasing		659,499		243,023		231,056
Subtotal	**Ps.**	**6,450,471**	**Ps.**	**755,188**	**Ps.**	**2,428,132**
Totals						
Commercial		5,873,899		638,247		2,195,263
Consumer		2,604		560		1,813
Financial leasing		775,380		563,820		231,056
Total	**Ps.**	**6,651,883**	**Ps.**	**1,202,627**	**Ps.**	**2,428,132**

The difference between the value of the loan and the guarantees disclosed on the table above corresponds to unsecured loans valued with the discounted cash flow method. When using this method, it is implied that it is possible for the customer to make future payments.

The loss allowance recognized in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact of the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for asset denominated in foreign currencies and other movements; and

(Amounts expressed in millions of Colombian pesos)

- Financial assets derecognized during the period and write-offs of allowances related to assets than were written off during the period.

The following tables show the reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

Total Loan portfolio

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Loss allowance balance as of December 31, 2017- IAS 39	**Ps. 1,227,363**	**Ps. 583,584**	**Ps. 3,807,534**	**Ps. 5,618,481**
IFRS 9 adoption [(1)]	490,117	596,737	76,155	1,163,009
Loss allowance as of January 1, 2018 – IFRS 9	**1,717,480**	**1,180,321**	**3,883,689**	**6,781,490**
Transfers:				
Transfer from stage 1 to stage 2	(255,031)	255,031	—	—
Transfer from stage 1 to stage 3	(214,542)	—	214,542	—
Transfer from stage 2 to stage 3	—	(631,932)	631,932	—
Transfer from stage 3 to stage 2	—	107,331	(107,331)	—
Transfer from stage 2 to stage 1	314,668	(314,668)	—	—
Transfer from stage 3 to stage 1	183,733	—	(183,733)	—
Net remeasurement of loss allowance [(3)]	(90,021)	746,773	3,194,573	3,851,325
New financial assets originated or purchased	1,011,984	156,320	153,761	1,322,065
Financial assets that have been derecognized	(568,424)	(177,729)	(323,552)	(1,069,705)
Unwind of discount [(2)]	32,674	(3,809)	353,118	381,983
FX and other movements	4,703	—	71,009	75,712
Entity deconsolidation	—	—	2,307	2,307
Write-offs	(312,350)	(120,592)	(2,716,048)	(3,148,990)
Loss allowance as of December 31, 2018	**Ps. 1,824,874**	**Ps. 1,197,046**	**Ps. 5,174,267**	**Ps. 8,196,187**
Transfers:				
Transfer from stage 1 to stage 2	(231,472)	231,472	—	—
Transfer from stage 1 to stage 3	(132,800)	—	132,800	—
Transfer from stage 2 to stage 3	—	(567,849)	567,849	—
Transfer from stage 3 to stage 2	—	104,502	(104,502)	—
Transfer from stage 2 to stage 1	323,445	(323,445)	—	—
Transfer from stage 3 to stage 1	114,968	—	(114,968)	—
Net remeasurement of loss allowance [(3)]	(352,578)	632,102	3,696,083	3,975,607
New financial assets originated or purchased	659,037	119,690	203,482	982,209
Financial assets that have been derecognized	(366,590)	(241,128)	(177,357)	(785,075)
Unwind of discount [(2)]	280	2,155	502,002	504,437
FX and other movements	52,724	49,148	(72,493)	29,379
Write-offs	(38,750)	(44,961)	(4,633,236)	(4,716,947)
Loss allowance as of December 31, 2019	**Ps. 1,853,138**	**Ps. 1,158,732**	**Ps. 5,173,927**	**Ps. 8,185,797**

[(1)] Grupo Aval initially adopted IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.4) (C).

[(2)] The unwind of discount on Stage 3 financial assets is reported within "interest income" so that interest income is recognized on the amortized cost (after deducting the ECL allowance)

[(3)] This amount includes impact of the measurement of ECL due to changes made in PDs/LGDs/EADs and changes made to model assumptions and methodologies from the opening to the closing balance. The following table shows the impact by stage estimated using all parameters as of December 31, 2018 versus parameters as of December 31,2019 and the loan portfolio as of December 31, 2019.

(Amounts expressed in millions of Colombian pesos)

December 31, 2019			
Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Ps. 71,209	Ps. 23,388	Ps. 53,684	Ps. 148,281

December 31, 2018			
Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Ps. (8,520)	Ps. 1,997	Ps. 123	Ps. (6,400)

The following table further explains changes in the gross carrying amount of the loan portfolio to help explain their significance to the changes in the allowance for the same portfolio as discussed above:

	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Total portfolio as of December 31, 2017	**Ps. 150,082,716**	**Ps. 8,263,660**	**Ps. 8,026,341**	**Ps. 166,372,717**
Transfers:				
Transfer from stage 1 to stage 2	(11,834,692)	11,834,692	—	—
Transfer from stage 1 to stage 3	(2,023,042)	—	2,023,042	—
Transfer from stage 2 to stage 3	—	(4,493,810)	4,493,810	—
Transfer from stage 2 to stage 1	7,343,231	(7,343,231)	—	—
Transfer from stage 3 to stage 2	—	761,405	(761,405)	—
Transfer from stage 3 to stage 1	621,006	—	(621,006)	—
Increase in loan portfolio and borrowing costs	101,799,568	1,668,101	1,839,318	105,306,987
Decrease in loan portfolio and borrowing costs	(91,600,857)	(3,125,167)	(2,502,517)	(97,228,541)
Increase-decrease in interest	(411,754)	20,034	436,617	44,897
Increase-decrease in other receivables associated with loans	11,867	2,289	7,651	21,807
Write-offs	(312,350)	(120,592)	(2,716,048)	(3,148,990)
Entity deconsolidation	—	—	2,019	2,019
FX and other movements	5,211,099	253,756	46,090	5,510,945
Total portfolio as of December 31, 2018	**Ps. 158,886,792**	**Ps. 7,721,137**	**Ps. 10,273,912**	**Ps. 176,881,841**
Transfers:				
Transfer from stage 1 to stage 2	(11,790,121)	11,790,121	—	—
Transfer from stage 1 to stage 3	(1,632,972)	—	1,632,972	—
Transfer from stage 2 to stage 3	—	(4,150,773)	4,150,773	—
Transfer from stage 2 to stage 1	6,281,477	(6,281,477)	—	—
Transfer from stage 3 to stage 2	—	743,373	(743,373)	—
Transfer from stage 3 to stage 1	582,523	—	(582,523)	—
Increase in loan portfolio and borrowing costs	122,342,873	1,060,008	2,542,813	125,945,694
Decrease in loan portfolio and borrowing costs	(111,122,212)	(2,838,645)	(3,549,578)	(117,510,435)
Increase-decrease in interest	75,349	(20,355)	561,898	616,892
Increase-decrease in other receivables associated with loans	7,919	(534)	9,784	17,169
Write-offs	(38,750)	(44,961)	(4,633,236)	(4,716,947)
FX and other movements	613,810	78,913	201,177	893,900
Total portfolio as of December 31, 2019	**Ps. 164,206,688**	**Ps. 8,056,807**	**Ps. 9,864,619**	**Ps. 182,128,114**

(Amounts expressed in millions of Colombian pesos)

The total loan portfolio is composed of commercial loans, consumer loans, mortgage loans, microcredit loans and financial leasing loan. The following tables show the movement in provision and gross amounts of these portfolios separately:

Commercial loan portfolio

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Loss allowance balance as of December 31, 2017- IAS 39	Ps. 492,561	Ps. 91,930	Ps. 2,074,831	Ps. 2,659,322
IFRS 9 adoption (1)	122,996	100,438	33,639	257,073
Loss allowance as of January 1, 2018 – IFRS 9	**615,557**	**192,368**	**2,108,470**	**2,916,395**
Transfers:				
Transfer from stage 1 to stage 2	(26,155)	26,155	—	—
Transfer from stage 1 to stage 3	(57,241)	—	57,241	—
Transfer from stage 2 to stage 3	—	(141,368)	141,368	—
Transfer from stage 3 to stage 2	—	17,836	(17,836)	—
Transfer from stage 2 to stage 1	65,954	(65,954)	—	—
Transfer from stage 3 to stage 1	30,590	—	(30,590)	—
Net remeasurement of loss allowance (4)	(150,806)	153,621	1,013,822	1,016,637
New financial assets originated or purchased	419,719	37,317	68,127	525,163
Financial assets that have been derecognized	(221,935)	(24,707)	(123,509)	(370,151)
Unwind of discount (2)	31,974	(2,615)	239,515	268,874
FX and other movements	4,707	—	13,098	17,805
Write-offs	(16,636)	(2,020)	(418,618)	(437,274)
Loss allowance as of December 31, 2018	**Ps. 695,728**	**Ps. 190,633**	**Ps. 3,051,088**	**Ps. 3,937,449**
Transfers:				
Transfer from stage 1 to stage 2	(35,269)	35,269	—	—
Transfer from stage 1 to stage 3	(22,792)	—	22,792	—
Transfer from stage 2 to stage 3	—	(90,108)	90,108	—
Transfer from stage 3 to stage 2	—	16,665	(16,665)	—
Transfer from stage 2 to stage 1	38,767	(38,767)	—	—
Transfer from stage 3 to stage 1	17,627	—	(17,627)	—
Net remeasurement of loss allowance (4)	(162,639)	84,562	1,282,741	1,204,664
New financial assets originated or purchased	315,737	22,634	99,731	438,102
Financial assets that have been derecognized	(217,319)	(39,985)	(150,245)	(407,549)
Unwind of discount (2)	280	2,136	368,303	370,719
FX and other movements	14,943	8,443	(26,379)	(2,993)
Write-offs (3)	(2,224)	(785)	(1,798,053)	(1,801,062)
Loss allowance as of December 31, 2019	**Ps. 642,839**	**Ps. 190,697**	**Ps. 2,905,794**	**Ps. 3,739,330**

(1) Grupo Aval has initially adopted IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.4) (C).

(2) The unwind of discount on Stage 3 financial assets is reported within "interest income" so that interest income is recognized on the amortized cost (after deducting the ECL allowance)

(3) Includes write-offs of Electricaribe Ps. 804,292 and Tranzit Ps. 103,508.

(4) This amount includes impact of the measurement of ECL due to changes made in PDs/LGDs/EADs and changes made to model assumptions and methodologies from the opening to the closing balance. The following table shows the impact by stage estimated using all parameters as of December 31, 2018 versus parameters as of December 31, 2019 and the loan portfolio as of December 31, 2019.

(Amounts expressed in millions of Colombian pesos)

December 31, 2019							
Stage 1 12-month ECL		**Stage 2 Lifetime ECL not credit-impaired**		**Stage 3 Lifetime ECL credit-impaired**		**Total**	
Ps.	57,078	Ps.	12,301	Ps.	36,166	Ps.	105,545

December 31, 2018							
Stage 1 12-month ECL		**Stage 2 Lifetime ECL not credit-impaired**		**Stage 3 Lifetime ECL credit-impaired**		**Total**	
Ps.	34,411	Ps.	(8,050)	Ps.	16,362	Ps.	42,723

At December 31, 2019 the loss allowance related with CRDS was at 100% of exposure amounts to 761,993.

On August 6, 2019, An Arbitration Tribunal of the Chamber of Commerce of Bogotá, declared the nullity of the Concession Contract N° 001 of 2010, its amendments and other contractual agreements, entered into by and between the former Instituto Nacional de Concesiones – INCO (now ANI) and Concesionaria Ruta del Sol S.A.S (CRDS) for the construction of Project Ruta del Sol 2.

As a result, the Arbitration Tribunal established an amount of TWO HUNDRED ELEVEN THOUSAND TWO HUNDRED SEVENTY-THREE MILLION PESOS (Ps. 211,273), as the value that ANI shall recognize CRDS for the benefit of its third-party good faith creditors. This amount, added to the two payments received by the creditor banks in December 2017 and January 2019 for a total of 1.42 trillion pesos, result in a liquidation value of at least 1.63 trillion pesos for the Concession Contract N° 001 of 2010, for the construction of Project Ruta del Sol 2.

Episol, the banking subsidiaries of Grupo Aval and other parties to these proceeding timely filed appeals for annulment of the award that must be resolved by the Consejo de Estado (Colombia's Supreme Court on for administrative matters)

(Amounts expressed in millions of Colombian pesos)

The following table further explains changes in the gross carrying amount of the commercial portfolio to help explain their significance to the changes in the allowance for the same portfolio as discussed above:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Total portfolio as of December 31, 2017	**Ps. 82,949,511**	**Ps. 2,104,840**	**Ps. 4,722,249**	**Ps. 89,776,600**
Transfers:				
Transfer from stage 1 to stage 2	(2,402,189)	2,402,189	—	—
Transfer from stage 1 to stage 3	(1,239,079)	—	1,239,079	—
Transfer from stage 2 to stage 3	—	(1,347,289)	1,347,289	—
Transfer from stage 2 to stage 1	1,267,680	(1,267,680)	—	—
Transfer from stage 3 to stage 2	—	158,589	(158,589)	—
Transfer from stage 3 to stage 1	193,843	—	(193,843)	—
Increase in loan portfolio and borrowing costs	61,745,704	376,146	483,805	62,605,655
Decrease in loan portfolio and borrowing costs	(60,678,433)	(798,958)	(693,653)	(62,171,044)
Increase-decrease in interest	(419,897)	(7,241)	276,864	(150,274)
Increase-decrease in other receivables associated with loans	3,025	733	1,065	4,823
Write-offs	(16,636)	(2,020)	(418,618)	(437,274)
FX and other movements	2,814,940	44,303	62,296	2,921,539
Total portfolio as of December 31, 2018	**Ps. 84,218,469**	**Ps. 1,663,612**	**Ps. 6,667,944**	**Ps. 92,550,025**
Transfers:				
Transfer from stage 1 to stage 2	(3,007,313)	3,007,313	—	—
Transfer from stage 1 to stage 3	(971,916)	—	971,916	—
Transfer from stage 2 to stage 3	—	(909,907)	909,907	—
Transfer from stage 2 to stage 1	924,096	(924,096)	—	—
Transfer from stage 3 to stage 2	—	148,025	(148,025)	—
Transfer from stage 3 to stage 1	212,841	—	(212,841)	—
Increase in loan portfolio and borrowing costs	70,008,205	(156,035)	1,023,714	70,875,884
Decrease in loan portfolio and borrowing costs	(68,610,454)	(440,971)	(2,051,193)	(71,102,618)
Increase-decrease in interest	(18,016)	(9,680)	383,393	355,697
Increase-decrease in other receivables associated with loans	(2,697)	(699)	1,998	(1,398)
Write-offs	(2,224)	(785)	(1,798,053)	(1,801,062)
FX and other movements	324,141	15,482	90,568	430,191
Total portfolio as of December 31, 2019	**Ps. 83,075,132**	**Ps. 2,392,259**	**Ps. 5,839,328**	**Ps. 91,306,719**

(Amounts expressed in millions of Colombian pesos)

Consumer loan portfolio

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Loss allowance balance as of December 31, 2017- IAS 39	**Ps. 656,042**	**Ps. 446,698**	**Ps. 1,354,051**	**Ps. 2,456,791**
IFRS 9 adoption [1]	336,656	426,136	32,986	795,778
Loss allowance as of January 1, 2018 – IFRS 9	**992,698**	**872,834**	**1,387,037**	**3,252,569**
Transfers:				
Transfer from stage 1 to stage 2	(209,235)	209,235	—	—
Transfer from stage 1 to stage 3	(149,571)	—	149,571	—
Transfer from stage 2 to stage 3	—	(432,509)	432,509	—
Transfer from stage 3 to stage 2	—	77,046	(77,046)	—
Transfer from stage 2 to stage 1	209,168	(209,168)	—	—
Transfer from stage 3 to stage 1	137,887	-	(137,887)	—
Net remeasurement of loss allowance [3]	78,253	518,410	1,855,935	2,452,598
New financial assets originated or purchased	543,690	113,235	75,181	732,106
Financial assets that have been derecognized	(315,442)	(139,703)	(145,775)	(600,920)
Unwind of discount [2]	474	(514)	80,214	80,174
FX and other movements	(7)	—	52,807	52,800
Write-offs	(289,525)	(118,310)	(2,119,181)	(2,527,016)
Loss allowance as of December 31, 2018	**Ps. 998,390**	**Ps. 890,556**	**Ps. 1,553,365**	**Ps. 3,442,311**
Transfers:				
Transfer from stage 1 to stage 2	(177,237)	177,237	—	—
Transfer from stage 1 to stage 3	(96,220)	—	96,220	—
Transfer from stage 2 to stage 3	—	(423,340)	423,340	—
Transfer from stage 3 to stage 2	—	73,246	(73,246)	—
Transfer from stage 2 to stage 1	248,331	(248,331)	—	—
Transfer from stage 3 to stage 1	86,563	—	(86,563)	—
Net remeasurement of loss allowance [3]	(142,334)	491,096	2,186,645	2,535,407
New financial assets originated or purchased	299,809	92,985	68,464	461,258
Financial assets that have been derecognized	(141,025)	(192,886)	(15,644)	(349,555)
Unwind of discount [2]	—	19	89,525	89,544
FX and other movements	35,616	34,874	(32,483)	38,007
Write-offs	(35,743)	(43,805)	(2,588,844)	(2,668,392)
Loss allowance as of December 31, 2019	**Ps. 1,076,150**	**Ps. 851,651**	**Ps. 1,620,779**	**Ps. 3,548,580**

(1) Grupo Aval has initially adopted IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.4) (C).

(2) The unwind of discount on Stage 3 financial assets is reported within "interest income" so that interest income is recognized on the amortized cost (after deducting the ECL allowance).

(3) This amount includes impact of the measurement of ECL due to changes made in PDs/LGDs/EADs and changes made to model assumptions and methodologies from the opening to the closing balance. The following table shows the impact by stage estimated using all parameters as of December 31, 2018 versus parameters as of December 31, 2019 and the loan portfolio as of December 31, 2019.

December 31, 2019			
Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Ps. 9,044	Ps. 4,268	Ps. (2,890)	Ps. 10,422

(Amounts expressed in millions of Colombian pesos)

December 31, 2018			
Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Ps. (51,642)	Ps. 20,671	Ps. (7,473)	Ps. (38,444)

The following table further explains changes in the gross carrying amount of the consumer portfolio to help explain their significance to the changes in the allowance for the same portfolio as discussed above:

	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Total portfolio as of December 31, 2017	**Ps. 43,867,292**	**Ps. 3,997,655**	**Ps. 2,291,183**	**Ps. 50,156,130**
Transfers:				
Transfer from stage 1 to stage 2	(7,335,328)	7,335,328	—	—
Transfer from stage 1 to stage 3	(457,632)	—	457,632	—
Transfer from stage 2 to stage 3	—	(2,585,329)	2,585,329	—
Transfer from stage 2 to stage 1	4,071,520	(4,071,520)	—	—
Transfer from stage 3 to stage 2	—	483,063	(483,063)	—
Transfer from stage 3 to stage 1	294,316	—	(294,316)	—
Increase in loan portfolio and borrowing costs	33,889,281	1,237,315	1,274,414	36,401,010
Decrease in loan portfolio and borrowing costs	(26,900,608)	(2,021,809)	(1,567,071)	(30,489,488)
Increase-decrease in interest	12,566	12,728	83,646	108,940
Increase-decrease in other receivables associated with loans	2,332	844	2,677	5,853
Write-offs	(289,525)	(118,310)	(2,119,181)	(2,527,016)
FX and other movements	1,470,959	96,499	(22,306)	1,545,152
Total portfolio as of December 31, 2018	**Ps. 48,625,173**	**Ps. 4,366,464**	**Ps. 2,208,944**	**Ps. 55,200,581**
Transfers:				
Transfer from stage 1 to stage 2	(6,677,240)	6,677,240	—	—
Transfer from stage 1 to stage 3	(378,855)	—	378,855	—
Transfer from stage 2 to stage 3	—	(2,662,543)	2,662,543	—
Transfer from stage 2 to stage 1	3,963,436	(3,963,436)	—	—
Transfer from stage 3 to stage 2	—	472,001	(472,001)	—
Transfer from stage 3 to stage 1	222,132	—	(222,132)	—
Increase in loan portfolio and borrowing costs	44,592,760	1,068,552	1,388,079	47,049,391
Decrease in loan portfolio and borrowing costs	(37,145,214)	(2,058,852)	(1,208,318)	(40,412,384)
Increase-decrease in interest	78,352	(4,327)	122,797	196,822
Increase-decrease in other receivables associated with loans	2,870	(143)	3,746	6,473
Write-offs	(35,743)	(43,805)	(2,588,844)	(2,668,392)
FX and other movements	73,657	42,397	99,384	215,438
Total portfolio as of December 31, 2019	**Ps. 53,321,328**	**Ps. 3,893,548**	**Ps. 2,373,053**	**Ps. 59,587,929**

(Amounts expressed in millions of Colombian pesos)

Mortgage loan portfolio

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Loss allowance balance as of December 31, 2017- IAS 39	**Ps. 14,501**	**Ps. 20,032**	**Ps. 96,349**	**Ps. 130,882**
IFRS 9 adoption (1)	6,227	41,690	8,279	56,196
Loss allowance as of January 1, 2018 – IFRS 9	**20,728**	**61,722**	**104,628**	**187,078**
Transfers:				
Transfer from stage 1 to stage 2	(7,711)	7,711	—	—
Transfer from stage 1 to stage 3	(1,558)	—	1,558	—
Transfer from stage 2 to stage 3	—	(21,022)	21,022	—
Transfer from stage 3 to stage 2	—	6,872	(6,872)	—
Transfer from stage 2 to stage 1	20,072	(20,072)	—	—
Transfer from stage 3 to stage 1	2,749	—	(2,749)	—
Net remeasurement of loss allowance (3)	(3,510)	45,162	73,385	115,037
New financial assets originated or purchased	8,999	2,047	47	11,093
Financial assets that have been derecognized	(4,131)	(8,742)	(6,386)	(19,259)
Unwind of discount (2)	110	(143)	4,581	4,548
FX and other movements	—	—	4,946	4,946
Write-offs	(561)	(74)	(45,565)	(46,200)
Loss allowance balance as of December 31, 2018	**35,187**	**73,461**	**148,595**	**257,243**
Transfers:				
Transfer from stage 1 to stage 2	(4,605)	4,605	—	—
Transfer from stage 1 to stage 3	(693)	—	693	—
Transfer from stage 2 to stage 3	—	(22,042)	22,042	—
Transfer from stage 3 to stage 2	—	6,965	(6,965)	—
Transfer from stage 2 to stage 1	21,080	(21,080)	—	—
Transfer from stage 3 to stage 1	3,837	—	(3,837)	—
Net remeasurement of loss allowance (3)	(19,923)	32,334	109,804	122,215
New financial assets originated or purchased	8,995	183	(164)	9,014
Financial assets that have been derecognized	(709)	(6,683)	(3,265)	(10,657)
Unwind of discount (2)	—	—	6,340	6,340
FX and other movements	805	5,502	(11,820)	(5,513)
Write-offs	(482)	(136)	(71,787)	(72,405)
Loss allowance as of December 31, 2019	**Ps. 43,492**	**Ps. 73,109**	**Ps. 189,636**	**Ps. 306,237**

(1) Grupo Aval has initially adopted IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.4) (C)

(2) The unwind of discount on Stage 3 financial assets is reported within "interest income" so that interest income is recognized on the amortized cost (after deducting the ECL allowance)

(3) This amount includes impact of the measurement of ECL due to changes made in PDs/LGDs/EADs and changes made to model assumptions and methodologies from the opening to the closing balance. The following table shows the impact by stage estimated using all parameters as of December 31, 2018 versus parameters as of December 31, 2019 and the loan portfolio as of December 31, 2019.

December 31, 2019			
Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Ps. 2,064	Ps. 5,674	Ps. 21,527	Ps. 29,265

(Amounts expressed in millions of Colombian pesos)

December 31, 2018			
Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Ps. 2,543	Ps. (4,263)	Ps. (8,823)	Ps. (10,543)

The following table further explains changes in the gross carrying amount of the mortgage portfolio to help explain their significance to the changes in the allowance for the same portfolio as discussed above:

	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Total portfolio as of December 31, 2017	**Ps. 13,260,166**	**Ps. 1,577,671**	**Ps. 263,162**	**Ps. 15,100,999**
Transfers:				
Transfer from stage 1 to stage 2	(1,662,941)	1,662,941	—	—
Transfer from stage 1 to stage 3	(9,776)	—	9,776	—
Transfer from stage 2 to stage 3	—	(362,596)	362,596	—
Transfer from stage 2 to stage 1	1,630,238	(1,630,238)	—	—
Transfer from stage 3 to stage 2	—	94,175	(94,175)	—
Transfer from stage 3 to stage 1	66,713	—	(66,713)	—
Increase in loan portfolio and borrowing costs	3,136,074	32,904	3,571	3,172,549
Decrease in loan portfolio and borrowing costs	(1,596,155)	(158,726)	(66,079)	(1,820,960)
Increase-decrease in interest	1,142	7,857	5,342	14,341
Increase-decrease in other receivables associated with loans	19	28	104	151
Write-offs	(561)	(74)	(45,565)	(46,200)
FX and other movements	741,139	111,799	5,544	858,482
Total portfolio as of December 31, 2018	**Ps. 15,566,058**	**Ps. 1,335,741**	**Ps. 377,563**	**Ps. 17,279,362**
Transfers:				
Transfer from stage 1 to stage 2	(1,571,950)	1,571,950	—	—
Transfer from stage 1 to stage 3	(13,719)	—	13,719	—
Transfer from stage 2 to stage 3	—	(439,320)	439,320	—
Transfer from stage 2 to stage 1	1,157,647	(1,157,647)	—	—
Transfer from stage 3 to stage 2	—	96,627	(96,627)	—
Transfer from stage 3 to stage 1	100,956	—	(100,956)	—
Increase in loan portfolio and borrowing costs	3,931,507	74,769	57,746	4,064,022
Decrease in loan portfolio and borrowing costs	(2,473,480)	(192,589)	(63,058)	(2,729,127)
Increase-decrease in interest	11,151	(7,594)	(16,506)	(12,949)
Increase-decrease in other receivables associated with loans	78	195	220	493
Write-offs	(482)	(136)	(71,787)	(72,405)
FX and other movements	104,234	17,163	10,596	131,993
Total portfolio as of December 31, 2019	**Ps. 16,812,000**	**Ps. 1,299,159**	**Ps. 550,230**	**Ps. 18,661,389**

(Amounts expressed in millions of Colombian pesos)

Microcredit loan portfolio

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Loss allowance balance as of December 31, 2017- IAS 39	**Ps. 21,421**	**Ps. 7,477**	**Ps. 45,269**	**Ps. 74,167**
IFRS 9 adoption (1)	525	10,591	2	11,118
Loss allowance as of January 1, 2018 – IFRS 9	**21,946**	**18,068**	**45,271**	**85,285**
Transfers:				
Transfer from stage 1 to stage 2	(8,298)	8,298	—	—
Transfer from stage 1 to stage 3	(2,599)	—	2,599	—
Transfer from stage 2 to stage 3	—	(30,052)	30,052	—
Transfer from stage 3 to stage 2	—	1,961	(1,961)	—
Transfer from stage 2 to stage 1	6,305	(6,305)	—	—
Transfer from stage 3 to stage 1	6,062	—	(6,062)	—
Net remeasurement of loss allowance (3)	(8,285)	20,392	9,625	21,732
New financial assets originated or purchased	16,095	626	—	16,721
Financial assets that have been derecognized	(2,397)	(600)	(861)	(3,858)
Unwind of discount (2)	103	(381)	8,266	7,988
Write-offs	(5,584)	(45)	(34,062)	(39,691)
Loss allowance balance as of December 31, 2018	**Ps. 23,348**	**Ps. 11,962**	**Ps. 52,867**	**Ps. 88,177**
Transfers:				
Transfer from stage 1 to stage 2	(9,148)	9,148	—	—
Transfer from stage 1 to stage 3	(3,145)	—	3,145	—
Transfer from stage 2 to stage 3	—	(23,678)	23,678	—
Transfer from stage 3 to stage 2	—	2,539	(2,539)	—
Transfer from stage 2 to stage 1	5,854	(5,854)	—	—
Transfer from stage 3 to stage 1	945	—	(945)	—
Net remeasurement of loss allowance (3)	(3,610)	17,500	20,107	33,997
New financial assets originated or purchased	13,021	651	7	13,679
Financial assets that have been derecognized	(2,348)	(266)	(122)	(2,736)
Unwind of discount (2)	—	—	10,456	10,456
Write-offs	(123)	(83)	(53,542)	(53,748)
Loss allowance as of December 31, 2019	**Ps. 24,794**	**Ps. 11,919**	**Ps. 53,112**	**Ps. 89,825**

(1) Grupo Aval has initially adopted IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is no restated. See Notes 2 (2.4) (C)

(2) The unwind of discount on Stage 3 financial assets is reported within "interest income" so that interest income is recognized on the amortized cost (after deducting the ECL allowance)

(3) This amount includes impact of the measurement of ECL due to changes made in PDs/LGDs/EADs and changes made to model assumptions and methodologies from the opening to the closing balance. The following table shows the impact by stage estimated using all parameters as of December 31, 2018 versus parameters as of December 31, 2019 and the loan portfolio as of December 31, 2019.

December 31, 2019			
Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Ps. 1,207	Ps. (188)	Ps. (531)	Ps. 488

(Amounts expressed in millions of Colombian pesos)

December 31, 2018			
Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Ps. 541	Ps. (5,338)	Ps. 47	Ps. (4,750)

The following table further explains changes in the gross carrying amount of the microcredit portfolio to help explain their significance to the changes in the allowance for the same portfolio as discussed above:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Total portfolio as of December 31, 2017	**Ps. 333,346**	**Ps. 28,381**	**Ps. 47,961**	**Ps. 409,688**
Transfers:				
Transfer from stage 1 to stage 2	(57,561)	57,561	—	—
Transfer from stage 1 to stage 3	(14,127)	—	14,127	—
Transfer from stage 2 to stage 3	—	(46,429)	46,429	—
Transfer from stage 2 to stage 1	14,370	(14,370)	—	—
Transfer from stage 3 to stage 2	—	4,213	(4,213)	—
Transfer from stage 3 to stage 1	9,506	—	(9,506)	—
Increase in loan portfolio and borrowing costs	302,414	1,938	23,729	328,081
Decrease in loan portfolio and borrowing costs	(240,686)	(6,667)	(38,132)	(285,485)
Increase-decrease in interest	3,044	792	9,268	13,104
Write-offs	(5,584)	(45)	(34,062)	(39,691)
Total portfolio as of December 31, 2018	**Ps. 344,722**	**Ps. 25,374**	**Ps. 55,601**	**Ps. 425,697**
Transfers:				
Transfer from stage 1 to stage 2	(60,329)	60,329	—	—
Transfer from stage 1 to stage 3	(15,698)	—	15,698	—
Transfer from stage 2 to stage 3	—	(47,227)	47,227	—
Transfer from stage 2 to stage 1	13,553	(13,553)	—	—
Transfer from stage 3 to stage 2	—	4,530	(4,530)	—
Transfer from stage 3 to stage 1	1,795	—	(1,795)	—
Increase in loan portfolio and borrowing costs	301,822	2,239	36,150	340,211
Decrease in loan portfolio and borrowing costs	(258,304)	(7,537)	(46,651)	(312,492)
Increase-decrease in interest	2,484	729	7,439	10,652
Write-offs	(123)	(83)	(53,542)	(53,748)
Total portfolio as of December 31, 2019	**Ps. 329,922**	**Ps. 24,801**	**Ps. 55,597**	**Ps. 410,320**

(Amounts expressed in millions of Colombian pesos)

Financial leasing loan portfolio

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Loss allowance balance as of December 31, 2017- IAS 39	**Ps. 42,838**	**Ps. 17,447**	**Ps. 237,034**	**Ps. 297,319**
IFRS 9 adoption (1)	23,713	17,882	1,249	42,844
Loss allowance as of January 1, 2018 – IFRS 9	**66,551**	**35,329**	**238,283**	**340,163**
Transfers:				
Transfer from stage 1 to stage 2	(3,632)	3,632	—	—
Transfer from stage 1 to stage 3	(3,573)	—	3,573	—
Transfer from stage 2 to stage 3	—	(6,981)	6,981	—
Transfer from stage 3 to stage 2	—	3,616	(3,616)	—
Transfer from stage 2 to stage 1	13,169	(13,169)	—	—
Transfer from stage 3 to stage 1	6,445	—	(6,445)	—
Net remeasurement of loss allowance (3)	(5,673)	9,188	241,806	245,321
New financial assets originated or purchased	23,481	3,095	10,406	36,982
Financial assets that have been derecognized	(24,519)	(3,977)	(47,021)	(75,517)
Unwind of discount (2)	13	(156)	20,542	20,399
FX and other movements	3	—	158	161
Entity deconsolidation	—	—	2,307	2,307
Write-offs	(44)	(143)	(98,622)	(98,809)
Loss allowance balance as of December 31, 2018	**Ps. 72,221**	**Ps. 30,434**	**Ps. 368,352**	**Ps. 471,007**
Transfers:				
Transfer from stage 1 to stage 2	(5,213)	5,213	—	—
Transfer from stage 1 to stage 3	(9,950)	—	9,950	—
Transfer from stage 2 to stage 3	—	(8,681)	8,681	—
Transfer from stage 3 to stage 2	—	5,087	(5,087)	—
Transfer from stage 2 to stage 1	9,413	(9,413)	—	—
Transfer from stage 3 to stage 1	5,996	—	(5,996)	—
Net remeasurement of loss allowance (3)	(24,072)	6,610	96,786	79,324
New financial assets originated or purchased	21,475	3,237	35,444	60,156
Financial assets that have been derecognized	(5,189)	(1,308)	(8,081)	(14,578)
Unwind of discount (2)	—	—	27,378	27,378
FX and other movements	1,360	329	(1,811)	(122)
Write-offs	(178)	(152)	(121,010)	(121,340)
Loss allowance as of December 31, 2019	**Ps. 65,863**	**Ps. 31,356**	**Ps. 404,606**	**Ps. 501,825**

(1) Grupo Aval has initially adopted IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.4) (C)

(2) The unwind of discount on Stage 3 financial assets is reported within "interest income" so that interest income is recognized on the amortized cost (after deducting the ECL allowance)

(3) This amount includes impact of the measurement of ECL due to changes made in PDs/LGDs/EADs and changes made to model assumptions and methodologies from the opening to the closing balance. The following table shows the impact by stage estimated using all parameters as of December 31, 2018 versus parameters as of December 31, 2019 and the loan portfolio as of December 31, 2019.

(Amounts expressed in millions of Colombian pesos)

December 31, 2019			
Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Ps. 1,816	Ps. 1,333	Ps. (588)	Ps. 2,561

December 31, 2018			
Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Ps. 5,627	Ps. (1,023)	Ps. 10	Ps. 4,614

The following table further explains changes in the gross carrying amount of the financial lease portfolio to help explain their significance to the changes in the allowance for the same portfolio as discussed above:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Total portfolio as of December 31, 2017	**Ps. 9,672,401**	**Ps. 555,113**	**Ps. 701,786**	**Ps. 10,929,300**
Transfers:				
Transfer from stage 1 to stage 2	(376,673)	376,673	—	—
Transfer from stage 1 to stage 3	(302,428)	—	302,428	—
Transfer from stage 2 to stage 3	—	(152,167)	152,167	—
Transfer from stage 2 to stage 1	359,423	(359,423)	—	—
Transfer from stage 3 to stage 2	—	21,365	(21,365)	—
Transfer from stage 3 to stage 1	56,628	—	(56,628)	—
Increase in loan portfolio and borrowing costs	2,726,095	19,798	53,799	2,799,692
Decrease in loan portfolio and borrowing costs	(2,184,975)	(139,007)	(137,582)	(2,461,564)
Increase-decrease in interest	(8,609)	5,898	61,497	58,786
Increase-decrease in other receivables associated with loans	6,491	684	3,805	10,980
Write-offs	(44)	(143)	(98,622)	(98,809)
Entity deconsolidation	—	—	2,019	2,019
FX and other movements	184,061	1,155	556	185,772
Total portfolio as of December 31, 2018	**Ps. 10,132,370**	**Ps. 329,946**	**Ps. 963,860**	**Ps. 11,426,176**
Transfers:				
Transfer from stage 1 to stage 2	(473,289)	473,289	—	—
Transfer from stage 1 to stage 3	(252,784)	—	252,784	—
Transfer from stage 2 to stage 3	—	(91,776)	91,776	—
Transfer from stage 2 to stage 1	222,745	(222,745)	—	—
Transfer from stage 3 to stage 2	—	22,190	(22,190)	—
Transfer from stage 3 to stage 1	44,799	—	(44,799)	—
Increase in loan portfolio and borrowing costs	3,508,579	70,483	37,124	3,616,186
Decrease in loan portfolio and borrowing costs	(2,634,760)	(138,696)	(180,358)	(2,953,814)
Increase-decrease in interest	1,378	517	64,775	66,670
Increase-decrease in other receivables associated with loans	7,668	113	3,820	11,601
Write-offs	(178)	(152)	(121,010)	(121,340)
FX and other movements	111,778	3,871	629	116,278
Total portfolio as of December 31, 2019	**Ps. 10,668,306**	**Ps. 447,040**	**Ps. 1,046,411**	**Ps. 12,161,757**

(Amounts expressed in millions of Colombian pesos)

Investments in debt securities at FVOCI

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Loss allowance balance as of December 31, 2017- IAS 39	**Ps. —**	**Ps. —**	**Ps. 71,708**	**Ps. 71,708**
IFRS 9 adoption [(1)]	18,665	31,714	5,819	56,198
Loss allowance as of January 1, 2018 – IFRS 9	**Ps. 18,665**	**Ps. 31,714**	**Ps. 77,527**	**Ps. 127,906**
Transfers:				
Transfer from stage 1 to stage 2	(272)	272	—	—
Net remeasurement of loss allowance [(2)]	(2,361)	(28)	18,158	15,769
New financial assets originated or purchased	12,018	450	—	12,468
Financial assets that have been derecognized	(7,937)	(2,688)	(49,421)	(60,046)
FX and other movements	644	2,260	16	2,920
Loss allowance balance as of December 31, 2018	**Ps. 20,757**	**Ps. 31,980**	**Ps. 46,280**	**Ps. 99,017**
Net remeasurement of loss allowance [(2)]	(7,696)	(3,564)	(55)	(11,315)
New financial assets originated or purchased	34,575	—	—	34,575
Financial assets that have been derecognized	(3,729)	(27,440)	(45,602)	(76,771)
FX and other movements	(9,827)	(976)	(623)	(11,426)
Loss allowance as of December 31, 2019	**Ps. 34,080**	**Ps. —**	**Ps. —**	**Ps. 34,080**

(1) Grupo Aval has initially adopted IFRS9 as of January 1,2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.4) (C)

(2) This amount includes impact of the measurement of ECL due to changes made in PDs/LGDs/EADs and changes made to model assumptions and methodologies from the opening to the closing balance. The following table shows the impact by stage estimated using all parameters as of December 31, 2018 versus parameters as of December 31, 2019 and the loan portfolio as of December 31, 2019.

December 31, 2019			
Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Ps. (1,709)	Ps. —	Ps. —	Ps. (1,709)

December 31, 2018			
Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Ps. 198	Ps. —	Ps. —	Ps. 198

(Amounts expressed in millions of Colombian pesos)

Investments in debt securities at amortized cost

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Loss allowance balance as of December 31, 2017- IAS 39	Ps. —	Ps. —	Ps. —	Ps. —
IFRS 9 adoption [1]	672	—	—	**672**
Loss allowance as of January 1, 2018 – IFRS 9	**Ps. 672**	**Ps. —**	**Ps. —**	**Ps. 672**
Net remeasurement of loss allowance [2]	(90)	—	—	(90)
New financial assets originated or purchased	59	—	—	59
Financial assets that have been derecognized	(667)	—	—	(667)
FX and other movements	97	—	—	97
Loss allowance balance as of December 31, 2018	**Ps. 71**	**Ps. —**	**Ps. —**	**Ps. 71**
Net remeasurement of loss allowance [2]	(615)	—	—	(615)
New financial assets originated or purchased	1,353	—	—	1,353
Financial assets that have been derecognized	(64)	—	—	(64)
FX and other movements	(8)	—	—	(8)
Loss allowance as of December 31, 2019	**Ps. 737**	**Ps. —**	**Ps. —**	**Ps. 737**

(1) Grupo Aval has initially adopted IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.4) (C)

(2) This amount includes impact of the measurement of ECL due to changes made in PDs/LGDs/EADs and changes made to model assumptions and methodologies from the opening to the closing balance. The following table shows the impact by stage estimated using all parameters as of December 31, 2018 versus parameters as of December 31,2019 and the loan portfolio as of December 31,2019.

December 31, 2019			
Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Ps. 211	Ps. —	Ps. —	Ps. 211

December 31, 2018			
Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Ps. 3	Ps. —	Ps. —	Ps. 3

(Amounts expressed in millions of Colombian pesos)

Other accounts receivable

General approach

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Loss allowance balance as of December 31, 2017- IAS 39	**Ps. 12,911**	Ps. **5,909**	Ps. **70,611**	Ps. **89,431**
IFRS 9 adoption [(1)]	4,021	3,751	1,797	9,569
Loss allowance as of January 1, 2018 – IFRS 9	**16,932**	**9,660**	**72,408**	**99,000**
Net remeasurement of loss allowance	19,439	1,901	(6,081)	15,259
FX and other movements	(2)	—	—	(2)
Write-offs	(16,669)	—	—	(16,669)
Loss allowance as of December 31, 2018	**Ps. 19,700**	**Ps. 11,561**	**Ps. 66,327**	**Ps. 97,588**
Transfers stages				
Transfer from Stage 1 to Stage 3	(19,176)	—	19,176	—
Transfer from Stage 2 to Stage 3	—	(754)	754	—
Net remeasurement of loss allowance	8,062	4,160	28,041	40,263
FX and other movements	(21)	(6)	(23)	(50)
Approach change	8,996	(1,421)	(10,170)	(2,595)
Write-offs	(4,208)	(534)	(17,308)	(22,050)
Loss allowance as of December 31, 2019	**Ps. 13,353**	**Ps. 13,006**	**Ps. 86,797**	**Ps. 113,156**

(1) Grupo Aval has initially adopted IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.4) (C)

Simplified approach

	Loss allowance
Balance as of December 31, 2017- IAS 39	**Ps. 137,431**
IFRS 9 adoption [(1)]	9,338
Loss allowance as of January 1, 2018 – IFRS 9	**Ps. 146,769**
Entity deconsolidation	6,731
Provision charged to profit or loss	65,230
Recovery for partial payments from the clients	(12,373)
Write-offs	(47,309)
Exchange gains (losses) in foreign currency	255
Loss allowance as of December 31, 2018	**Ps. 159,303**
Entity deconsolidation	(56)
Provision charged to profit or loss	35,506
Recovery for partial payments from the clients	(11,129)
Write-offs	(13,097)
Approach change	2,595
Exchange gains (losses) in foreign currency	185
Loss allowance as of December 31, 2019	**Ps. 173,307**

(1) Grupo Aval has initially adopted IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.4) (C)

(Amounts expressed in millions of Colombian pesos)

Loan commitments and financial guarantee contracts

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Loss allowance balance as of December 31, 2017- IAS 39	**Ps. 23,922**	**Ps. 1,719**	**Ps. 4,034**	**Ps. 29,675**
IFRS 9 adoption (1)	13,381	3,085	(249)	16,217
Loss allowance as of January 1, 2018 – IFRS 9	**37,303**	**4,804**	**3,785**	**45,892**
Transfers:				
Transfer from stage 1 to stage 2	(2,350)	2,350	—	—
Transfer from stage 1 to stage 3	(2,167)	—	2,167	—
Transfer from stage 2 to stage 3	—	(156)	156	—
Transfer from stage 3 to stage 2	—	13	(13)	—
Transfer from stage 2 to stage 1	1,816	(1,816)	—	—
Transfer from stage 3 to stage 1	26	—	(26)	—
Net remeasurement of loss allowance	2,732	11,071	(5,009)	8,794
New loan commitments and financial guarantees issued	3,186	(1,909)	3,295	4,572
FX and other movements	169	1	—	170
Loss allowance as of December 31, 2018	**Ps. 40,715**	**Ps. 14,358**	**Ps. 4,355**	**Ps. 59,428**
Transfers:				
Transfer from stage 1 to stage 2	(529)	529	—	—
Transfer from stage 1 to stage 3	(172)	—	172	—
Transfer from stage 2 to stage 3	—	(173)	173	—
Transfer from stage 3 to stage 2	—	—	—	—
Transfer from stage 2 to stage 1	8,116	(8,116)	—	—
Transfer from stage 3 to stage 1	3,582	—	(3,582)	—
Net remeasurement of loss allowance	(29,069)	(4,528)	(238)	(33,835)
New loan commitments and financial guarantees issued	22,613	875	627	24,115
FX and other movements	253	—	1	254
Loss allowance as of December 31, 2019	**Ps. 45,509**	**Ps. 2,945**	**Ps. 1,508**	**Ps. 49,962**

(1) Grupo Aval has initially adopted IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.4) (C)

4.1.6 Concentrations of credit risk

Loan portfolio

Policies to prevent excessive credit-risk concentration

In order to prevent excessive concentrations of credit risk at an individual, economic group, country or economic sectors level, each financial subsidiary of Grupo Aval maintains updated exposure thresholds to limit concentration. The exposure limit by a financial subsidiary of Grupo Aval to an individual client or economic group depends on the risk profile of the client (or economic group), the nature of the risk of the debtor and the experience of each financial subsidiary in a specific market or sector.

Concentration risk control is key to the risk management process. Grupo Aval´s financial subsidiaries monitor the degree of credit risk concentration by sector and customer group.

(Amounts expressed in millions of Colombian pesos)

In order to avoid credit risk concentration at Grupo Aval level, management relies on the financial subsidiaries Credit Risk Vice-Presidency or its equivalent, which consolidates, and monitors the credit risk exposures of all financial subsidiaries, to determine the maximum levels of concentration.

Pursuant to Colombian regulations, financial subsidiaries in Colombia cannot grant unsecured loans to borrowers, which on a combined basis exceed 10% of the financial subsidiary´s regulatory capital calculated according to the regulations of the Superintendency of Finance. Loans maybe more than 10% of the regulatory capital of the financial subsidiary when they are secured by acceptable collateral and/or certain guarantees.

Concentration by sector

Below is the credit portfolio distribution of Grupo Aval by economic sector as of December 31, 2019 and 2018:

Sector	December 31, 2019	%	December 31, 2018	%
Consumer services	Ps. 84,790,144	47 %	Ps. 78,976,887	45 %
Commercial services	37,925,996	21 %	41,160,951	23 %
Construction	11,550,042	6 %	11,093,895	6 %
Food, beverage and tobacco	8,941,375	5 %	8,128,767	5 %
Transportation and communications	6,504,746	4 %	7,117,087	4 %
Public services	5,470,918	3 %	6,123,390	4 %
Chemical production	5,847,362	3 %	5,614,918	3 %
Other industrial and manufacturing products	5,309,003	3 %	4,859,538	3 %
Agricultural	4,563,455	2 %	4,201,518	2 %
Government	4,905,685	3 %	3,868,987	2 %
Trade and tourism	2,475,550	1 %	2,353,139	1 %
Mining products and oil	1,520,420	1 %	1,094,718	1 %
Other	2,323,418	1 %	2,288,046	1 %
Total of each economic sector	**Ps. 182,128,114**	**100 %**	**Ps. 176,881,841**	**100 %**

Concentration by location

The detail of credit risk at the level of Grupo Aval in the different geographic areas determined according to the domicile of the debtor, without taking into consideration loan loss provisions as of December 31, 2019 and 2018 is as follows:

December 31, 2019	Commercial	Consumer	Mortgages	Microcredit	Finance leases [(1)]	Total
Colombia	Ps. 60,862,993	Ps. 39,442,151	Ps. 7,548,152	Ps. 410,320	Ps. 11,191,474	Ps. 119,455,090
Costa Rica	5,178,529	5,388,382	4,525,877	—	788,798	15,881,586
Panamá	5,402,278	5,900,357	2,444,897	—	83,198	13,830,730
Guatemala	6,174,541	2,881,174	1,805,626	—	52,051	10,913,392
Honduras	3,799,684	2,322,700	964,977	—	34,125	7,121,486
El Salvador	2,488,579	2,778,912	978,368	—	6,639	6,252,498
United States	4,853,155	13	—	—	—	4,853,168
Nicaragua	1,791,156	873,900	393,492	—	5,472	3,064,020
Other countries	755,804	340	—	—	—	756,144
Total gross loan portfolio	**Ps. 91,306,719**	**Ps. 59,587,929**	**Ps. 18,661,389**	**Ps. 410,320**	**Ps. 12,161,757**	**Ps. 182,128,114**

(1) See Note 4.1.1

(Amounts expressed in millions of Colombian pesos)

December 31, 2018	Commercial	Consumer	Mortgages	Microcredit	Finance leases (1)	Total
Colombia	Ps. 63,694,588	Ps. 35,912,585	Ps. 6,672,612	Ps. 425,697	Ps. 10,466,569	Ps. 117,172,051
Costa Rica	4,860,338	5,190,354	4,343,247	—	802,601	15,196,540
Panamá	5,464,198	5,618,362	2,381,741	—	109,927	13,574,228
Guatemala	5,536,851	2,593,606	1,617,341	—	31,786	9,779,584
Honduras	3,528,929	2,085,005	857,799	—	3,247	6,474,980
El Salvador	2,214,411	2,636,766	969,731	—	6,630	5,827,538
United States	4,549,526	742	—	—	—	4,550,268
Nicaragua	1,947,643	1,163,054	436,891	—	5,416	3,553,004
Other countries	753,541	107	—	—	—	753,648
Total gross loan portfolio	**Ps. 92,550,025**	**Ps. 55,200,581**	**Ps. 17,279,362**	**Ps. 425,697**	**Ps. 11,426,176**	**Ps. 176,881,841**

(1) See Note 4.1.1

Concentration by currency

The classification of loan portfolio by type of currency is as follows:

December 31, 2019	Colombian Pesos	Foreign currency	Total
Commercial	Ps. 55,647,778	Ps. 35,658,941	Ps. 91,306,719
Consumer	39,382,167	20,205,762	59,587,929
Residential mortgage	7,547,978	11,113,411	18,661,389
Microcredit	410,320	—	410,320
Financial leasing (1)	10,043,443	2,118,314	12,161,757
Total gross loan portfolio	**Ps. 113,031,686**	**Ps. 69,096,428**	**Ps. 182,128,114**

December 31, 2018	Colombian Pesos	Foreign currency	Total
Commercial	Ps. 57,651,220	Ps. 34,898,805	Ps. 92,550,025
Consumer	35,848,422	19,352,159	55,200,581
Residential mortgage	6,672,423	10,606,939	17,279,362
Microcredit	425,697	—	425,697
Financial leasing (1)	9,260,989	2,165,187	11,426,176
Total gross loan portfolio	**Ps. 109,858,751**	**Ps. 67,023,090**	**Ps. 176,881,841**

(1) See Note 4.1.1

Dollar is the maximum participation for loan portfolio in foreign currency with 37.9%, equivalent to U.S 21,084 million dollars.

(Amounts expressed in millions of Colombian pesos)

Investment debt securities

Grupo Aval entities monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from investment securities is shown below.

Concentration by sector

Trading debt securities (see note 8.1)

The balance of financial assets in investments in trading debt securities includes the following as of December 31 2019 and 2018:

	December 31, 2019	December 31, 2018
In Colombian Pesos		
Securities issued or secured by Colombian Government	Ps. 2,424,033	Ps. 2,210,108
Securities issued or secured by other Colombian Government entities	175,794	108,072
Securities issued or secured by other financial entities	1,402,094	972,789
Securities issued or secured by non-financial sector entities	33,942	29,122
Others	31,143	1,086
	Ps. 4,067,006	**Ps. 3,321,177**
In foreign currency		
Securities issued or secured by Colombian Government	1,727	60,534
Securities issued or secured by other Colombian Government entities	—	20,473
Securities issued or secured by foreign Governments	139,534	98,155
Securities issued or secured by central banks	13,966	12,914
Securities issued or secured by other financial entities	448,328	245,962
Others	2,552	3,763
	Ps. 606,107	**Ps. 441,801**
Total trading debt securities	**Ps. 4,673,113**	**Ps. 3,762,978**

Investments in debt securities mandatorily at FVTPL (see note 9.1)

The balance of financial assets in investments in debt securities mandatorily at FVTPL includes the following as of December 31 2019 and 2018:

	December 31, 2019	December 31, 2018
In Colombian Pesos		
Others	10,102	31,256
Total debt securities mandatorily at FVTPL	**Ps. 10,102**	**Ps. 31,256**

(Amounts expressed in millions of Colombian pesos)

Investments in debt securities at FVOCI

The balance of financial assets in investments in debt securities at FVOCI includes the following as of December 31, 2019 and 2018

	December 31, 2019	December 31, 2018
In Colombian Pesos		
Securities issued or secured by Colombian Government	Ps. 9,834,271	Ps. 9,256,358
Securities issued or secured by other Colombian Government entities	260,213	194,933
Securities issued or secured by other financial entities	495,863	388,019
Securities issued or secured by non-financial sector entities	25,733	27,708
Others	50,690	—
	Ps. 10,666,770	**Ps. 9,867,018**
In foreign currency		
Securities issued or secured by Colombian Government	1,809,671	1,269,416
Securities issued or secured by other Colombian Government entities	205,465	302,701
Securities issued or secured by foreign Governments	4,997,430	3,015,556
Securities issued or secured by central banks	970,095	1,131,740
Securities issued or secured by other financial entities	2,559,062	2,920,462
Securities issued or secured by non-financial sector entities	9,107	182,232
Others	391,392	246,632
	Ps. 10,942,222	**Ps. 9,068,739**
Total debt securities at FVOCI	**Ps. 21,608,992**	**Ps. 18,935,757**

Investments in debt securities at amortized cost

The balance of financial assets in investments in debt securities at amortized cost includes the following as of December 31 2019 and 2018:

	December 31, 2019	December 31, 2018
In Colombian Pesos		
Securities issued or secured by other Colombian Government entities	Ps. 3,029,802	Ps. 2,931,172
Securities issued or secured by other financial entities	1,017	9,123
	Ps. 3,030,819	**Ps. 2,940,295**
In foreign currency		
Securities issued or secured by foreign Governments	23,043	32,321
	Ps. 23,043	**Ps. 32,321**
Total investments in debt securities at amortized cost	**Ps. 3,053,862**	**Ps. 2,972,616**

(Amounts expressed in millions of Colombian pesos)

Concentration by location

	As of December 31,	
	2019	2018
Colombia	Ps. 20,026,227	Ps. 18,047,109
Costa Rica	3,006,686	1,674,052
United States of America	1,883,400	2,412,555
Guatemala	1,311,695	999,544
Panama	1,211,680	813,711
Honduras	621,311	586,275
Brazil	417,223	424,339
El Salvador	274,323	40,890
Peru	192,845	352,795
Chile	146,093	150,239
Multilateral – Bladex (Foreign Trade Bank of Latin America)	89,529	87,500
Nicaragua	79,300	64,918
Mexico	74,591	13,761
Multilateral – Central American Bank for Economic Integration	6,642	—
Barbados	4,524	—
Multilateral – Andean Development Corporation	—	31,156
BAC San José Liquid Fund (BAC San José Fondo Liquido – Riesgo País Mixto)	—	3,763
Total investments	**Ps. 29,346,069**	**Ps. 25,702,607**

Concentration by Sovereign Risk

As a general rule, Grupo Aval considers sovereign risk to be the risk assumed in deposits with Central Banks (including the mandatory deposits), investments in debt issues of the Colombian Government and the risk arising from transactions with public sector entities that have the following features: their funds are obtained only from fiscal income; they are legally recognized as entities directly included in the government sector; and their activities are of a non-commercial nature.

Sovereign risk exposure arises mainly from Grupo Aval's banking subsidiaries obligations to maintain certain mandatory deposits in Central Banks and from the fixed-income portfolios held as part of the on-balance-sheet structural interest rate risk management strategy and in the trading books of the treasury department. The majority of these exposures are denominated in pesos and are financed through peso denominated repurchase agreements or customer deposits.

As of December 31, 2019, and 2018, the investment portfolio of financial assets in debt instruments is comprised mainly of securities issued and guaranteed by entities of the Republic of Colombia, which represent 60.45% and 63.63%, respectively of the total portfolio.

(Amounts expressed in millions of Colombian pesos)

Below is the detail of Grupo Aval's sovereign debt portfolio issued by Central Governments per country:

	December 31, 2019			December 31, 2018		
			%			%
Investment grade (1)						
Colombia	Ps.	14,069,704	73.17 %	Ps.	12,796,415	80.27 %
Panama		770,854	4.01 %		550,674	3.45 %
United States of America		167,743	0.87 %		415,412	2.61 %
Chile		33,743	0.18 %		32,999	0.20 %
	Ps.	**15,042,044**	**78.22 %**	**Ps.**	**13,795,500**	**86.53 %**
Speculative (2)						
Barbados		4,524	0.02 %		—	— %
Costa Rica		2,817,392	14.65 %		1,437,850	9.02 %
Honduras		403,813	2.10 %		402,275	2.52 %
Guatemala		645,802	3.36 %		265,932	1.67 %
El Salvador		236,837	1.23 %		40,890	0.26 %
Nicaragua		79,300	0.41 %		—	0.00 %
	Ps.	**4,187,668**	**21.78 %**	**Ps.**	**2,146,947**	**13.47 %**
	Ps.	**19,229,712**	**100.00 %**	**Ps.**	**15,942,447**	**100.00 %**

Below is the detail of Grupo Aval's debt portfolio issued by Central Banks:

	December 31, 2019			December 31, 2018		
			%			%
Investment Grade (1)	Ps.	—	— %	Ps.	—	— %
Speculative (2)						
Guatemala	Ps.	623,656	63.38 %	Ps.	686,970	60.02 %
Costa Rica		167,379	17.01 %		208,766	18.24 %
Honduras		193,026	19.62 %		184,000	16.07 %
Nicaragua		—	— %		64,918	5.67 %
	Ps.	**984,061**	**100.00 %**	**Ps.**	**1,144,654**	**100.00 %**
Total sovereign risk	**Ps.**	**20,213,773**		**Ps.**	**17,087,101**	

(1) Investment grade includes the risk rating of Fitch Ratings Colombia S.A o F1+ to F3, BRC of Colombia from BRC 1+ to BRC 3 and Standard & Poor's from AAA to BBB-.

(2) Speculative or non-investment grade level includes the risk rating of Fitch Ratings Colombia S.A. from B to E, BRC de Colombia from BRC 4 to BRC 6 and Standard & Poor's from BB+ to D.

4.1.7 Modified Financial Assets - troubled debt restructuring business process.

Each financial subsidiary of Grupo Aval periodically carries out, at the request of the client, restructurings of obligations which have become troubled. Such restructurings generally consist of extensions of tenors, decrease of interest rates, partial write-off of indebtedness or payment with assets of the debtor or guarantor.

Our banking subsidiaries follow highly rigorous definitions and policies in this management process, so that it is performed in accordance with the best practices and in strict compliance with regulatory requirements. In connection to this, Grupo Aval´s banking subsidiaries have a detailed policy with regard to the aforementioned transactions.

The objective of granting such restructurings is to provide the client with a viable alternative to meet its obligations to the bank and to adapt to changing conditions.

(Amounts expressed in millions of Colombian pesos)

When a loan is restructured due to a debtor´s financial difficulties, the debt is flagged within the records of each bank as a restructured credit in accordance with the regulations of the Superintendency of Finance. The restructuring process has a negative impact on the debtor's rating, which can only be improved when the client has complied during a prudent period with the terms of the restructurings, its financial condition has improved or when sufficient additional guarantees have been obtained.

Restructured loans are included for impairment evaluation and determination of provisions. However, the marking of a credit as restructured does not necessarily imply its rating is impaired, because in some cases new guarantees are obtained supporting the obligation.

The following is the balance of restructured loans as of December 31, 2019 and 2018:

Restructured loans		**December 31, 2019**		**December 31, 2018**
Local currency	Ps.	2,611,573	Ps.	2,693,018
Foreign currency		1,779,598		1,275,565
Total restructured	**Ps.**	**4,391,171**	**Ps.**	**3,968,583**

4.1.8 Foreclosed assets business process

When persuasive collection processes or credit restructurings are not effective, a legal proceeding is carried out or an agreement is reached with the client for the receipt of assets as payment. Each subsidiary of the financial sector has clearly established policies for receiving assets and has a separate department specialized in the management of these cases and in charge of their eventual sale or liquidation.

During the years ended December 31, 2019 and 2018, the following is the total of foreclosed assets received and sold during such periods:

		December 31, 2019		**December 31, 2018**
Foreclosed assets received	Ps.	297,481	Ps.	188,245
Foreclosed assets sold		133,512		52,785

4.1.9 Loan commitments and financial guarantee contracts

As part of our operations, Grupo Aval grants guarantees and letters of credit to its customers wherein Grupo Aval financial subsidiaries are irrevocably committed to make payments to third parties when customers do not comply with their obligations with such third parties. These products have the same policies for approval of disbursements of loans regarding client's credit risk and guarantees required according to the circumstances of each client.

The commitments for credit extension represent unused portions of authorizations to grant loans, use of credit cards, overdraft limits and letters of credit. With respect to credit risk over commitments to extend credit lines, Grupo Aval is potentially exposed to credit risk in an amount equal to the total amount of unused commitments, if the unused amount were to be withdrawn in whole. However, the amount of the loss is less that the total amount of commitments unused, since most commitments to extend credits are contingent on the customer maintaining specific credit risk standards.

Grupo Aval monitors maturity terms of commitments regarding credit facilities, because long-term commitments have a higher credit risk than short-term commitments.

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

Following is the detail of the guarantees, letters of credit and credit commitments on non-used credit lines as of December 31, 2019 and 2018.

(Amounts expressed in millions of Colombian pesos)

Loan commitments and financial guarantee contracts

	December 31, 2019		December 31, 2018	
	Notional amount		Notional amount	
Guarantees	Ps.	3,341,641	Ps.	3,446,601
Unused letters of credit		1,133,385		1,186,691
Unused limits of overdrafts		67,126		306,740
Unused credit card limits		23,125,249		20,816,061
Other		4,487,203		5,169,588
Total	**Ps.**	**32,154,604**	**Ps.**	**30,925,681**

The following is the detail of the credit commitments by type of currency:

	December 31, 2019		December 31, 2018	
Colombian Pesos	Ps.	14,914,209	Ps.	14,918,915
U.S. dollars		13,750,968		12,885,921
Euro		3,292,845		2,892,670
Other		196,582		228,175
Total	**Ps.**	**32,154,604**	**Ps.**	**30,925,681**

4.1.10 Offset of financial assets and financial liabilities

The disclosures set out in the following tables include financial assets and financial liabilities that:

- Are offset in the Group's statement of financial position; or
- Are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The 'similar agreements' include derivative clearing agreements; global master repurchase agreements and global master securities lending agreements. Similar financial instruments include derivatives, sale-and-repurchase agreements, reverse sale-and-repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the following tables unless they are offset in the statement of financial position.

The ISDA (International Swaps and Derivatives Association) and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of Grupo Aval or of the counterparties or following other predetermined events. In addition, Grupo Aval and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Grupo Aval receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:

- Derivatives; and
- Sale-and-repurchase, and reverse sale-and-repurchase agreements.

This collateral is subject to standard industry terms including, when appropriate, an ISDA credit support annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

(Amounts expressed in millions of Colombian pesos)

The gross amounts of financial assets and financial liabilities and their net amounts disclosed in the above tables have been measured in the statement of financial position on the following bases:

- Derivative assets and liabilities – fair value;
- Assets and liabilities resulting from sale-and-repurchase agreements, reverse sale-and repurchase agreements and securities lending and borrowing – amortized cost;

The following is the detail of the financial instruments subject to offset contractually required as of December 31, 2019 and 2018:

December 31, 2019

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Cash collateral Received	Net Exposure
Offsetting assets						
Derivatives	Ps. 1,084,032	Ps. —	Ps. 1,084,032	Ps. (314,891)	Ps. (42,157)	Ps. 726,984
Repurchase agreements	401,464	—	401,464	(319,748)	—	81,716
Total	**Ps. 1,485,496**	**Ps. —**	**Ps. 1,485,496**	**Ps. (634,639)**	**Ps. (42,157)**	**Ps. 808,700**

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Cash collateral Received	Net Exposure
Offsetting liabilities						
Derivatives	Ps. 1,056,736	Ps. —	Ps. 1,056,736	Ps. (28,587)	Ps. (80,775)	Ps. 947,374
Repurchase agreements	7,458,662	—	7,458,662	(7,607,482)	—	(148,820)
Total	**Ps. 8,515,398**	**Ps. —**	**Ps. 8,515,398**	**Ps. (7,636,069)**	**Ps. (80,775)**	**Ps. 798,554**

December 31, 2018

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Cash collateral Received	Net Exposure
Offsetting assets						
Derivatives	Ps. 798,824	Ps. —	Ps. 798,824	Ps. (199,773)	Ps. (265,361)	Ps. 333,690
Repurchase agreements	4,607,862	—	4,607,862	(4,348,344)	(50,515)	209,003
Total	**Ps. 5,406,686**	**Ps. —**	**Ps. 5,406,686**	**Ps. (4,548,117)**	**Ps. (315,876)**	**Ps. 542,693**

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Cash collateral Received	Net Exposure
Offsetting liabilities						
Derivatives	Ps. 1,006,844	Ps. —	Ps. 1,006,844	Ps. (10,116)	Ps. (50,982)	Ps. 945,746
Repurchase agreements	5,068,481	—	5,068,481	(5,169,598)	—	(101,117)
Total	**Ps. 6,075,325**	**Ps. —**	**Ps. 6,075,325**	**Ps. (5,179,714)**	**Ps. (50,982)**	**Ps. 844,629**

4.2 Market Risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses in a position or in the portfolio.

Grupo Aval´s financial subsidiaries (namely Banco de Bogotá, Banco de Occidente, Banco Popular, Banco AV Villas, Corficolombiana, AFP Porvenir and the trust companies (Fiduciarias) of the financial subsidiaries) actively participate in money markets, foreign exchange markets and capital markets, for both of their books (for balance sheet risk management and trading) and to provide financial services to their customers. This is done subject to established policies and risk levels. In that regard, they manage different financial asset portfolios within the allowed limits and risk levels.

Market risk arises from the open positions of Grupo Aval´s financial subsidiaries in debt securities investment portfolios, derivatives and equity instruments. These risks are created by changes in factors such as interest rates, inflation, foreign currency exchange rates, share prices, credit margins of instruments and their volatility, as well as the liquidity in the markets where Grupo Aval operates.

The various business units and trading desks are responsible for ensuring that market risk exposures are well-managed and prudent. The risk management groups and the management help ensure that these risks are measured and closely monitored. A variety of limits and controls are designed to control price and liquidity risk. Market risk is monitored through various measures: statistically (using Value-at-Risk models and related analytical measures); by measures of position sensitivity; and through routine stress testing conducted in collaboration with the business units by the Market Risk Unit. The material risks identified by these processes are summarized in reports produced by the Market Risk Unit that are circulated to, and discussed with, senior management.

For purposes of this analysis, market risk has been segmented into two categories; trading book risk due to changes in interest rates and exchange rates, and the price risks of investments in equity securities and mutual funds.

4.2.1 Trading Book Risk

Grupo Aval´s financial subsidiaries trade financial instruments for various reasons. The following are the main ones.

- To offer products tailored to specific customer needs. Some of these products are designed to hedge the financial risks of customers.
- To take advantage of arbitrage among different yield curves, assets and markets, and to obtain returns with an adequate use of capital.
- To hedge asset and liability risk positions on proprietary positions, to act on behalf of customers or to take advantage of arbitrage opportunities mainly in foreign exchange and interest rates in both local and foreign markets.

In carrying out these operations, Grupo Aval´s financial subsidiaries take risks, within a set of predetermined limits. These risks are mitigated with the use of derivative products and other financial instruments but mainly with the accomplishment of stablished limits that are permanently monitored by risk.

(Amounts expressed in millions of Colombian pesos)

The following is a breakdown of Grupo Aval's financial assets and liabilities exposed to trading risk held at December 31, 2019 and 2018.

Account		December 31, 2019		December 31, 2018
Financial assets				
Debt financial assets				
Trading	Ps.	4,673,113	Ps.	3,762,978
Investments in debt securities at FVTPL		10,102		31,256
Investments in debt securities at FVOCI		21,608,992		18,935,757
Total debt securities	Ps.	**26,292,207**	Ps.	**22,729,991**
Derivative assets instruments	Ps.	917,434	Ps.	768,686
Hedging derivatives assets		166,598		30,138
		1,084,032		**798,824**
Total financial assets	**Ps.**	**27,376,239**	**Ps.**	**23,528,815**
Liabilities				
Derivative liabilities instruments		962,438		811,305
Hedging derivatives liabilities		94,298		195,539
Total financial liabilities		**1,056,736**		**1,006,844**
Net position	**Ps.**	**26,319,503**	**Ps.**	**22,521,971**

4.2.2 Description of Objectives, Policies and Processes to Manage Trading Risk

The financial subsidiaries of Grupo Aval participate in money markets, foreign exchange markets and capital markets to meet their needs and those of their customers, pursuant to established policies and risk levels. In this respect, they manage different portfolios of financial assets within the limits and risk levels allowed.

The risks assumed by Grupo Aval´s financial subsidiaries in transactions related to the trading or treasury book are consistent with the overall business strategy; which is based on the market depth for each instrument, its impact on risk-weighted assets and regulatory capital, the profit budget established for each business unit, and the balance sheet structure.

Business strategies are established on the basis of approved limits, in an effort to balance the risk / return relationship. Moreover, there is a structure of limits consistent with Grupo Aval's general philosophy and is based on capital levels, earnings performance and risk tolerance.

The Market Risk Management System (SARM in Spanish) allows Grupo Aval´s financial subsidiaries to identify, measure, control and monitor the market risk they are exposed to in carrying out their operations.

There are several scenarios in which Grupo Aval´s financial subsidiaries are exposed to trading risks.

- Interest Rate Risk

Grupo Aval's financial subsidiaries are exposed to interest rate risk as a result of its market-making activities and proprietary trading in interest rate sensitive financial instruments (e.g., risk arising from changes in the level or implied volatility of interest rates, the timing of mortgage prepayments, the shape of the yield curve and credit spreads for credit sensitive instruments).

- Foreign Exchange Risk

Grupo Aval's financial subsidiary's portfolios are exposed to foreign exchange rate and implied volatility risk as a result of market making negotiation in foreign currencies and from maintaining foreign exchange positions.

- Equity Price Risk and Mutual Fund Risk

Grupo Aval´s financial subsidiaries are exposed to equity price risk in specific investments and are exposed to mutual fund risk in short term investments in money market or mutual funds.

4.2.2.1 Risk Management

Grupo Aval financial subsidiaries manage their trading positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging through the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (e.g., futures, forwards, swaps and options). The financial subsidiaries manage their market risk associated with its trading activities on a decentralized basis, even though the Holding supervises the amount of risk taken in order to ensure that its global exposure limits are observed.

Senior management and the boards of directors of the banking and its financial subsidiaries play an active role in managing and controlling risk. They do so by analyzing a protocol of established reports and presiding over a number of committees that comprehensively monitor - both technically and fundamentally - the different variables that influence domestic and foreign markets. This process is intended to support strategic decisions.

Analyzing and monitoring the risks that Grupo Aval´s financial subsidiaries take in their operations is essential for decision making and to assess potential effects on its profit or loss. An ongoing analysis of macroeconomic conditions is necessary in order to achieve an ideal combination of risk, return and liquidity.

The risks assumed in financial operations are reflected in a limit structure that includes different types of instruments, specific trading strategies, the market depth in which Grupo Aval´s financial subsidiaries operate, the impact on risk-weighted assets and regulatory capital, as well as the balance sheet structure, according to its risk framework. These limits are monitored daily and reported weekly to the Board of Directors of Grupo Aval´s financial subsidiaries.

In order to minimize interest rate and exchange rate risks in specific positions and transactions, Grupo Aval´s financial subsidiaries manage hedging strategies by taking positions in derivative instruments such as non-deliverable forwards (NDF) related to securities, money market transactions and foreign exchange forwards.

4.2.2.2 Methods Used to Measure Trading Risk

The Market Risk Department independently reviews the Company's trading portfolios on a regular basis from a market risk perspective utilizing VaR (internal models and standard) and other quantitative and qualitative risk measures and analyses. Each trading business and the market risk departments also use, as appropriate, measures such as sensitivity to changes in interest rates, prices, implied volatilities and time decay to monitor and report market risk exposures. Stress testing, which measures the impact on the value of existing portfolios of specified changes in market factors for certain products, is performed periodically and is reviewed by risk areas and trading areas. Reports summarizing material risk exposures are produced by the market risk areas and are disseminated to senior management.

The Boards of Directors and the Risk Committees of Grupo Aval´s financial subsidiaries approve a framework of limits based on the value-at-risk related to the annual budget.

Regulatory VaR (standard calculation)

The Regulatory VaR calculation is primarily used for the Superintendency of Finance's solvency ratio calculations. Each bank has standard models for capital purposes; however, they also maintain internal models in order to manage their day to day risk and profit decisions.

The Superintendency of Finance methodology is based on the Basel II model. This model applies only to the financial subsidiaries' investment portfolio and excludes investments classified as "held to maturity" and other specific non-trading positions. Total market risk is calculated on a daily basis by aggregating the VaR for each risk exposure category on a ten-day horizon using risk factors calculated in extreme market stress scenarios. VaR at month-end comprises part of the capital adequacy ratio calculation (as set forth in Decree 2555 of 2010). The Superintendency of Finance's rules require the financial subsidiaries to calculate VaR for the following risk factors: interest rate risk, foreign exchange rate risk, variations in stock price risk and fund risk; correlations between risk factors are not considered. The fluctuations in the portfolio's VaR depend on sensitivity factors determined by the Superintendency of Finance, modified duration and changes in balances outstanding. The ten-day horizon is defined as the average time in which an entity could sell a trading position in the market.

The VaR calculation for each subsidiary of the financial sector is the aggregate of the VaR of the entity and its subsidiaries.

These methods are used to determine the occurrence of potential losses among the different business units. The methods also allow comparisons of activities in different markets and identification of the riskiest positions in treasury activities. These tools are also used to determine limits on traders' positions and to review positions and strategies rapidly in response to changes in market conditions. VaR models have inherent limitations, partially because they rely on historical data, which may not be an indicative of future market conditions. VaR models could overestimate or underestimate the value at risk if market conditions vary significantly and they do not calculate the greatest possible loss. That's why each company uses additional measurement tools in order to compensate for the VaR limitations; therefore, Expected Shortfall analysis, stress test and back tests are part of the risk measurement tools in the financial subsidiaries. The methods used to measure VaR are assessed regularly and back-tested to check their efficiency.

Grupo Aval´s financial subsidiaries have tools to carry out portfolio stress and/or sensitivity tests, using extreme scenario simulations. Additionally, there are limits according to the "risk type" associated with each of the instruments comprising the different portfolios. These limits are related to sensitivity or impact on the value of the portfolio as a result of fluctuations of specific risk factors such as: interest rate (Rho), exchange rate (Delta) and volatility (Vega).

Grupo Aval´s financial subsidiaries have counterparty and trading limits for each trader for the different trading platforms in the markets where they operate. These limits are controlled daily by the back and middle offices of each entity. Trading limits for individual traders are assigned based upon the individual´s level in the organization, market and trading experience and product and portfolio management knowledge.

There is also a process to monitor the prices of fixed-income bonds issued abroad published by Precia, the local investment price provider. Financial subsidiaries monitor daily if there are any significant differences in prices provided by Precia and those observed on other sources of information such as the Bloomberg platform.

In addition, fixed income bonds are subject to a qualitative liquidity analysis to determine the market depth for these types of instruments.

Finally, the daily transaction monitoring process includes controlling different aspects of trading, such as terms of negotiation, non-conventional or off-market transactions, and related party transactions.

(Amounts expressed in millions of Colombian pesos)

According to the standard model, the market value-at-risk (VaR) for Grupo Aval´s financial subsidiaries consolidated at their level of December 31, 2019 and 2018 was as follows:

	December 31, 2019		December 31, 2018	
Entity	**Value**	**Basis points of regulatory capital**	**Value**	**Basis points of regulatory capital**
Banco Bogotá	1,280,084	141	924,767	116
Banco de Occidente	165,928	52	189,871	75
Banco Popular	128,317	72	162,888	93
Banco AV Villas	58,032	59	37,942	41
Corficolombiana	173,456	7	219,656	12

The following tables show the VaR calculation relating to each of the risk factors described above and based on the Superintendency of Finance Methodology (Regulatory VaR) for the years ended December 31, 2019 and 2018, for a ten-day horizon for each of our Colombian banking subsidiaries. The minimum and maximum levels are determined based on end-of-month calculations, using 12 data points between January and December. Average values are determined based on the 13-month data points between December of the year analyzed and December of the previous year.

Banco de Bogotá S.A

Maximum, Minimum and Average VaR Values
December 31, 2019

	Minimum	Average	Maximum	Period end
Interest rate	444,950	520,569	607,973	568,537
Exchange rate	277,932	334,039	383,189	379,406
Shares	8,394	9,601	10,964	10,964
Mutual funds	270,918	308,799	322,458	321,177
VaR portfolio	1,002,195	1,173,008	1,318,037	1,280,084

Maximum, Minimum and Average VaR Values
December 31, 2018

	Minimum	Average	Maximum	Period end
Interest rate	352,595	387,828	420,474	352,595
Exchange rate	234,509	263,363	298,257	298,257
Shares	6,647	7,605	8,335	8,231
Mutual funds	200,510	226,030	266,906	265,684
VaR portfolio	828,688	884,826	969,931	924,767

Banco de Bogota´s market risk weighted assets remained on average 9.9% of the total risk-weighted assets during the year ended December 31, 2019 and 7.9% on the year ended December 31, 2018.

Banco de Occidente S.A

Maximum, Minimum and Average VaR Values
December 31, 2019

	Minimum	Average	Maximum	Period end
Interest rate	125,615	144,188	162,628	158,200
Exchange rate	104	2,458	4,426	2,995
Shares	—	—	—	—
Mutual funds	4,317	4,556	4,733	4,733
VaR portfolio	130,036	151,202	171,787	165,928

(Amounts expressed in millions of Colombian pesos)

Maximum, Minimum and Average VaR Values
December 31, 2018

	Minimum	Average	Maximum	Period end
Interest rate	184,106	199,399	218,732	184,106
Exchange rate	595	1,697	3,817	1,479
Shares	—	—	—	—
Mutual funds	2,820	3,849	4,526	4,286
VaR portfolio	187,521	204,945	227,074	189,871

Banco de Occidente´s market risk weighted assets remained on average 4.2% of the total risk-weighted assets during the year ended December 31, 2019 and 5.6% for the year ended December 31, 2018.

Banco Popular S.A

Maximum, Minimum and Average VaR Values
December 31, 2019

	Minimum	Average	Maximum	Period end
Interest rate	107,694	108,389	109,605	108,112
Exchange rate	4,699	5,155	5,615	5,280
Shares	22	22	23	348
Mutual funds	8,701	10,769	14,954	14,577
VaR portfolio	121,491	124,335	130,135	128,317

Maximum, Minimum and Average VaR Values
December 31, 2018

	Minimum	Average	Maximum	Period end
Interest rate	115,829	136,338	154,233	148,343
Exchange rate	2,125	3,867	6,135	3,325
Shares	929	949	963	946
Mutual funds	6,583	6,971	10,420	10,274
VaR portfolio	126,533	148,125	168,310	162,888

Banco Popular´s market risk weighted assets remained on average 6.4% of the total risk-weighted assets during the year ended December 31, 2019 and 8.4% on the year ended December 31, 2018.

Banco Comercial AV Villas S.A

Maximum, Minimum and Average VaR Values
December 31, 2019

	Minimum	Average	Maximum	Period end
Interest rate	22,193	40,628	55,972	55,021
Exchange rate	1	27	80	80
Shares	—	—	—	—
Mutual funds	489	628	2,931	2,931
VaR portfolio	22,852	41,284	58,032	58,032

(Amounts expressed in millions of Colombian pesos)

Maximum, Minimum and Average VaR Values
December 31, 2018

	Minimum	Average	Maximum	Period end
Interest rate	12,884	35,893	48,978	37,115
Exchange rate	—	985	2,738	30
Shares	—	—	—	—
Mutual funds	177	1,441	4,455	797
VaR portfolio	15,844	38,319	52,166	37,942

Banco AV Villas' market risk weighted assets remained on average 5.3% of the total risk-weighted assets during the year ended December 31, 2019 and 3.8% on the year ended December 31, 2018.

Corficolombiana S.A

Maximum, Minimum and Average VaR Values
December 31, 2019

	Minimum	Average	Maximum	Period end
Interest rate	67,499	104,128	156,208	154,477
Exchange rate	610	2,599	4,867	4,129
Shares	10,864	11,085	11,283	12,119
Mutual funds	2,577	2,935	3,473	2,731
VaR portfolio	81,632	120,746	174,832	173,456

Maximum, Minimum and Average VaR Values
December 31, 2018

	Minimum	Average	Maximum	Period end
Interest rate	187,983	201,515	211,039	208,375
Exchange rate	436	4,490	7,707	436
Shares	10,125	10,370	10,954	10,125
Mutual funds	699	856	1,020	720
VaR portfolio	205,505	217,231	226,727	219,656

Corficolombiana's market risk weighted assets remained on average 16.0% of the total risk-weighted assets during the year ended December 31, 2018 and 23.8% on the year ended December 31, 2018. As Corficolombiana does not have a relevant number of loans or other significant risk weighted assets, the weight of the market risk weighted assets is higher than in the banks.

Investment Price Risk in Equity Instruments

Equity Investments

As stated above, variations in equity price risk measured based on the regulatory VaR methodology include both equity securities held for trading through profit or losses and non-strategic holdings. In addition, it does not discriminate between listed and unlisted equity investments or between those which consolidate and those which do not. It includes investments in non-financial institutions.

Holding periods for many of Corficolombiana's equity investments exceed ten years. Its largest investments have remained in the portfolio for several years and are intended to remain as permanent investments. At December 31, 2019 and at December 31, 2018, the investments subject to regulatory VaR were holdings in Mineros S.A.

(Amounts expressed in millions of Colombian pesos)

The following table breaks down our investments subject to regulatory VaR by time since initial investments at December 31, 2019 and 2018.

	At December 31,					
	2019			2018		
	Investment subject to Regulatory VaR	Regulatory VaR	Percentage of portfolio	Investment subject to Regulatory VaR	Regulatory VaR	Percentage of portfolio
More than 36 months	75,584	11,111	100 %	45,706	6,719	100 %
Total	**75,584**	**11,111**	**100 %**	**45,706**	**6,719**	**100 %**

4.2.3 Structural foreign exchange risk

Grupo Aval´s financial subsidiaries have agencies and subsidiaries offshore and have assets and liabilities in foreign currencies and thus are exposed to changes in the exchange rates, primarily the United States Dollar. Foreign exchange risk is present when there are assets and liabilities denominated in foreign currency, when investments are made in subsidiaries and branches abroad and when there are loan portfolios, and obligations in foreign currency. There is also foreign exchange risk in foreign currency off balance sheet transactions.

Subsidiaries of the financial sector in Colombia are authorized by the country's central bank (Banco de la República) to trade currencies and to maintain balances in foreign currency in accounts abroad. Colombian law allows for banks to maintain a net daily asset or liability position in foreign currency, determined as the difference in foreign currency denominated rights and foreign currency denominated obligations including both on and off-balance sheet positions. On a separate basis, the average of this difference over three business days cannot exceed twenty percent (20%) of the entity's regulatory capital. On a consolidated basis, the average of this difference over three business days (positive or negative) cannot exceed forty percent (40%) of the consolidated entity´s regulatory capital.

The maximum and minimum total foreign currency position and the spot foreign currency position are determined according to each entity´s regulatory capital. The regulatory capital that is used in the calculations corresponds to the regulatory capital of the last business day of the previous two-months. The exchange rate used in the calculation is the average of the exchange rate set by the Superintendency of Finance at the end of the previous month.

(Amounts expressed in millions of Colombian pesos)

December 31,2019

Account	U.S. dollars (Millions)	Other currencies converted to U.S. dollars (Millions)	Total in Colombian pesos (Millions)
Financial assets			
Cash and cash equivalents	5,003	1,266	20,545,934
Investments in debt securities at fair value through profit or loss	168	17	606,107
Investments in debt securities at fair value through OCI	2,634	705	10,942,222
Investments in debt securities at amortized cost	7	-	23,043
Loan portfolio financial assets at amortized cost	16,078	5,006	69,096,428
Derivative financial assets held for trading	257	-	843,700
Derivative financial assets held for hedging	51	-	166,598
Trade receivable	238	168	1,329,979
Total financial assets	**24,436**	**7,162**	**103,554,011**

Account	U.S. dollars (Millions)	Other currencies converted to U.S. dollars (Millions)	Total in Colombian pesos (Millions)
Financial liabilities			
Derivative financial liabilities held for trading	274	-	897,138
Derivative financial liabilities held for hedging	28	-	90,726
Customer deposits	16,772	5,828	74,064,051
Financial obligations	8,428	772	30,148,583
Accounts payable	407	-	1,334,317
Total financial liabilities	**25,909**	**6,600**	**106,534,815**
Net financial asset (liability) position	**(1,473)**	**562**	**(2,980,804)**

December 31,2018

Account	U.S. dollars (Millions)	Other currencies converted to U.S. dollars (Millions)	Total in Colombian pesos (Millions)
Financial assets			
Cash and cash equivalents	4,859	1,075	19,297,896
Investments in debt securities held for trading	121	15	441,801
Investments in securities available-for-sale	2,201	589	9,068,739
Investments in debt securities held-to-maturity	10	—	32,321
Loan portfolio financial assets at amortized cost	15,923	4,706	67,023,090
Derivative financial assets held for trading	222	1	725,433
Derivative financial assets held for hedging	9	—	30,138
Trade receivable	246	176	1,370,820
Total financial assets	**23,591**	**6,562**	**97,990,238**

Account	U.S. dollars (Millions)	Other currencies converted to U.S. dollars (Millions)	Total in Colombian pesos (Millions)
Financial liabilities			
Derivative financial liabilities held for trading	236	3	776,162
Derivative financial liabilities held for hedging	60	—	195,539
Customer deposits	14,914	5,077	64,971,825
Financial obligations	9,457	666	32,899,230
Accounts payable	442	—	1,437,447
Total financial liabilities	**25,109**	**5,746**	**100,280,203**
Net financial asset (liability) position	**(1,518)**	**816**	**(2,289,965)**

Grupo Aval’s financial subsidiaries hedge their foreign exchange exposure using derivatives instruments, especially forwards. The net foreign currency position of each subsidiary is monitored on a daily basis.

(Amounts expressed in millions of Colombian pesos)

Grupo Aval has a number of investments in foreign subsidiaries and branches whose net assets are exposed to foreign exchange risk because of the translation of gains or losses for the purpose of consolidating their financial statements. The exposure arising from net assets in foreign operations is hedged primarily with financial obligations, bonds issued to the market and foreign exchange derivative instruments.

The following table includes a sensitivity analysis of the foreign exchange effect on Grupo Aval's equity and the foreign exchange effect on profit before taxes if the peso value of the U.S. dollar increases or decrease by 100 Colombian Peso per U.S. dollar:

December 31,2019		**Increase Ps.100 per U.S. dollar**		**Decrease Ps.100 per U.S. dollar**
Equity	Ps.	(13,874)	Ps.	13,874
Foreign exchange effect on profit before taxes		(20,708)		20,708

December 31,2018		**Increase Ps.100 per U.S. dollar**		**Decrease Ps.100 per U.S. dollar**
Equity	Ps.	(33,579)	Ps.	33,579
Foreign exchange effect on profit before taxes		(53,300)		53,300

4.2.4 Structural Interest Rate Risk

Non-trading instruments consist primarily of loans and deposits. Subsidiaries of the financial sector may be affected by their interest margins which may affect as a result of changes in interest rates; but they can also reduce and create losses in the event of unexpected movements in these rates.

Grupo Aval´s financial subsidiaries monitor their interest rate risk daily and set limits to the asset and liability mismatches when they are repriced. They analyze their interest rate exposure in a dynamic way. Scenario modelling considers renewal of existing positions, financing alternatives and hedges. Considering these scenarios, the financial subsidiaries calculate the profit and loss impact for a given change in interest rates.

The following table shows interest rates exposure for assets and liabilities at December 31, 2019 and 2018. In this table, fixed rate instruments are classified according to the maturity date and floating rate instruments are classified according to the repriced date. The following analysis includes all the global interest rate exposure in each bucket for the financial subsidiaries:

(Amounts expressed in millions of Colombian pesos)

December 31, 2019

Assets	Less than one month	From one to six months	From six to twelve months	More than a year	Non-interest	Total
Cash and cash equivalents	Ps. 2,662,681	Ps. —	Ps. —	Ps. —	Ps. 27,454,555	Ps. 30,117,236
Investments in debt securities at FVTPL	82,749	1,972,593	871,982	1,745,789	—	4,673,113
Investments in debt securities mandatory at FVTPL	—	—	—	10,102	—	10,102
Investments in debt securities at FVOCI	743,846	2,132,946	1,289,402	17,442,798	—	21,608,992
Investments in debt securities at amortized cost	2,765,688	265,131	23,043	—	—	3,053,862
Service concession arrangements	—	—	—	2,706,030	—	2,706,030
Commercial loans and leases	21,918,784	44,037,038	8,461,102	27,238,736	—	101,655,660
Consumer loans and leases	10,993,634	9,758,318	1,660,573	37,427,926	—	59,840,451
Mortgages and housing leases	7,212,959	1,890,949	900,236	10,217,539	—	20,221,683
Microcredit loans and leases	30,911	18,568	39,283	321,558	—	410,320
Trade receivable	—	—	—	387,059	8,895,674	9,282,733
Total Assets	**Ps. 46,411,252**	**Ps. 60,075,543**	**Ps. 13,245,621**	**Ps. 97,497,537**	**Ps. 36,350,229**	**Ps. 253,580,182**
					—	

Liabilities	Less than one month	From one to six months	From six to twelve months	More than a year	Non-interest	Total
Checking accounts	Ps. 21,174,879	Ps. —	Ps. —	Ps. —	Ps. 21,274,823	Ps. 42,449,702
Time deposits	10,514,186	29,426,123	15,525,670	17,759,210	—	73,225,189
Saving deposits	59,352,760	—	—	—	. —	59,352,760
Other deposits	—	—	—	—	463,770	463,770
Interbank and overnight funds	8,414,438	75,543	—	750,498	—	9,240,479
Leases contracts*	93,438	130,472	158,021	2,651,571	—	3,033,502
Borrowing from banks and similar	2,249,132	6,367,707	2,335,725	5,817,278	—	16,769,842
Long-term debt	276,735	3,567,489	680,677	17,393,367	—	21,918,268
Borrowing from development entities	1,175,637	1,199,311	115,314	1,392,223	—	3,882,485
Total Liabilities	**Ps. 103,251,205**	**Ps. 40,766,645**	**Ps. 18,815,407**	**Ps. 45,764,147**	**Ps. 21,738,593**	**Ps. 230,335,997**

*Grupo Aval has initially adopted IFRS 16 as of January 1, 2019. According to the transition methods chosen, comparative information is not restated. See note 2(2.4)(A).

(Amounts expressed in millions of Colombian pesos)

December 31, 2018

Assets	Less than one month	From one to six months	From six to twelve months	More than a year	Non-interest	Total
Cash and cash equivalents	Ps. 3,110,667	Ps. —	Ps. —	Ps. —	Ps. 25,290,616	Ps. 28,401,283
Investments in debt securities at FVTPL	25,077	376,999	1,216,834	2,144,068	—	3,762,978
Investments in debt securities mandatory at FVTPL	—	—	—	31,256	—	31,256
Investments in debt securities at FVOCI	131,497	2,056,389	1,163,367	15,584,504	—	18,935,757
Investments in debt securities at amortized cost	671,047	951,850	1,348,691	1,028	—	2,972,616
Service concession arrangements	—	—	—	2,488,414	—	2,488,414
Commercial loans and leases	28,546,532	29,463,725	9,612,217	34,786,503	—	102,408,977
Consumer loans and leases	10,538,797	7,975,944	2,566,425	34,373,898	—	55,455,064
Mortgages and housing leases	7,649,242	1,771,712	419,518	8,751,631	—	18,592,103
Microcredit loans and leases	31,729	17,956	38,304	337,708	—	425,697
Trade receivable	—	—	—	3,043,403	4,025,717	7,069,120
Total Assets	**Ps. 50,704,588**	**Ps. 42,614,575**	**Ps. 16,365,356**	**Ps. 101,542,413**	**Ps. 29,316,333**	**Ps. 240,543,265**

Liabilities	Less than one month	From one to six months	From six to twelve months	More than a year	Non-interest	Total
Checking accounts	Ps. 22,377,653	Ps. —	Ps. —	Ps. —	Ps. 17,325,225	Ps. 39,702,878
Time deposits	9,741,623	28,546,101	15,447,825	13,117,463	—	66,853,012
Saving deposits	36,523,899	20,697,540	—	—	—	57,221,439
Other deposits	—	—	—	—	582,122	582,122
Interbank and overnight funds	6,099,084	714,994	—	—	—	6,814,078
Borrowing from banks and others	1,566,524	11,497,277	1,164,075	6,382,890	—	20,610,766
Long-term debt	73,565	3,369,988	656,291	16,040,506	—	20,140,350
Borrowing from development entities	563,370	259,194	1,607,273	1,216,959	—	3,646,796
Total Liabilities	**Ps. 76,945,718**	**Ps. 65,085,094**	**Ps. 18,875,464**	**Ps. 36,757,818**	**Ps. 17,907,347**	**Ps. 215,571,441**

As part of their management of interest rate risk, financial subsidiaries analyze the interest rate mismatches between their interest-earning assets and their interest-earning liabilities. This sensitivity analysis assumes the composition of Grupo Aval´s balance sheet remains constant over the period being measured and assumes interest rate changes are reflected uniformly across the yield curve. The sensitivity analysis uses scenarios of interest rates increasing /decreasing 50 and 100 basis points from the average of the last 12 months of the balances of financial assets and liabilities with all other variables held constant. These scenarios are not predictions of future market events, but they illustrate the effect that it may have on the amortized cost (and fair value of portfolio investments) of Grupo Aval´s financial assets and liabilities.

If interest rates were decreased by 50 or 100 basis points, Grupo Aval´s net interest income would have increased by Ps 173,629 and Ps 348,994, respectively. The above due to the decrease in accrued interest from liabilities would be greater than the decrease in accrued interest from assets.

Moreover, if interest rates were increased 50 or 100 basis points, Grupo Aval´s net interest income would have decreased by Ps 174,497 and Ps 348,935, respectively. The above due to the increase in the value of accrued interest from liabilities would be greater than the increase in accrued interests from assets.

The following is a breakdown of interest bearing assets and liabilities, by interest rate type and by maturity, at December 31, 2019 and 2018.

(Amounts expressed in millions of Colombian pesos)

December 31, 2019

	Under one year		Over one year		Non-	
Assets	**Variable**	**Fixed**	**Variable**	**Fixed**	**interest**	**Total**
Cash due from banks and Central Bank	Ps. 2,619,126	Ps. 43,555	Ps. —	Ps. —	Ps. 27,454,555	Ps. 30,117,236
Investments in debt securities at FVTPL	288,176	2,319,323	383,470	1,682,144	—	4,673,113
Investments in debt securities mandatory at FVTPL	—	—	—	10,102	—	10,102
Investments in debt securities at FVOCI	7,434	4,054,359	2,377,875	15,169,324	—	21,608,992
Investments in debt securities at amortized cost	3,025,213	28,649	—	—	—	3,053,862
Service concession arrangements	—	—	2,706,030	—	—	2,706,030
Commercial loans and leases	41,941,576	4,340,760	52,017,308	3,356,016	—	101,655,660
Consumer loans and leases	1,059,643	15,901,205	10,746,657	32,132,946	—	59,840,451
Mortgages and housing leases	43,814	391,869	11,322,696	8,463,304	—	20,221,683
Microcredit loans and leases	1,954	223,485	3,700	181,181	—	410,320
Trade receivable	—	—	263,922	123,137	8,895,674	9,282,733
Total Assets	**Ps. 48,986,936**	**Ps. 27,303,205**	**Ps. 79,821,658**	**Ps. 61,118,154**	**Ps. 36,350,229**	**Ps. 253,580,182**

	Under one year		Over one year		Non-	
Liabilities	**Variable**	**Fixed**	**Variable**	**Fixed**	**interest**	**Total**
Checking accounts	Ps. 384,579	Ps. 20,790,300	Ps. —	Ps. —	Ps. 21,274,823	Ps. 42,449,702
Time deposits	12,673,158	37,790,186	7,099,730	15,662,115	—	73,225,189
Saving deposits	17,159,419	42,193,341	—	—	. —	59,352,760
Other deposits	—	—	—	—	463,770	463,770
Interbank and overnight funds	—	9,240,479	—	—	—	9,240,479
Leases contracts*	3,586	404,434	132,928	2,492,554	—	3,033,502
Borrowing from banks and other	1,372,926	8,504,875	3,216,263	3,675,778	—	16,769,842
Long-term debt	959,068	1,473,258	9,738,305	9,747,637	—	21,918,268
Borrowing from development entities	572,600	10,537	3,256,614	42,734	—	3,882,485
Total Liabilities	**Ps. 33,125,336**	**Ps. 120,407,410**	**Ps. 23,443,840**	**Ps. 31,620,818**	**Ps. 21,738,593**	**Ps. 230,335,997**

*Grupo Aval has initially adopted IFRS 16 as of January 1, 2019. According to the transition methods chosen, comparative information is not restated. See note 2(2.4)(A).

December 31, 2018

	Under one year		Over one year		Non-	
Assets	**Variable**	**Fixed**	**Variable**	**Fixed**	**interest**	**Total**
Cash due from banks and Central Bank	Ps. 2,014,270	Ps. 1,096,397	Ps. —	Ps. —	Ps. 25,290,616	Ps. 28,401,283
Investments in debt securities at FVTPL	159,486	1,459,424	231,620	1,912,448	—	3,762,978
Investments in debt securities mandatory at FVTPL	—	—	—	31,256	—	31,256
Investments in debt securities at FVOCI	13,532	3,337,721	872,882	14,711,622	—	18,935,757
Investments in debt securities at amortized cost	1,349,722	725,704	896,162	1,028	—	2,972,616
Service concession arrangements	—	—	2,488,414	—	—	2,488,414
Commercial loans and leases	44,094,950	4,259,106	51,184,839	2,870,082	—	102,408,977
Consumer loans and leases	1,099,251	14,713,486	10,482,629	29,159,698	—	55,455,064
Mortgages and housing leases	53,296	330,277	10,924,349	7,284,181	—	18,592,103
Microcredit loans and leases	2,698	223,954	3,582	195,463	—	425,697
Trade receivable	397	—	2,989,292	53,714	4,025,717	7,069,120
Total Assets	**Ps. 48,787,602**	**Ps. 26,146,069**	**Ps. 80,073,769**	**Ps. 56,219,492**	**Ps. 29,316,333**	**Ps. 240,543,265**

	Under one year		Over one year		Non-	
Liabilities	**Variable**	**Fixed**	**Variable**	**Fixed**	**interest**	**Total**
Checking accounts	Ps. —	Ps. 22,377,653	Ps. —	Ps. —	Ps. 17,325,225	Ps. 39,702,878
Time deposits	11,332,638	33,720,396	6,801,559	14,998,419	—	66,853,012
Saving deposits	16,485,565	40,735,874	—	—	. —	57,221,439
Other deposits	—	—	—	—	582,122	582,122
Interbank and overnight funds	3,492,343	3,321,735	—	—	—	6,814,078
Borrowing from banks and other	3,406,673	9,984,328	2,899,475	4,320,290	—	20,610,766
Long-term debt	749,442	804,281	6,650,249	11,936,378	—	20,140,350
Borrowing from development entities	638,286	149,508	2,852,178	6,824	—	3,646,796
Total Liabilities	**Ps. 36,104,947**	**Ps. 111,093,775**	**Ps. 19,203,461**	**Ps. 31,261,911**	**Ps. 17,907,347**	**Ps. 215,571,441**

4.3 Liquidity Risk

Liquidity risk management has always been a basic element of Grupo Aval's business strategy and a fundamental cornerstone, together with capital, on which the strength of its balance sheet rests. Liquidity risk is related to the inability of Grupo Aval´s financial subsidiaries to fulfill their obligations with customers, financial market counterparties, lenders, suppliers, authorities or other stakeholders at any given moment, in any currency and in any location.

Structural liquidity management aims to finance the activity's recurring nature of each company under optimal terms of time and cost, avoiding taking unwanted liquidity risks. In Grupo Aval, the financing and liquidity model is decentralized and based on autonomous subsidiaries that are responsible for covering their own liquidity needs. Therefore, each entity reviews its available resources on a daily basis in order to control its liquidity risk.

Grupo Aval financial subsidiaries are responsible for covering the liquidity needs arising from its current and future activity. In consequence, they will either take deposits from its customers in its area of influence, or by resorting to the wholesale markets where it operates. As a result, Grupo Aval financial subsidiaries have a considerable capacity to attract stable deposits, as well as a significant liquidity to raise funds in the wholesale markets.

The policies with respect to liquidity risk at Grupo Aval and the financial subsidiaries in Colombia are directed at complying with the guidelines established by the Superintendency of Finance. These guidelines require that Colombian financial subsidiaries establish a system for the administration of liquidity risks (Sistema de Administración de Riesgo de Liquidez) which includes the identification, measurement, control and monitoring functions required to ensure the management of day to day liquidity requirements, adjust to minimum requirements in terms of liquidity buffers and establish liquidity contingency plans to deal with any unexpected situation.

The methodology for the assessment and measurement of liquidity risk at BAC includes:

a) Generation of liquidity GAP analysis by currency for the short and long term, including normal and stressed scenarios;
b) Coverage indicators by currency for sight and 30 days, in normal and stressed scenarios;
c) Prudential regulation indicators of maturity by currency for 1 and 3 months;
d) Indicator of liquidity coverage by currency according to regulatory provisions;
e) Internal measurements to qualify liquidity risk by currency (global liquidity indicator).

Therefore, financial subsidiaries controlled by Grupo Aval, in Colombia, are required to maintain adequate liquidity positions based on the Superintendency of Finance's liquidity parameters, using a short-term liquidity index (Indicador de Riesgo de Liquidez), or "IRL," that measures liquidity for different time horizons from 1 to 90 days. This index is defined as the difference between adjusted liquid assets and net liquidity requirements.

- Liquid assets include total debt securities adjusted by market liquidity and exchange rate, excluding investments classified as "held to maturity" different from mandatory investments, Central Bank deposits and available cash.

- Net liquidity requirements are the difference between expected contractual asset and contractual and non-contractual liability cash flows. Cash flows from past due loans are not included in this calculation.

During 2019, as part of its convergence towards Basel III standards, the Superintendency of Finance incorporates the segmentation by type of deposits in the calculation of non-contractual liability cash flows. The methodology first segments each demand and savings deposits in eight categories, according with their balance and the type of customer; then computes the run-off rate for each category and finally multiply both to compute the non-contractual reserve.

(Amounts expressed in millions of Colombian pesos)

Grupo Aval´s financial subsidiaries assess the volatility of deposits, debt levels, the asset and liability structure, the liquidity of different asset types, the availability of lines of credit and the effectiveness of asset and liability management. The objective is to have adequate liquidity to manage possible stress scenarios.

The quantification of money market funding is an integral part of the liquidity measurement carried out by each entity. Based on statistical analysis, primary and secondary sources of liquidity are identified in order to ensure funding stability and diversification, and to minimize concentration.

Financial subsidiaries in Colombia and other countries must maintain cash on hand and in Central Bank deposits in order to comply with reserve requirements. The reserve requirement calculation is based upon the daily average of the different types of deposits on a biweekly basis. As of December 31, 2019, and 2018, all of Grupo Aval´s financial subsidiaries comply with reserve requirements. Details on the required percentage in each country are shown below:

Requested Percentage		
Country	**Details**	**%**
Colombia	Checking account and Savings accounts	11%
	Time deposits < 18 months	4.5%
Guatemala	Deposits and Capital raising	11.6%
El Salvador	1st Demand deposits [(1)]	25%
	2nd Demand deposits [(2)]	25%
	3rd Debt securities	50%
Honduras	Demand deposits	12%
	Mandatory investment in local currency	5%
	Mandatory investment in foreign currency	12%
Nicaragua	Daily, Liabilities in local and foreign currency	12%
	Biweekly, Liabilities in local and foreign currency	14%
Costa Rica	Deposits in local and foreign currency	15%
	Capital raising in local and foreign currency	15%

(1) This refers to demand deposits in Central Bank or overseas banks.
(2) This refers to demand deposits in Central Bank, overseas banks or debt securities issue by the Central Bank.

There are no reserve requirements for our subsidiaries located in Panamá because there is no Central Bank to regulate such requirements.

The following is a breakdown of the liquid assets in different time horizon from 1 to 90 days, as per the separate figures of each of our financial subsidiaries at December 31, 2019 and 2018:

December 31, 2019

Bank	Liquid assets available at the end of the year [(1)]	From 1 to 7 days [(2)]	From 1 to 30 days [(2)]	From 31 to 90 days [(2)]
Banco de Bogotá	11,480,613	9,127,754	2,141,891	(14,048,998)
Banco Occidente	6,013,484	5,381,263	3,449,519	(1,382,231)
Banco Popular	2,708,977	2,196,520	543,111	(2,426,968)
Banco AV Villas	1,777,483	1,489,391	573,001	(1,756,092)
Corficolombiana	1,648,321	1,238,060	970,752	440,603

(Amounts expressed in millions of Colombian pesos)

December 31, 2018

Bank	Liquid assets available at the end of the year [1]	From 1 to 7 days [2]	From 1 to 30 days [2]	From 31 to 90 days [2]
Banco de Bogotá	10,936,886	10,370,295	8,892,523	321,897
Banco Occidente	5,913,723	5,244,524	4,185,759	1,631,575
Banco Popular	3,622,232	3,305,221	2,505,573	164,075
Banco AV Villas	2,035,362	1,724,944	1,304,447	(37,659)
Corficolombiana	1,131,464	585,045	386,081	(159,983)

(1) Liquid assets are the sum of the assets that are readily convertible to cash. These assets include cash on hand and bank deposits including Central Bank deposits, securities or in money market transactions and have not been used in borrowing operations in the money market. It also includes investments coupons that have been transferred to the entity in debt securities recorded at fair value, investments in mutual funds with no withdrawal restrictions, and debt securities carried at amortized cost, provided they are legally required or "mandatory" investments, subscribed in the primary market and that can be used for money market operations. The value of the liquid assets mentioned above, is calculated at the fair value market price on the date of the assessment.

(2) This amount is the remaining value of the liquid assets in the specified time period, or the LRI, that is calculated as the difference among the liquid assets and the liquidity requirement. The liquidity requirement is the difference of contractual cash inflows and contractual and non-contractual cash outflows during the period according to the LRI methodology.

The liquidity calculations described above assume normal liquidity conditions, according to the contractual flows and historical experience of each of the financial subsidiaries. In extreme liquidity events caused by unusual deposit withdrawals, the financial subsidiaries have contingency plans that include available credit lines with other financial institutions and access to special lines of credit with Colombia´s Central Bank, in accordance with current regulations. These lines of credit are granted when required and are collateralized by Colombian government securities and by a portfolio of high quality loans, as specified in the Central Bank regulations. Grupo Aval´s financial subsidiaries did not access the Central Bank special lines of credit during the years ended at December 31, 2019 and 2018.

(Amounts expressed in millions of Colombian pesos)

The following is a breakdown shows the contractual undiscounted cash flows of the financial assets and liabilities including contractual interest receivable and payable at December 31, 2019 and 2018.

December 31, 2019

Assets	Less than one month	From one to six months	From six to twelve months	More than a year	Total
Cash and cash equivalents	Ps. 28,683,338	Ps. —	Ps. —	Ps. —	Ps. 28,683,338
Investments in debt securities at FVTPL	937,550	1,491,328	984,902	1,475,733	4,889,513
Investments in debt securities at FVOCI	1,269,356	2,334,438	1,951,863	19,921,644	25,477,301
Investments in debt securities at amortized cost	833,179	858,257	1,404,163	—	3,095,599
Commercial loans and leases	14,025,655	29,465,200	16,865,877	69,494,065	129,850,797
Consumer loans and leases	8,662,984	17,571,059	10,005,080	53,010,916	89,250,039
Mortgages and housing leases	447,147	984,046	1,147,043	33,219,821	35,798,057
Microcredit loans and leases	55,112	122,167	123,624	240,181	541,084
Trading derivatives	620,242	229,909	37,138	29,374	916,663
Hedging derivatives	163,825	3,401	18	—	167,244
Trade receivable	2,342,007	—	—	9,631,524	11,973,531
Other assets	1,163,339	—	—	—	1,163,339
Total Assets	**Ps. 59,203,734**	**Ps. 53,059,805**	**Ps. 32,519,708**	**Ps. 187,023,258**	**Ps. 331,806,505**

Liabilities	Less than one month	From one to six months	From six to twelve months	More than a year	Total
Checking accounts	Ps. 42,449,701	Ps. —	Ps. —	Ps. —	Ps. 42,449,701
Time Deposits	8,631,705	25,954,834	17,871,428	25,483,897	77,941,864
Saving deposits	59,352,759	—	—	—	59,352,759
Other deposits	463,770	—	—	—	463,770
Interbank and overnight funds	5,819,104	3,420,692	—	—	9,239,796
Leases contracts*	92,255	122,866	152,352	2,669,047	3,036,520
Borrowing from banks and other	2,211,662	4,877,570	3,215,999	7,450,891	17,756,122
Long-term debt	92,130	1,244,776	1,260,353	23,233,085	25,830,344
Borrowing from development entities	119,662	751,027	388,785	3,434,525	4,693,999
Trading derivatives	606,476	277,657	25,612	18,240	927,985
Hedging derivatives	73,625	19,681	18	3,359	96,683
Other liabilities	4,997,412	240,030	9,306	1,121,438	6,368,186
Total Liabilities	**Ps. 124,910,261**	**Ps. 36,909,133**	**Ps. 22,923,853**	**Ps. 63,414,482**	**Ps. 248,157,729**

Commitments Loans	Less than one month	From one to six months	From six to twelve months	More than a year	Total
Guarantees	Ps. 2,488,242	Ps. —	Ps. —	Ps. —	Ps. 2,488,242
Standby letters of credit	953,289	—	—	—	953,289
Overdraft facility	67,126	—	—	—	67,126
Standby credit card facility	20,054,171	109,451	82,088	328,352	20,574,062
Undrawn approved loans	561,330	52,807	—	—	614,137
Others	99,270	—	—	—	99,270
Total Commitments Loans	**Ps. 24,223,428**	**Ps. 162,258**	**Ps. 82,088**	**Ps. 328,352**	**Ps. 24,796,126**

*Grupo Aval has initially adopted IFRS 16 as of January 1, 2019. According to the transition methods chosen, comparative information is not restated. See note 2(2.4)(A).

(Amounts expressed in millions of Colombian pesos)

December 31, 2018

Assets	**Less than one month**	**From one to six months**	**From six to twelve months**	**More than a year**	**Total**
Cash and cash equivalents	Ps. 28,450,114	Ps. —	Ps. —	Ps. —	Ps. 28,450,114
Investments in debt securities at FVTPL	576,072	350,307	1,026,669	2,018,209	3,971,257
Investments in debt securities at FVOCI	163,389	2,272,601	1,547,078	18,292,502	22,275,570
Investments in debt securities at amortized cost	1,691,200	447,674	866,184	1,019	3,006,077
Commercial loans and leases	12,524,966	24,196,186	13,982,791	58,838,873	109,542,816
Consumer loans and leases	6,218,323	12,707,647	7,369,756	45,240,501	71,536,227
Mortgages and housing leases	297,155	1,376,279	1,626,730	32,061,546	35,361,710
Microcredit loans and leases	58,093	125,474	128,180	256,278	568,025
Trading derivatives	476,088	244,385	22,483	14,216	757,172
Hedging derivatives	28,941	4,083	—	—	33,024
Trade receivable	4,260,837	—	397	2,929,814	7,191,048
Other assets	631,231	—	—	—	631,231
Total Assets	**Ps. 55,376,409**	**Ps. 41,724,636**	**Ps. 26,570,268**	**Ps. 159,652,958**	**Ps. 283,324,271**

Liabilities	**Less than one month**	**From one to six months**	**From six to twelve months**	**More than a year**	**Total**
Checking accounts	Ps. 39,708,169	Ps. —	Ps. —	Ps. —	Ps. 39,708,169
Time Deposits	8,375,127	26,030,729	15,605,292	20,730,824	70,741,972
Saving deposits	57,443,560	—	—	—	57,443,560
Other deposits	582,122	—	—	—	582,122
Interbank and overnight funds	6,813,329	—	—	—	6,813,329
Borrowing from banks and other	1,665,739	8,779,185	4,490,249	7,248,223	22,183,396
Long-term debt	138,362	904,752	1,896,186	21,493,625	24,432,925
Borrowing from development entities	145,712	578,545	423,122	3,189,314	4,336,693
Trading derivatives	515,697	236,390	20,305	27,955	800,347
Hedging derivatives	182,849	6,587	6,718	—	196,154
Other Liabilities	6,884,154	896,154	67,042	299	7,847,649
Total Liabilities	**Ps. 122,454,820**	**Ps. 37,432,342**	**Ps. 22,508,914**	**Ps. 52,690,240**	**Ps. 235,086,316**

Commitments Loans	**Less than one month**	**From one to six months**	**From six to twelve months**	**More than a year**	**Total**
Guarantees	Ps. 2,297,206	Ps. 9,742	Ps. 4,222	Ps. 2,370	Ps. 2,313,540
Standby letters of credit	928,585	208	2	—	928,795
Overdraft facility	306,740	—	—	—	306,740
Standby credit card facility	20,409,059	—	—	—	20,409,059
Undrawn approved loans	3,612,600	—	—	—	3,612,600
Others	394,688	—	—	—	394,688
Total Commitments Loans	**Ps. 27,948,878**	**Ps. 9,950**	**Ps. 4,224**	**Ps. 2,370**	**Ps. 27,965,422**

4.4 Regulatory capital management

Grupo Aval, Financial Holding

As a result of Colombian Law 1870 of 2017, also known as Financial Conglomerates Law, which came in effect on February 6, 2019, Grupo Aval is now also subject to the inspection and supervision of the Superintendency of Finance (SFC). This law created the legal category of financial holding companies and financial conglomerates and gives to the Colombian government the power, to impose capital adequacy requirements on the financial conglomerates on an aggregate/consolidated basis, among others.

In compliance with Decree 774 issued on May 8th, 2018 by the Colombian Government and which came into force on 8th of November 2019 after an 18-month transition period and the External Circular 012 of June 5, 2018 (*Circular Externa 012 del 5 de junio de 2019*) issued by the Superintendency of Finance (SFC), Grupo Aval, Financial Holding, has the faculty to establish conditions for adequate capital requirements. Grupo Aval reported to the SFC its first official capital requirements calculation in February 25, 2020, based on financial statements as of December 31, 2019. As of December 31, 2019, Grupo Aval, Financial Conglomerate, complied with minimum regulatory capital requirements.

(Amounts expressed in millions of Colombian pesos)

Grupo Aval's financial subsidiaries

Grupo Aval's financial subsidiaries are subject to a "Total Solvency Risk Ratio" (Total Regulatory Capital/Risk Weighted Assets) of at least 9% and a "Basic Solvency Risk Ratio" (Basic Ordinary Regulatory Capital/Risk Weighted Assets) of at least 4.5%. See Regulatory framework for Colombian financial institutions - Capital Adequacy Requirements section.

As of December, 31 2019, and 2018, all of Grupo Aval´s financial subsidiaries complied with the minimum regulatory capital requirements, as established by Basel II. Below is shown the consolidated outcome by entity of the minimum regulatory capital, required for the entities regulated by the Superintendency of Finance:

	December 31, 2019				
Regulatory Capital	**Banco de Bogotá**	**Banco de Occidente**	**Banco Popular**	**Banco AV Villas**	**Corficolombiana**
Regulatory Capital	**18,508,842**	**3,908,477**	**2,384,460**	**1,293,359**	**4,032,713**
Basic ordinary equity	13,082,557	3,202,018	1,898,181	1,174,605	3,761,178
Basic additional equity	5,426,285	706,459	486,279	118,754	271,535
Market risk	14,223,159	1,401,440	1,425,745	644,799	1,927,291
Credit risk	129,836,198	31,807,330	21,015,333	11,488,357	10,102,536
Total assets weighted by risk	**144,059,357**	**33,208,770**	**22,441,078**	**12,133,156**	**12,029,827**
Total solvency risk index.	12.85 %	11.77 %	10.63 %	10.66 %	33.52 %
Basic solvency risk index.	9.08 %	9.64 %	8.46 %	9.68 %	31.27 %

	December 31, 2018				
Regulatory Capital	**Banco de Bogotá**	**Banco de Occidente**	**Banco Popular**	**Banco AV Villas**	**Corficolombiana**
Regulatory Capital	**17,730,918**	**3,917,005**	**2,170,075**	**1,176,179**	**3,631,640**
Basic ordinary equity	11,655,669	3,166,981	1,648,438	1,106,529	3,381,550
Basic additional equity	6,075,249	750,024	521,637	69,650	250,090
Market risk	10,275,186	1,754,924	1,809,867	421,379	2,440,618
Credit risk	120,604,192	29,405,386	19,624,155	10,759,423	7,834,598
Total assets weighted by risk	**130,879,378**	**31,160,310**	**21,434,022**	**11,180,802**	**10,275,216**
Total solvency risk index.	13.55 %	12.57 %	10.12 %	10.52 %	35.34 %
Basic solvency risk index.	8.91 %	10.16 %	7.69 %	9.90 %	32.91 %

NOTE 5 – ESTIMATION OF FAIR VALUE

The fair value of the financial assets and liabilities traded in active markets (such as financial assets in debt securities, equity securities and derivatives actively listed in stock exchanges or interbank markets) is based on dirty prices supplied by a price vendor.

An active market is a market where transactions for assets or liabilities are carried out with sufficient frequency and volume in order to provide price information on an ongoing basis. A dirty price includes accrued and pending interest on the security, as from the date of issuance or last payment of interest, until the date in which the purchase and sale operation is due. The fair value of financial assets and liabilities that are not traded in an active market is determined through appraisal techniques determined by the price supplier or by the management of Grupo Aval's entities. Appraisal techniques used for non-standardized financial instruments such as options, foreign exchange swaps and derivatives of the over-the-counter market, which include the use of interest rate or currency assessment curves built by providers and extrapolated to the specific conditions of the instrument being appraised, discounted cash flow analysis, options pricing models and other valuation techniques commonly used by market participants who rely mostly on market data and the least possible on specific data of entities.

Grupo Aval may use models developed internally for financial instruments with no active markets. These models are usually based on valuation techniques and methods generally standardized in the financial sector. The valuation models are mainly used for appraising financial equity instruments not listed on the stock exchange, debt certificates and other debt instruments for which the markets were or have been inactive during the financial period. Some inputs of these models may not be observable in the market and are therefore estimated based on assumptions.

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 the 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.

5.1 Measurements of Fair Value on a Recurring Basis

Measurements of fair value on a recurring basis are those required or allowed in statement of financial position at the end of each accounting period.

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 December 31, 2019 and 2018 on a recurring basis.

(Amounts expressed in millions of Colombian pesos)

December 31, 2019

	Level 1	Level 2	Level 3	Total
Assets				
Trading investments				
Securities issued or secured by Colombian Government	Ps. 1,503,708	Ps. 922,052	Ps. —	Ps. 2,425,760
Securities issued or secured by other Colombian Government entities	—	175,794	—	175,794
Securities issued or secured by foreign Governments	3,220	136,314	—	139,534
Securities issued or secured by central banks	—	13,966	—	13,966
Securities issued or secured by other financial entities	33,179	1,817,243	—	1,850,422
Securities issued or secured by non-financial sector entities	—	33,942	—	33,942
Others	—	33,695	—	33,695
Total trading investments	**Ps. 1,540,107**	**Ps. 3,133,006**	**Ps. —**	**Ps. 4,673,113**
Investments in debt securities at fair value through profit or loss				
Others	—	—	10,102	10,102
Total investments in debt securities at fair value through profit or loss	**Ps. 1,540,107**	**Ps. 3,133,006**	**Ps. 10,102**	**Ps. 4,683,215**
Investments in debt securities at fair value through OCI				
Securities issued or secured by Colombian Government	7,923,409	3,720,533	—	11,643,942
Securities issued or secured by other Colombian Government entities	191,994	273,684	—	465,678
Securities issued or secured by foreign Governments	9,954	4,987,476	—	4,997,430
Securities issued or secured by central banks	—	970,095	—	970,095
Securities issued or secured by other financial entities	237,887	2,817,038	—	3,054,925
Securities issued or secured by non-financial sector entities	—	34,840	—	34,840
Others	—	442,082	—	442,082
Total investments in debt securities at fair value through OCI	**Ps. 8,363,244**	**Ps. 13,245,748**	**Ps. —**	**Ps. 21,608,992**
Total investments in debt securities	**Ps. 9,903,351**	**Ps. 16,378,754**	**Ps. 10,102**	**Ps. 26,292,207**
Equity securities				
Trading equity securities	1,679	3,046,048	475,394	3,523,121
Investments in equity through OCI	1,174,959	46,228	106,905	1,328,092
Total equity securities	**Ps. 1,176,638**	**Ps. 3,092,276**	**Ps. 582,299**	**Ps. 4,851,213**
Held for trading derivatives				
Currency forward	—	765,166	—	765,166
Debt securities forward	—	253	—	253
Interest rate swap	—	73,481	—	73,481
Currency swap	—	34,682	—	34,682
Currency options	—	43,852	—	43,852
Total held for trading derivatives	**Ps. —**	**Ps. 917,434**	**Ps. —**	**Ps. 917,434**
Hedging derivatives				
Currency forward	—	166,598	—	166,598
Total hedging derivatives	**Ps. —**	**Ps. 166,598**	**Ps. —**	**Ps. 166,598**
Other account receivables				
Financial assets in concession contracts	—	—	2,706,030	2,706,030
Total other account receivables designated at fair value	**Ps. —**	**Ps. —**	**Ps. 2,706,030**	**Ps. 2,706,030**
Non- financial assets				
Biological assets	—	—	104,857	104,857
Investment properties	—	—	928,566	928,566
Total non- financial assets	**Ps. —**	**Ps. —**	**Ps. 1,033,423**	**Ps. 1,033,423**
Total assets at fair value on recurring basis	**Ps. 11,079,989**	**Ps. 20,555,062**	**Ps. 4,331,854**	**Ps. 35,966,905**

(Amounts expressed in millions of Colombian pesos)

	Level 1	Level 2	Level 3	Total
Liabilities				
Trading derivatives				
Currency forward	—	815,393	—	815,393
Debt securities forward	—	574	—	574
Debt securities futures	52	—	—	52
Interest rate swap	—	64,500	—	64,500
Currency swap	—	31,982	—	31,982
Currency options	—	49,937	—	49,937
Total trading derivatives	**Ps. 52**	**Ps. 962,386**	**Ps. —**	**Ps. 962,438**
Hedging derivatives				
Currency forward	—	90,726	—	90,726
Interest rate swap	—	3,572	—	3,572
Total hedging derivatives	**Ps. —**	**Ps. 94,298**	**Ps. —**	**Ps. 94,298**
Total liabilities at fair value on recurring basis	**Ps. 52**	**Ps. 1,056,684**	**Ps. —**	**Ps. 1,056,736**

December 31, 2018

	Level 1	Level 2	Level 3	Total
Assets				
Trading investments				
Securities issued or secured by Colombian Government	Ps. 2,109,574	Ps. 161,068	Ps. —	Ps. 2,270,642
Securities issued or secured by other Colombian Government entities	19,606	108,940	—	128,546
Securities issued or secured by foreign Governments	—	98,155	—	98,155
Securities issued or secured by central banks	—	12,914	—	12,914
Securities issued or secured by other financial entities	—	1,218,751	—	1,218,751
Securities issued or secured by non-financial sector entities	—	29,122	—	29,122
Others	—	4,848	—	4,848
Total trading investments	**Ps. 2,129,180**	**Ps. 1,633,798**	**Ps. —**	**Ps. 3,762,978**
Investments in debt securities at fair value through profit or loss				
Others	—	17,523	13,733	31,256
Total investments in debt securities at fair value through profit or loss	**Ps. 2,129,180**	**Ps. 1,651,321**	**Ps. 13,733**	**Ps. 3,794,234**
Investments in debt securities at fair value through OCI				
Securities issued or secured by Colombian Government	8,208,778	2,316,996	—	10,525,774
Securities issued or secured by other Colombian Government entities	232,312	265,323	—	497,635
Securities issued or secured by foreign Governments	91,315	2,924,241	—	3,015,556
Securities issued or secured by central banks	—	1,131,740	—	1,131,740
Securities issued or secured by other financial entities	279,653	3,028,827	—	3,308,480
Securities issued or secured by non-financial sector entities	—	209,940	—	209,940
Others	—	246,632	—	246,632
Total investments in debt securities at fair value through OCI	**Ps. 8,812,058**	**Ps. 10,123,699**	**Ps. —**	**Ps. 18,935,757**
Total investments in debt securities	**Ps. 10,941,238**	**Ps. 11,775,020**	**Ps. 13,733**	**Ps. 22,729,991**
Equity securities				
Trading equity securities	3,060	2,212,915	456,673	2,672,648
Investments in equity through OCI	935,737	51,224	103,640	1,090,601
Total equity securities	**Ps. 938,797**	**Ps. 2,264,139**	**Ps. 560,313**	**Ps. 3,763,249**

(Amounts expressed in millions of Colombian pesos)

	Level 1	Level 2	Level 3	Total
Held for trading derivatives				
Currency forward	—	616,116	1,683	617,799
Debt securities forward	—	71	—	71
Interest rate swap	—	43,181	—	43,181
Currency swap	—	48,546	—	48,546
Currency options	—	59,089	—	59,089
Total held for trading derivatives	**Ps. —**	**Ps. 767,003**	**Ps. 1,683**	**Ps. 768,686**
Hedging derivatives				
Currency forward	—	30,138	—	30,138
Total hedging derivatives	**Ps. —**	**Ps. 30,138**	**Ps. —**	**Ps. 30,138**
Other account receivables				
Financial assets in concession contracts	—	—	2,488,414	2,488,414
Total other account receivables designated at fair value	**Ps. —**	**Ps. —**	**Ps. 2,488,414**	**Ps. 2,488,414**
Non- financial assets				
Biological assets	—	—	84,206	84,206
Investment properties	—	—	836,324	836,324
Total non- financial assets	**Ps. —**	**Ps. —**	**Ps. 920,530**	**Ps. 920,530**
Total assets at fair value on recurring basis	**Ps. 11,880,035**	**Ps. 14,836,300**	**Ps. 3,984,673**	**Ps. 30,701,008**
Liabilities				
Trading derivatives				
Currency forward	—	583,242	5,779	589,021
Debt securities forward	—	2,730	—	2,730
Debt securities futures	32	—	—	32
Interest rate swap	—	32,380	—	32,380
Currency swap	—	148,378	—	148,378
Currency options	—	38,764	—	38,764
Total trading derivatives	**Ps. 32**	**Ps. 805,494**	**Ps. 5,779**	**Ps. 811,305**
Hedging derivatives				
Currency forward	—	195,539	—	195,539
Total hedging derivatives	**Ps. —**	**Ps. 195,539**	**Ps. —**	**Ps. 195,539**
Total liabilities at fair value on recurring basis	**Ps. 32**	**Ps. 1,001,033**	**Ps. 5,779**	**Ps. 1,006,844**

5.2 Items Measured at Fair Value on a Non-Recurring Basis

Grupo Aval is required, on a nonrecurring basis to adjust the carrying value of certain assets and liabilities or provide valuation allowances. These assets or liabilities primarily include impaired collateralized loans and non-current assets held for sale. The fair value of these assets which are classified as Level 3 are determined using pricing models, discounted cash flow methodologies, current replacement cost or similar techniques, using internal models or external experts with sufficient experience and knowledge of the real estate market or of assets being appraised. Generally, these appraisals are carried out by references to market data or based on the replacement cost, when sufficient market data is not available.

The following table presents Grupo Aval's assets and liabilities, classified within the fair value hierarchy, which are measured on a nonrecurring basis as of December 31, 2019 and 2018 at fair value less cost of sale:

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Impaired collateralized loans	Ps. —	Ps. —	Ps. 870,110	Ps. 870,110
Non- current assets held for sale	—	—	206,193	206,193
	Ps. —	**Ps. —**	**Ps. 1,076,303**	**Ps. 1,076,303**

	Level 1		Level 2		Level 3		Total	
December 31, 2018								
Impaired collateralized loans	Ps.	—	Ps.	—	Ps.	896,257	Ps.	896,257
Non- current assets held for sale		—		—		186,714		186,714
	Ps.	**—**	**Ps.**	**—**	**Ps.**	**1,082,971**	**Ps.**	**1,082,971**

5.3 Fair Value determination

The following tables provide information about valuation techniques and significant inputs when measuring fair value on a recurring basis for assets and liabilities, with fair value hierarchy classification of level 2 or level 3.

Level 2 instruments are those which are valued using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

The following table provides information about valuation techniques and significant inputs when measuring fair value on a recurring basis for assets and liabilities classified as level 2.

	Valuation technique Level 2	Significant inputs
ASSETS		
Investments in debt securities at fair value		
In Colombian Pesos		
Securities issued or secured by the Colombian Government	Discounted cash flow	Theoretical price / estimated price(1) Average price / market price(2)
Securities issued or secured by other Colombian Government entities	Discounted cash flow	Theoretical price / estimated price(1) Average price / market price(2)
Securities issued or secured by other financial entities	Discounted cash flow	Theoretical price / estimated price(1) Average price / market price(2) Yield and margin
Securities issued or secured by non-financial sector entities	Discounted cash flow	Theoretical price / estimated price(1) Average price / market price(2)
Others	Discounted cash flow	Theoretical price / estimated price(1) Average price / market price(2) Yield and margin
In Foreign Currency		
Securities issued or secured by the Colombian Government	Market price	Market price(2)
Securities issued or secured by other Colombian Government entities	Discounted cash flow	Theoretical price / estimated price(1) Average price / market price(2)
Securities issued or secured by foreign Governments	Internal model	Discounted cash flows using yields from similar securities outstanding Negotiation price, if there are not negotiations, it is calculated by groups of debt securities according to the Superintendency of Pensions methodologies.
	Market price	Last auction allocation price Market price(2) Market price or price calculated based on benchmarks set by price providers methodologies

	Valuation technique Level 2	**Significant inputs**
Securities issued or secured by central banks	Internal model	Discounted cash flows using yields from similar securities outstanding
	Market price	Market price or price calculated based on benchmarks set by price providers methodologies
Securities issued or secured by other financial entities	Discounted cash flow	Theoretical price / estimated price(1)
	Internal model	Discounted cash flows using yields from similar securities outstanding
	Market price	Market price or price calculated based on benchmarks set by price providers methodologies
		Bloomberg Generic
		Market price(2)
Securities issued or secured by non-financial sector entities	Market price	Theoretical price / estimated price(1)
		Market price(2)
Others	Discounted cash flow	Theoretical price / estimated price(1)
	Market price	Market price or price calculated based on benchmarks set by price providers methodologies
		Negotiation price, if there are not negotiations, it is calculated by groups of debt securities according to the Superintendency of Pensions methodologies.
		Last auction allocation price
		Quoted price
		Market price(2)
		Bloomberg Generic
Equity securities		
Corporate stock	Market price	Estimated prices(1)
Investment funds	Market price	Market value of underlying assets, less management and administrative fees
Pension and severance funds (3)	Market price	Market value of underlying assets, less management and administrative fees
Trading derivatives		
Foreign currency forward	Discounted cash flow	Underlying asset price
Debt securities forward		Currency curve by underlying asset
Interest rate swap		Forward Exchange rates curve of the operation's currency
Cross currency swap		Implicit curves of Exchange rates forwards
Swap (others)		Swap curves by underlying asset
Currency options		Implicit volatilities matrixes and curves
Foreign currency futures	Market	Market price(2)
		Spot, rates, days to maturity
Debt securities futures	Market	Market price(2)
		Spot, rates, days to maturity
Hedging derivatives		
Currency forward	Discounted cash flow	Curves by currency
Foreign currency futures	Market	Market price(2)
LIABILITIES		
Derivatives held for trading		
Foreign currency forward	Discounted cash flow	Underlying asset price
Debt securities forward		Currency curve by underlying asset
Interest rate swap		Forward Exchange rates curve of the operation's currency
Currency swap		Implicit curves of exchange rates forwards
Swap (others)		Swap curves by underlying asset

	Valuation technique Level 2	Significant inputs
Currency options		Implicit volatilities matrixes and curves
Foreign currency futures	Market	Market price(2)
		Spot, rates, days to maturity
Debt securities futures	Market	Market price(2)
		Spot, rates, days to maturity
Hedging derivatives		
Foreign currency forward	Discounted cash flow	Underlying asset price
Interest rate swap		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
Foreign currency futures	Market	Market price(2)

(1) Estimated Price: A valuation model based on information obtained from a price vendor when it is not able to supply quoted prices (unadjusted) for each security. This model is the basis for the construction of the valuation margin of the securities that is represented on the assigned curve or reference rate. This margin remains constant on the assigned curve or reference rate when calculating the theoretical valuation price.

(2) Quoted market prices (i.e. obtained from price vendors)

(3) The subsidiary Porvenir S. A. according to Colombian rules is required to invest to 1% of its total assets under management from severance and mandatory pension funds.

The following table provides information about valuation techniques and significant unobservable inputs when measuring Level 3 assets and liabilities at recurring fair value.

	Valuation technique Level 3	Significant unobservable inputs
ASSETS		
Investments in debt securities at fair value		
In Colombian Pesos		
Other	Discounted cash flow	Projected payments flow of mortgage securitizations
Equity securities		
Investments in equity securities (1)		- Growth in values after 5 years
	Discounted cash flow	- Net Income
		- Growth in residual values after 5 years
		- Discount interest rates
		- EBITDA Value
	Comparable Multiples	- Multiple of EBITDA
		- Net income value
		- Multiple of net income
Other financial assets		
Assets under concession contracts	Discounted cash flow	- Free cash flow generated solely by assets under concession.
		- Concession contract's maturity period
		- Perpetuity value of the year "n" free-cash flow
		- Weighted Average Cost of Capital ("WACC").
		The detail of valuation process for financial assets in concession arrangements are outlined in (2)
Non-financial assets		
Biological assets	Discounted cash flow	The processes used to collect data and determine the fair value of biological assets are described in (3)
Investment properties	Discounted cash flow	The processes used to collect data and determine the fair value of investment properties are described in (4)

(1) Valuation of equity securities Level 3

(Amounts expressed in millions of Colombian pesos)

Investments with fair value hierarchy level 3 have significant unobservable inputs. Level 3 instruments includes equity instruments, which are not quoted on any stock exchange. Given that 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 main equity securities by 47,492 as of December 31, 2019 classified at FVOCI level 3.

Methods and Variables	Variation	Favorable impact	Unfavorable impact
Comparable multiples / Recent transaction price			
EBITDA Number of times	+/-1 x	Ps. 2,860	Ps. (2,865)
Adjusted net Asset Value			
Most relevant variable in assets	+/-10%	331	(287)
Adjusted discounted cash flow			
Growth in residual values after 5 years	+/-1%	303	(270)
	+/-30 bp	220	(223)
Income	+/-1%	858	(1,017)
	+/- 1% anual	371	(378)
Discount rates	+/- 50 bp	604	(607)
Discount interest rates	+/- 50 bp	648	(639)
		Ps. 6,195	**Ps. (6,286)**

(2) Valuation of financial assets under Gas and Energy concession arrangement rights

Promigas and subsidiaries, designated the financial assets under concession contracts at fair value, the method used to estimate it is discounted cash flows.

The assumptions and inputs used in the calculation of the financial asset estimate were:

- The expiration date of each concession contract.
- The proportion of the expiry period left of each of the concession contracts in force.
- Operational cash flows (only) of the assets under concession.

The components of the calculations are the following:

- Free cash flow generated solely by assets under concession.
- Expiry period of the concession.
- Amount in - perpetuity of the Free Cash Flow (FCF) of the year, estimated factoring in a growth in the residual amount between 1% and 3% each year.
- Current amount of the residual amount Weighted Average Cost of Capital (WACC *), between 8.64% and 9.09% each year.

(*) 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. (Unlevered Beta 0.61, 2018)
- Risk Free Rate, Source: Geometric Average 1992-2018 of American bonds “T-Bonds”.
- Market Return, Source: Geometric Average 1992-2018 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 years “T-Bonds”). Damodaran.
- Emerging Market: Equity Premium Emerging countries (Lambda - Damodaran)

(Amounts expressed in millions of Colombian pesos)

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 December 31, 2019 is 2,706,030 and 2,488,414 at 2018, the sensitivity analysis shows their increase or decrease.

	December 31, 2019		December 31, 2018	
Variable	**+100 bps**	**-100 bps**	**+100 bps**	**-100 bps**
WACC	Ps. (637,556)	Ps. 979,942	Ps. (637,463)	Ps. 979,778
Perpetuity growth rate (*)	550,652	(387,750)	550,567	(387,696)

(*) Perpetuity growth rate in the case of concessions with renewal clauses that are highly likely to be exercised.

(3) Biological Assets

Fair value of Grupo Aval subsidiaries “biological assets”, which correspond to agricultural activities related to biological assets (animals or plants), is estimated based on internal reports prepared by the companies who own such assets. Fair value of biological assets is determined using valuations performed by experienced internal professionals, using discounted cash flow models. Since no comparable market exist for the biological assets, given their nature, their fair value is determined using discounted cash flows models for each biological asset, based on estimated future quantities of crops, prices, harvesting costs, and maintenance and crop yields, among others, discounted using a risk-free rate adjusted by an appropriate risk premium. See note 15.5.

The main assumptions used for determining the fair value of the principal biological assets are as follows:

1. Biological assets growing in rubber crops:

The price of natural rubber used to calculate the 2020-2022 cash flows was forecasted based on the average of the last 3 years of the Technically Specified Rubber (TSR20) per ton since December 2016 0.47 (USD 1,542/Ton), in order to reflect the behavior of the commodity for an entire economic cycle. Forecasted prices are adjusted annually based on the expected US inflation rate.

Yield per hectare: Based on the crop composition and the planting year of the different clones, we forecasted a stepwise yield per hectare starting in year 7 after plantation and stabilizing after year 10.

Year	Tons of rubber per hectare per year
Year 7	0.60
Year 8	0.90
Year 9	1.40
Year 10 and other	1.90

Costs and administrative expenses: Costs are forecasted considering the different activities incurred during the life of a rubber project. A cost per hectare is forecasted for every key activity such as crop establishment, maintenance of immature plant and maintenance and harvest of mature plants.

(Amounts expressed in millions of Colombian pesos)

Discount rate: Based on the data for the "Farming/Agriculture" sector of Damodaran Online's Global Markets data base, a cost of equity of 11.98% as of December 31, 2019 and 16.75% as of December 31, 2018 was defined. Additionally, a cost of debt of 6.64% as of December 31, 2019 and 6.29% as of December 31, 2018 was defined based on existing debt market conditions. Based on the above, the discount rate, or WACC, was determined to be 10.79% as of December 31, 2019 and 10.74% as of December 31, 2018.

2. Biological assets growing in African palm crops:

The price of African palm oil (USD per ton) used to calculate the 2020-2021 cash flows was forecasted based on the average price of palm oil since January 2017 (USD 690.39/Ton), in order to reflect the behavior of the commodity for an entire economic cycle. Forecasted prices are adjusted annually with the expected US inflation rate.

The source of information for international prices for Colombia's market are the following:

- Crude palm oil: BURSA MALAYSIA DERIVATIVES (BMD) – Crude Palm Oil Futures (FCPO) – Third Position. It is a relevant international market prices, of easy public access, and is provided by transparent and objective source.

- For the price forecast, available future prices (FCPO) were also used as reference.

Yield per hectare: Based on the crop composition and the re-planting year of the crops which started in 2006, we forecasted a stepwise yield per hectare for each plantation as follows:

Year	Tons of fresh fruit per hectare
0 to 3	—
4	4
5	10
6	12
7	22
7 to 18	22
More than 18	36
Weighted average	**18**

Extraction rate: The oil extraction rate (OER) is a factor that defines the amount of crude palm oil that is produced. The OER varies depending on the age of the plantation, and was forecasted based on the following table:

Year	Extraction Rate (%)
0 to 3	19
4	23
5	23
6	23
7	23
7 to 18	23
More than 18	21
Weighted average	**23**

Costs and administrative expenses: Costs are forecast considering the different activities that are incurred during the life of an African palm crop. A cost per hectare is forecast for every key activity such as crop establishment, maintenance and exploitation, harvest and transport.

(Amounts expressed in millions of Colombian pesos)

Discount rate: Based on the data for the "Farming/Agriculture" sector of Damodaran Online's Global Markets data base, a cost of equity of 11.98% as of December 31, 2019 and 16.75% as of December 31, 2018 was defined. Additionally, a cost of debt 6.64% as of December 31, 2019 and 6.29% as of December 31, 2018 was defined based on existing debt market conditions. Based on the above, the discount rate, or WACC, was determined to be 10.79% as of December 31, 2019 and 10.74% as of December 31, 2018.

Sensitivity analysis of Biological Assets at fair value

As a result of its investment in Corficolombiana, Grupo Aval´s assets include certain biological assets, that consist primarily of rubber and African palm oil. Grupo Aval does not sells its products in the Rotterdam market or produces/sells African palm oil from Malaysia. However, Grupo Aval has knowledge that the price of rubber and African palm oil traded at both markets is used to determine the price reference of these commodities.

If the average price of technically specified rubber (TSR20) and crude palm oil (CPO) had been 5% higher or lower in 2019 and 2018, with all the other variables remaining constant and excluding the effect of hedging activities, Grupo Aval's profits for the period, before taxes, would have been the following, including only the product growing on bearer plants.

Rubber Plantations

	TSR20 reference price USD/ton	Change in fiscal year-end price	Value of the biological asset	Profits before taxes
	1,619	5 %	61,736	10,550
Dec-19	1,542	Baseline scenario	57,698	6,513
	1,465	(5)%	53,660	2,475
	1,597	5 %	43,609	4,241
Dec-18	1,521	Baseline scenario	41,533	2,164
	1,445	(5)%	39,456	88

African Palm Plantations

	CPO reference price USD/ton	Change in fiscal year-end price	Value of the biological asset	Profits before taxes
	725	5 %	35,990	582
Dec-19	690	Baseline scenario	32,509	(2,900)
	656	(5) %	29,027	(6,382)
	705	5 %	31,272	(7,792)
Dec-18	671	Baseline scenario	29,783	(9,281)
	638	(5) %	28,293	(10,770)

The fair value of biological assets is also affected by different circumstances in the market such as climate, natural disasters and plagues. The subsidiaries that manage biological assets have taken all the necessary precautions to reduce these risks.

An analysis of any situation that could compromise the fulfilment of the company´s objectives is carried out by the different technical areas and the potential impact of any deviation is also measured. The result of said analysis is informed to top management to determine, in accordance with the significance of the situation, if they need to be reported to the Board of Directors.

(Amounts expressed in millions of Colombian pesos)

(4) Investment properties

Investment properties are recognized at fair value, based on a valuation made at each year-end period using, as a basis, independent appraisal expert whose report is obtained and reviewed by management. While in Colombia, the frequency of transactions in the real state sector is low compared to other more developed markets, management believes there are enough references to assess the fair value of investment properties owned by Grupo Aval and its subsidiaries based on comparable market transactions. (See note 15.4)

Fire-sales are excluded from the comparable transactions used to estimate the fair-value of investment properties. Management has reviewed the main assumptions used by the independent external appraisers (such as inflation, interest rates, etc.) and believes they are consistent with market conditions at each end of period. However, management believes that the estimation of the fair value of investment properties depends on significant judgment from the independent expert appraisers, and as such, there could be a significant probability that the actual price of sale of a property differs from its fair value. (See note 5.1)

5.4 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 2019 and 2018. 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.

December 31, 2019

	Investments in debt securities at FVTPL Transfers between:		Investments in debt securities at FVOCI Transfers between:	
	Level 2 to 1	**Level 1 to 2**	**Level 2 to 1**	**Level 1 to 2**
Securities issued or secured by Colombian Government	Ps. —	Ps. —	Ps. 72,451	Ps. 591,093
Securities issued or secured by other Colombian Government entities	—	1	—	38,324
Securities issued or secured by other financial entities	—	—	3,301	119,271
	Ps. —	**Ps. 1**	**Ps. 75,752**	**Ps. 748,688**

December 31, 2018

	Investments in debt securities at FVTPL Transfers between:		Investments in debt securities at FVOCI Transfers between:	
	Level 2 to 1	**Level 1 to 2**	**Level 2 to 1**	**Level 1 to 2**
Securities issued or secured by Colombian Government	Ps. —	Ps. —	Ps. 17,668	Ps. 14,081
Securities issued or secured by other Colombian Government entities	—	—	229,202	—
Securities issued or secured by other financial entities	—	—	—	189,013
	Ps. —	**Ps. —**	**Ps. 246,870**	**Ps. 203,094**

There were no transfers of fair values between levels 2 to or from level 3.

(Amounts expressed in millions of Colombian pesos)

5.5 Reconciliation Level 3 of the fair value hierarchy

The reconciliation of the balances at the beginning of the period to the closing balances with the fair value measurements classified at Level 3 is shows in the following table.

	Financial assets in debt securities	Equity instruments	Financial assets in concession arrangements	Biological assets	Investment properties
December 31, 2016	**Ps. 27,377**	**Ps. —**	**Ps. 2,072,674**	**Ps. 48,002**	**Ps. 610,188**
Valuation adjustment with an effect on income	765	—	209,937	13,503	46,675
Valuation adjustments with an effect on OCI	(8,540)	—	—	—	—
Transfers to non-current assets held for sale	—	—	—	—	101,469
Reclassification	—	25,341	—	—	(30,143)
Additions	—	—	—	24,409	84,036
Sales / redemptions	—	—	—	(19,775)	(28,431)
December 31, 2017	**Ps. 19,602**	**Ps. 25,341**	**Ps. 2,282,611**	**Ps. 66,139**	**Ps. 783,794**
Adoption IFRS 9 [(1)]	—	102,214	—	—	—
Valuation adjustment with an effect on income	(5,119)	9,207	205,803	20,606	39,415
Valuation adjustments with an effect on OCI	—	1,426	—	—	—
Transfers from non-current assets held for sale	—	—	—	—	19,719
Reclassification	—	25,989	—	(96)	10,780
Additions	—	(*) 396,136	—	20,900	61,300
Sales / redemptions	(750)	—	—	(23,343)	(78,684)
December 31, 2018	**Ps. 13,733**	**Ps. 560,313**	**Ps. 2,488,414**	**Ps. 84,206**	**Ps. 836,324**
Valuation adjustment with an effect on income	(3,018)	18,721	217,616	18,914	19,597
Valuation adjustments with an effect on OCI	—	3,101	—	—	5,288
Transfers from non-current assets held for sale	—	—	—	—	21,722
Reclassification	—	—	—	—	(2,078)
Additions	—	238	—	20,559	116,702
Sales / redemptions	(613)	(74)	—	(18,822)	(68,989)
December 31, 2019	**Ps. 10,102**	**Ps. 582,299**	**Ps. 2,706,030**	**Ps. 104,857**	**Ps. 928,566**

(*) Includes investment in NEXUS Real Estate Capital Funds by Banco de Bogota of Ps. 330,350, Banco Popular of Ps.24,222, Alpopular of Ps. 41,070 and Fiduciaria Popular of Ps.494

(1) Grupo Aval has initially adopted IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See note 2(2.4 (C)).

(Amounts expressed in millions of Colombian pesos)

5.6 Fair Value of Financial Assets and Liabilities recognized at Amortized Cost

The following table shows a summary of financial assets and liabilities accounted at amortized cost and valued at fair value as of December 31, 2019 and 2018, only for disclosure purposes.

	December 31, 2019		December 31, 2018	
	Carrying Amount	**Fair Value Estimate**	**Carrying Amount**	**Fair Value Estimate**
Assets				
Investments in debt securities at amortized cost [1]	Ps. 3,053,862	Ps. 3,031,355	Ps. 2,972,616	Ps. 2,984,973
Credit portfolio at amortized cost [2]	173,942,317	183,308,411	168,685,654	176,228,181
Total financial assets	**Ps. 176,996,179**	**Ps. 186,339,766**	**Ps. 171,658,270**	**Ps. 179,213,154**
Liabilities				
Customer deposits [3]	Ps. 175,491,421	Ps. 176,310,606	Ps. 164,359,451	Ps. 164,682,493
Financial obligations [4]	54,844,576	56,116,678	51,211,990	51,811,778
Total financial liabilities	**Ps. 230,335,997**	**Ps. 232,427,284**	**Ps. 215,571,441**	**Ps. 216,494,271**

(1) **Financial assets at amortized cost**
Fair value of fixed income investments at amortized cost was determined using the dirty price given by the price supplier, securities in an active market and with a market price for the day of the valuation are classified as level 1; securities with no active market and/or with an estimated price (present value of the flows of a security, discounted with the reference rate and the corresponding margin) given by the supplier are classified as level 2.

(2) **Credit portfolio at amortized cost**
For credit portfolio at amortized cost, the fair value was determined using discounted cash flows models at the interest rates offered by banks for granting new loans, taking into account the credit risk and its maturity; the process of valuation is deemed as level 3.
Accounts receivable and payable are classified as short-term assets and liabilities; in consequence, their fair value is similar to their book value.

(3) **Customer deposits**
The fair value of demand deposits is equal to their carrying value. For fixed-term deposits with maturities of less than 180 days, their fair value is deemed equal to their carrying value. For fixed-term deposits with maturities of more than 180 days, their fair value was estimated using the carrying discounted cash flow models and the interest rates offered by banks in accordance with their maturity. This is considered as a level 2 valuation.

(4) **Financial obligations**
For financial liabilities and other short-term liabilities, the carrying value was considered to be similar to its fair value. The fair value of long-term financial liabilities was determined using the discounted cash flow model at interest rates free of risk adjusted by risk premiums of each entity. The fair value of outstanding bonds is determined according to quoted prices or estimated prices supplied by the price vendor. It is considered that this is a level 2 valuation.

(Amounts expressed in millions of Colombian pesos)

NOTE 6 – CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

See accounting policies in Notes 2(2.5).

The following table provides a reconciliation of gross amount between line items in the statement of financial position and categories of financial instruments as of December 31, 2019 and 2018.

December 31, 2019 Assets	Note	Mandatorily at FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	Amortized Cost	Total carrying amount
Cash and cash equivalents	7	Ps. —	Ps. —	Ps. —	Ps. 30,117,236	Ps. 30,117,236
Trading assets	**8**	**9,113,668**	**—**	**—**	**—**	**9,113,668**
Debt securities		4,673,113	—	—	—	4,673,113
Equity securities		3,523,121	—	—	—	3,523,121
Derivative assets		917,434	—	—	—	917,434
Investment securities	**9**	**10,102**	**21,608,992**	**1,328,092**	**3,053,862**	**26,001,048**
Measured at fair value		10,102	21,608,992	1,328,092	—	22,947,186
Measured at amortized cost		—	—	—	3,053,862	3,053,862
Loans	11	—	—	—	182,128,114	182,128,114
Other accounts receivable	**12**	**2,706,030**	**—**	**—**	**9,282,734**	**11,988,764**
Measured at fair value		2,706,030	—	—	—	2,706,030
Measured at amortized cost		—	—	—	9,282,734	9,282,734
Hedging derivative assets	10	166,598	—	—	—	166,598
Total financial assets		**Ps. 11,996,398**	**Ps. 21,608,992**	**Ps. 1,328,092**	**Ps. 224,581,946**	**Ps. 259,515,428**

Liabilities	Note	Mandatorily at FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	Amortized Cost	Total carrying amount
Trading liabilities						
Derivative liabilities	8	Ps. 962,438	Ps. —	Ps. —	Ps. —	Ps. 962,438
Hedging derivative liabilities	10	94,298	—	—	—	94,298
Customer deposits	20	—	—	—	175,491,421	175,491,421
Financial obligations	21	—	—	—	54,844,576	54,844,576
Total financial liabilities		**Ps. 1,056,736**	**Ps. —**	**Ps. —**	**Ps. 230,335,997**	**Ps. 231,392,733**

December 31, 2018 Assets	Note	Mandatorily at FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	Amortized Cost	Total carrying amount
Cash and cash equivalents	7	Ps. —	Ps. —	Ps. —	Ps. 28,401,283	Ps. 28,401,283
Trading assets	**8**	**7,204,312**	**—**	**—**	**—**	**7,204,312**
Debt securities		3,762,978	—	—	—	3,762,978
Equity securities		2,672,648	—	—	—	2,672,648
Derivative assets		768,686	—	—	—	768,686
Investment securities	**9**	**31,256**	**18,935,757**	**1,090,601**	**2,972,616**	**23,030,230**
Measured at fair value		31,256	18,935,757	1,090,601	—	20,057,614
Measured at amortized cost		—	—	—	2,972,616	2,972,616
Loans	11	—	—	—	176,881,841	176,881,841
Other accounts receivable	**12**	**2,488,414**	**—**	**—**	**7,069,120**	**9,557,534**
Measured at fair value		2,488,414	—	—	—	2,488,414
Measured at amortized cost		—	—	—	7,069,120	7,069,120
Hedging derivative assets	10	30,138	—	—	—	30,138
Total financial assets		**Ps. 9,754,120**	**Ps. 18,935,757**	**Ps. 1,090,601**	**Ps. 215,324,860**	**Ps. 245,105,338**

Liabilities	Note	Mandatorily at FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	Amortized Cost	Total carrying amount
Trading liabilities						
Derivative liabilities	8	Ps. 811,305	Ps. —	Ps. —	Ps. —	Ps. 811,305
Hedging derivative liabilities	10	195,539	—	—	—	195,539
Customer deposits	20	—	—	—	164,359,451	164,359,451
Financial obligations	21	—	—	—	51,211,990	51,211,990
Total financial liabilities		**Ps. 1,006,844**	**Ps. —**	**Ps. —**	**Ps. 215,571,441**	**Ps. 216,578,285**

(Amounts expressed in millions of Colombian pesos)

NOTE 7 – CASH AND CASH EQUIVALENTS

Balances of cash and cash equivalents comprise the following as of December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
In Colombian Pesos				
Cash	Ps.	4,466,144	Ps.	4,489,637
Deposits in the Colombian central bank		4,755,515		3,794,412
Demand deposits in banks and other financial entities		266,964		559,181
Clearing houses		1,248		3,428
Investments in debt securities maturing in under three months		31,353		2,449
Cash held for specific purposes (1)		50,078		254,280
	Ps.	**9,571,302**	**Ps.**	**9,103,387**
In foreign currency				
Cash		2,186,402		1,955,745
Demand deposits in banks and other financial entities		18,359,532		17,342,151
	Ps.	**20,545,934**	**Ps.**	**19,297,896**
Total cash and cash equivalents	**Ps.**	**30,117,236**	**Ps.**	**28,401,283**

(1) Grupo Aval has cash held for specific purpuses related to the collection of tolls in concessions.

Grupo Aval´s banking subsidiaries had cash reserves to comply with the mandatory (see note 4.3) amount for time deposits, checking accounts and savings accounts for 16,806,578 and 15,710,055 at December 31, 2019 and 2018, respectively.

NOTE 8 – TRADING ASSETS AND LIABILITIES

Balances of trading asset and liabilities comprise the following as of December 31, 2019 and 2018:

	Note	December 31, 2019		December 31, 2018	
Trading assets					
Debt securities	8.1	Ps.	4,673,113	Ps.	3,762,978
Equity securities	8.2		3,523,121		2,672,648
Derivative assets	8.3		917,434		768,686
		Ps.	**9,113,668**	**Ps.**	**7,204,312**
Trading liabilities					
Derivative liabilities	8.3		962,438		811,305
		Ps.	**962,438**	**Ps.**	**811,305**
Total trading assets and liabilities net		**Ps.**	**8,151,230**	**Ps.**	**6,393,007**

(Amounts expressed in millions of Colombian pesos)

8.1 Trading investments in debt securities

The following is the balance at December 31, 2019 and 2018.

	December 31, 2019	December 31, 2018
Securities issued or secured by the Colombian Government	Ps. 2,425,760	Ps. 2,270,642
Securities issued or secured by other Colombian Government entities	175,794	128,546
Securities issued or secured by foreign Governments	139,534	98,155
Securities issued or secured by central banks	13,966	12,914
Securities issued or secured by other financial entities	1,850,422	1,218,751
Securities issued or secured by non-financial sector entities	33,942	29,122
Others	33,695	4,848
Total trading debt securities	**Ps. 4,673,113**	**Ps. 3,762,978**

8.2 Trading investments in equity securities

The following is the balance at December 31, 2019 and 2018.

	December 31, 2019	December 31, 2018
In Colombian Pesos		
Corporate stock	Ps. 1,679	Ps. 3,060
Investment funds (1)	1,587,495	1,162,260
Pension and severance funds (2)	1,847,317	1,451,692
	Ps. 3,436,491	**Ps. 2,617,012**
In foreign currency		
Corporate stock	**Ps.** 34,796	**Ps.** 32,733
Investment funds	51,834	22,903
	Ps. 86,630	**Ps. 55,636**
Total equity securities	**Ps. 3,523,121**	**Ps. 2,672,648**

(1) Grupo Aval has restricted Investment Funds related to Concesionaria Nueva Vía al Mar Ps. 49,788 and Concesionaria Vial del Pacífico Ps. 22,444.

(2) Pursuant to Colombian rules, the subsidiary Porvenir S. A. is required to directly invest 1% of the total assets of these funds in mandatory severance and pension funds managed by Porvenir.

(Amounts expressed in millions of Colombian pesos)

8.3 Trading derivatives assets and liabilities

Trading derivative assets and liabilities comprise the following as of December 31, 2019 and 2018.

	December 31, 2019		December 31, 2018	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Forward contracts				
Foreign currency to buy	Ps. 30,706	Ps. 750,384	Ps. 599,987	Ps. 22,175
Foreign currency to sell	734,460	65,009	17,811	566,846
Debt securities to buy	150	277	50	—
Debt securities to sell	103	298	22	2,730
Subtotal	**Ps. 765,419**	**Ps. 815,968**	**Ps. 617,870**	**Ps. 591,751**
Swap				
Cross currency	34,682	31,808	48,546	148,378
Interest rate	73,481	64,673	43,181	32,380
Subtotal	**Ps. 108,163**	**Ps. 96,481**	**Ps. 91,727**	**Ps. 180,758**
Futures contracts				
Debt securities to buy	—	52	—	32
Subtotal	**Ps. —**	**Ps. 52**	**Ps. —**	**Ps. 32**
Options contracts				
Foreign currency to buy	43,069	977	59,089	—
Foreign currency to sell	783	48,960	—	38,764
Subtotal	**43,852**	**49,937**	**59,089**	**38,764**
Total derivative assets and liabilities trading	**Ps. 917,434**	**Ps. 962,438**	**Ps. 768,686**	**Ps. 811,305**

Derivative instruments contracted by Grupo Aval or its consolidated entities are generally traded in either domestic financial markets or in over-the-counter international markets. Derivative instruments have a net favorable position (asset) or a net unfavorable position (liability) as a result of fluctuations in exchange rates, in interest rates or other variables relating to market conditions. As a result, the aggregate amount of fair values of the assets and liabilities in derivative instruments may vary significantly from time to time.

8.4 Trading assets in debt securities pledged as collateral

The following is a list of held-for-trading financial assets that are being used as collateral in repo operations, pledged as collateral for transactions with financial instruments, or pledged to third parties as collateral to secure financial obligations with other banks (See note 21).

	December 31, 2019	December 31, 2018
Pledged as collateral in money market operations		
Securities issued or secured by central banks	Ps. 12,454	Ps. 11,533
Securities issued or secured by foreign Governments	53,900	51,055
Securities issued or secured by Colombian Government	533,358	1,027,436
Securities issued or secured by other financial entities	15,775	15,567
	Ps. 615,487	**Ps. 1,105,591**
Pledged as collateral to special entities such as CRCC, BR and BVC (*)		
Securities issued or secured by Colombian Government	**Ps.** 5,433	**Ps.** 34,191
	5,433	**34,191**
	Ps. 620,920	**Ps. 1,139,782**

(*) Cámara de Riesgo Central de Contraparte ("CRCC"), Banco de la República ("BR") and Bolsa de Valores de Colombia ("BVC")

(Amounts expressed in millions of Colombian pesos)

NOTE 9 – INVESTMENT SECURITIES

Balances of investment securities comprise the following as of December 31, 2019 and 2018:

	Note	December 31, 2019		December 31, 2018	
Investments in debt securities mandatorily at FVTPL	9.1	Ps.	10,102	Ps.	31,256
Investments in debt securities at FVOCI	9.2		21,608,992		18,935,757
Investments in debt securities at amortized cost	9.3		3,053,862		2,972,616
Investments in equity securities at FVOCI	9.4		1,328,092		1,090,601
		Ps.	**26,001,048**	**Ps.**	**23,030,230**
Loss impairment					
Investments in debt securities at amortized cost	4.1.5		**(737)**		**(71)**
		Ps.	**(737)**	**Ps.**	**(71)**
Total investment securities net		**Ps.**	**26,000,311**	**Ps.**	**23,030,159**

9.1 Investments in debt securities mandatorily at FVTPL

The following table includes investments on asset-backed securities mandatorily at FVTPL because the contractual cash flows of these securities are not SPPI on the principal outstanding.

	December 31, 2019		December 31, 2018	
Others		10,102		31,256
Total investments in debt securities mandatorily at FVTPL	**Ps.**	**10,102**	**Ps.**	**31,256**

9.2 Investments in debt securities at FVOCI

The following table includes investments in debt securities at FVOCI as of December 31, 2019 and 2018**:**

December 31, 2019

Debt securities	Cost		Unrealized Gain		Unrealized Losses		Fair Value		ECL
Securities issued or secured by Colombian Government	Ps.	11,556,588	Ps.	118,746	Ps.	(31,392)	Ps.	11,643,942	Ps. 3,476
Securities issued or secured by other Colombian Government entities		448,710		17,654		(686)		465,678	482
Securities issued or secured by foreign Governments		4,777,822		219,998		(390)		4,997,430	25,132
Securities issued or secured by central banks		969,832		2,354		(2,091)		970,095	1,210
Securities issued or secured by other financial entities		3,033,397		22,451		(923)		3,054,925	2,850
Securities issued or secured by non-financial sector entities		34,325		515		—		34,840	38
Others		434,719		7,411		(48)		442,082	892
Total debt securities at FVOCI	**Ps.**	**21,255,393**	**Ps.**	**389,129**	**Ps.**	**(35,530)**	**Ps.**	**21,608,992**	**Ps. 34,080**

(Amounts expressed in millions of Colombian pesos)

December 31, 2018

Debt securities	Cost	Unrealized Gain	Unrealized Losses	Fair Value	ECL
Securities issued or secured by Colombian Government	Ps. 10,517,512	Ps. 65,724	Ps. (57,462)	Ps. 10,525,774	Ps. 446
Securities issued or secured by other Colombian Government entities	496,936	3,581	(2,882)	497,635	422
Securities issued or secured by foreign Governments	3,042,595	9,209	(36,248)	3,015,556	14,457
Securities issued or secured by central banks	1,133,337	1,058	(2,655)	1,131,740	6,154
Securities issued or secured by other financial entities	3,352,299	3,191	(47,010)	3,308,480	8,623
Securities issued or secured by non-financial sector entities	278,838	156	(69,054)	209,940	68,657
Others	251,878	121	(5,367)	246,632	258
Total debt securities at FVOCI	**Ps. 19,073,395**	**Ps. 83,040**	**Ps. (220,678)**	**Ps. 18,935,757**	**Ps. 99,017**

The following table shows amounts reclassified to profit or loss from OCI before taxes, related to fixed income investments debt securities measured at FVOCI:

	December 31, 2019	December 31, 2018
Redemptions or sales	232,738	43,574
ECL allowance	53,511	31,809
Total reclassified to profit or loss	**Ps. 286,249**	**Ps. 75,383**

9.3 Investments in debt securities at amortized cost

The following table includes investments in debt securities at amortized cost as of December 31, 2019 and 2018:

Debt securities	December 31, 2019	December 31, 2018
Securities issued or secured by other Colombian Government entities	Ps. 3,029,802	Ps. 2,931,172
Securities issued or secured by foreign Governments	23,043	32,321
Securities issued or secured by other financial entities	1,017	9,123
Total debt securities at amortized cost	**Ps. 3,053,862**	**Ps. 2,972,616**

The following is a summary of investments in debt securities at amortized cost by maturity dates:

	December 31, 2019	December 31, 2018
Up to 1 month	Ps. 693,328	Ps. 671,047
More than 1 month and no more than 3 months	12,787	12,787
More than 3 months and no more than 1 year	2,347,747	2,287,755
More than 1 year and no more than 5 years	—	1,027
Total	**Ps. 3,053,862**	**Ps. 2,972,616**

(Amounts expressed in millions of Colombian pesos)

9.4 Investments in equity securities at fair value through OCI

The following is the balance at December 31, 2019 and 2018.

December 31, 2019

	Cost	Unrealized Gain	Unrealized Losses	Fair Value
In Colombian Pesos				
Corporate stock	Ps. 593,573	Ps. 720,402	Ps. (4,439)	Ps. 1,309,536
In foreign currency				
Corporate stock	12,465	6,091	—	18,556
Total equity securities	**Ps. 606,038**	**Ps. 726,493**	**Ps. (4,439)**	**Ps. 1,328,092**

December 31, 2018

	Cost	Unrealized Gain	Unrealized Losses	Fair Value
In Colombian Pesos				
Corporate Stock	Ps. 593,611	Ps. 476,023	Ps. (3,314)	Ps. 1,066,320
In foreign currency				
Corporate Stock	12,717	11,571	(7)	24,281
Total equity securities	**Ps. 606,328**	**Ps. 487,594**	**Ps. (3,321)**	**Ps. 1,090,601**

Variations in fair values fundamentally reflect variations in the performance of companies and market conditions mainly due to changes in interest rates and other economic trends in the country where the investment is held. At December 31, 2019 and 2018 Grupo Aval considers that there is no evidence of deterioration.

The details of equity instruments through OCI as of December 31, 2019 and 2018 are as follows.

Entity (*)	December 31, 2019	December 31, 2018
Empresa de Energia de Bogota S.A. E.S.P.	Ps. 1,055,163	Ps. 841,279
Gas Natural S.A. ESP	45,945	43,460
Mineros S.A.	72,638	45,706
Bolsa de Valores de Colombia S.A.	46,817	48,351
Sociedades Portuarias	29,840	28,897
Master Card (**)	—	7,526
Others	77,689	75,382
Total	**Ps. 1,328,092**	**Ps. 1,090,601**

(*) These investments in equity securities have been designated as FVOCI considering that they represent strategic investments for Grupo Aval and therefore, they are not expected to be sold in a foreseeable future.

(**) During the second half of 2019, Banco de Occidente carried out the sale of its investment in Master Card Colombia, which led to a profit of Ps. 11,329. Given the investment had been classified as measured at fair value with changes in other comprehensive income, this realized gain was recognized directly in retained earnings and did not affect the result of the period.

For the years ended December 31, 2019 and 2018, dividends from these equity investments in the amount of Ps. 84,686 and Ps. 71,487 respectively, were recognized in profit or loss in other income line (see note 30).

(Amounts expressed in millions of Colombian pesos)

9.5 Investment in debt at FVOCI and amortized cost securities pledged as collateral

The following is a list of debt securities at FVOCI and amortized cost that are being used as collateral in repo operations, pledged as collateral for transactions with financial instruments, or pledged to third parties as collateral to secure financial obligations with other banks (See note 21).

9.5.1 Investment in debt securities through OCI

		December 31, 2019		December 31, 2018
Pledged as collateral in money market operations				
Securities issued or secured by foreign Governments	Ps.	—	Ps.	202,300
Securities issued or secured by Colombian Government		6,116,290		3,195,548
Securities issued or secured by other Colombian Government entities		24,554		63,605
Securities issued or secured by other financial entities		42,068		57,182
Others		40,536		39,602
	Ps.	**6,223,448**	**Ps.**	**3,558,237**
Pledged as collateral in operations with derivative instruments				
Securities issued or secured by Colombian Government		158,850		1,087
	Ps.	**158,850**	**Ps.**	**1,087**
Pledged as collateral to special entities such as CRCC, BR and BVC (*)				
Securities issued or secured by Colombian Government		439,160		471,579
	Ps.	**439,160**	**Ps.**	**471,579**
Other collaterals				
Securities issued or secured by central banks		167,042		167,634
	Ps.	**167,042**	**Ps.**	**167,634**
	Ps.	**6,988,500**	**Ps.**	**4,198,537**

(*) Cámara de Riesgo Central de Contraparte ("CRCC"), Banco de la República ("BR") and Bolsa de Valores de Colombia ("BVC")

9.5.2 Investment in debt securities at amortized cost

		December 31, 2019		December 31, 2018
Pledged as collateral in money market operations				
Securities issued or secured by other Colombian Government entities	Ps.	323,954	Ps.	—
	Ps.	**323,954**	**Ps.**	**—**
	Ps.	**323,954**	**Ps.**	**—**

NOTE 10 – 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 subsidiary Promigas, as follows:

Hedges of net investment in foreign operations

Banco de Bogotá, Banco de Occidente and Promigas are exposed to foreign exchange risk relating to its investments in foreign subsidiaries, which functional currencies are the US dollar.

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.

(Amounts expressed in millions of Colombian pesos)

To cover this risk, Grupo Aval hedges its exposure through foreign currency financial liabilities expressed in U.S. dollars and forward contracts for the sale of U.S. dollars.

Changes in the fluctuation of the Colombian peso against the U.S. dollar have been as follows:

Date	Value of USD 1	Variation in pesos
December 31, 2017	2,984.00	(16.71)
December 31, 2018	3,249.75	265.75
December 31, 2019	3,277.14	27.39

According to the information described above, the following table shows movements of OCI gross of taxes, related to hedges of net investment in foreign operations:

Detail of investment	Translation adjustment of the investments	Exchange difference of financial liabilities	Exchange difference in forward contracts	Net OCI account
Leasing Bogotá Panamá	Ps. 101,556	Ps. (56,618)	Ps. (46,383)	Ps. (1,445)
Other subsidiaries and branches Banco de Bogotá	3,638	—	(3,935)	(297)
Occidental Bank Barbados	1,142	(1,142)	—	—
Banco de Occidente Panamá	1,799	(1,799)	—	—
Sociedad Portuaria El Cayao S.A. E.S.P.	(740)	740	—	—
Gases del Pacífico S.A.C.	(92)	(1,096)	—	(1,189)
Gas Natural de Lima y Callao S.A.C. – Calidda	(11,973)	11,973	—	—
Total	**Ps. 95,329**	**Ps. (47,942)**	**Ps. (50,318)**	**Ps. (2,931)**

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

December 31, 2019

	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	4,475,304	(2,067,100)	(2,391,651)	Ps. 4,230,937	Ps. (1,651,823)	Ps. (2,716,214)	Ps. (137,100)
Other subsidiaries and branches Banco de Bogotá (2)	139,662	—	(137,752)	129,616	—	(127,333)	2,283
Occidental Bank Barbados	31,027	(31,027)	—	25,748	(25,748)	—	—
Banco de Occidente Panamá	38,924	(38,924)	—	37,376	(37,376)	—	—
Sociedad Portuaria El Cayao S.A. E.S.P. (3)	26,214	(26,214)	—	9,332	(9,332)	—	—
Gases del Pacífico S.A.C. (3)	2,500	(2,500)	—	2,302	(3,490)	—	(1,189)
Gas Natural de Lima y Callao S.A.C. – Calidda (3)	131,606	(131,606)	—	(3,977)	3,977	—	—
Total	**4,845,237**	**(2,297,371)**	**(2,529,403)**	**Ps. 4,431,333**	**Ps. (1,723,792)**	**Ps. (2,843,547)**	**Ps. (136,006)**

(Amounts expressed in millions of Colombian pesos)

December 31, 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	3,964,051	(2,067,100)	(1,896,348)	Ps. 4,129,381	Ps. (1,595,205)	Ps. (2,669,831)	Ps. (135,655)
Other subsidiaries and branches Banco de Bogotá (2)	126,380	—	(121,116)	125,978	—	(123,398)	2,580
Occidental Bank Barbados	23,971	(23,971)	—	24,606	(24,606)	—	—
Banco de Occidente Panamá	23,439	(23,439)	—	35,577	(35,577)	—	—
Sociedad Portuaria El Cayao S.A. E.S.P. (3)	31,214	(31,214)	—	10,072	(10,072)	—	—
Gases del Pacífico S.A.C. (3)	4,000	(4,000)	—	2,394	(2,394)	—	—
Gas Natural de Lima y Callao S.A.C. – Calidda (3)	31,649	(19,336)	—	7,996	(7,996)	—	—
Total	**4,204,704**	**(2,169,060)**	**(2,017,464)**	**Ps. 4,336,004**	**Ps. (1,675,850)**	**Ps. (2,793,229)**	**Ps. (133,075)**

(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

Hedging with Forward Contracts

Forward contracts to sell U.S. dollars have been contracted to hedge part of the net foreign investment that Banco de Bogotá has in Leasing Bogotá Panamá and other foreign subsidiaries. The forward contracts were executed with counterparties from the financial sector and the hedge was documented as a "dynamic hedging strategy", where new forward contracts are signed simultaneously as the previous ones expire. According to IAS 39, changes in the fair value of derivatives exclusively due to exchange rate changes in the peso against the U.S. dollar are registered under “Other Comprehensive Income” in equity. The ineffective part of the hedge is recognized in the statement of income for the period.

Hedging with Debt in Foreign Currency in U.S. dollars

Debt financial instruments that are not derivatives can be designated as hedging instruments for changes in foreign currency exchange rates. According to this rule, Banco de Bogotá and Banco de Occidente designed debt denominated in U.S. dollar as hedging instruments of their foreign subsidiaries as follows:

- Bonds issued by Banco de Bogotá in the international market were designated as hedging instruments of its investment in Leasing Bogotá Panamá amounting US$2,067 million in 2019 and 2018.
- Other financial liabilities in the amount of $230 million as December 31, 2019 (US$102 million as of December 31, 2018) were used to hedge part of the net foreign investment that Banco de Occidente and Promigas have in foreign subsidiaries as part of a hedging strategy, by which new obligations are continuously designated as hedging instruments to replace the previous ones as they expire over time.
- Between December 21, 2015 and November 2, 2016, financial liabilities designated as hedging instruments described above included an intra-group liability amounting to US$ 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 from the foreign investment hedge accounting. Starting on 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

73,708. This amount could be realized in the future as income 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.

Hedging of Future 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. Promigas and its subsidiaries hedge the exchange risk arising in future transactions of highly probable gas transportation income, entering into forward contracts for the sale of U.S. dollars with financial entities different from the ones consolidated into Grupo Aval. During the years ended December 31, 2019, 2018 and 2017, an exchange difference recognized under "Other Comprehensive Income" as a result of cash flow hedge accounting of income (loss) from these highly probable transactions, was reclassified to profit or loss in the amounts of Ps. 20,066, Ps. (276) and Ps. (26,846) respectively.

The following is the summary of Promigas and its subsidiaries open cash flow hedges:

	December 31, 2019	December 31, 2018
Income in Thousands of USD dollars forecasted	92,611	120,265
Notional amount contracts forward Thousands of USD	92,611	120,265
% hedged	100 %	100 %
Fair value in Colombian pesos	(874)	(13,414)
# of contracts	158	1,470

The movement of the accumulated OCI account related to cash flow hedges in Colombian pesos during the years ended on December 31, 2019, 2018 and 2017 is as follows:

	December 31, 2019		December 31, 2018		December 31, 2017	
Balance at the beginning of the year	**Ps.**	**(14,343)**	**Ps.**	**5,447**	**Ps.**	**7,419**
Changes in the fair value of the hedge forward contracts		(6,597)		(19,513)		24,874
Reclassified to profit or loss		20,066		(276)		(26,846)
Balance at the end of the year	**Ps.**	**(874)**	**Ps.**	**(14,343)**	**Ps.**	**5,447**

Testing of Hedge Effectiveness

Grupo Aval considers hedging as highly effective if at the beginning and in subsequent periods, the hedging instrument highly offsets 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.

Grupo Aval has documented the hedging effectiveness of its foreign currency denominated investments based on the portion of the net investment hedged at the beginning of the hedging relationship. Since the net balance of these investments fluctuates during the year, Grupo Aval evaluates the hedging relationship on a daily basis as well as the result of the testing of hedge effectiveness.

Hedge Effectiveness with Forward Contracts

Grupo Aval applies the method of the forward rate used in forward contracts to evaluate the hedge effectiveness; for such purpose, Grupo Aval measures the hedge ineffectiveness comparing the value of current forward contracts, which serve as hedge, with the change in the value of a hypothetical derivative with the same maturity.

(Amounts expressed in millions of Colombian pesos)

Hedge Effectiveness with Debt Instruments in Foreign Currency

For debt instruments in foreign currency designated as a hedging instruments, the gain or loss arising from the conversion of the debt to Colombian Pesos is based on the current exchange rate between the U.S. dollar and the Colombian Peso, which is the functional currency of Grupo Aval. If the notional amount of the hedging instrument exactly matches with the portion of the hedged investment in foreign operations, no ineffectiveness is registered in the statement of income.

Derivative Financial Instruments for hedging purposes comprise the following:

According to information described above, the following table contains the fair value of derivative financial instruments used for hedging:

	December 31, 2019		December 31, 2018	
Item	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Forward contracts				
Foreign currency to buy	Ps. 14	Ps. 74,529	Ps. 28,367	Ps. 1,128
Foreign currency to sale	166,584	16,197	1,771	194,411
Subtotal	**Ps. 166,598**	**Ps. 90,726**	**Ps. 30,138**	**Ps. 195,539**
Swap				
Interest rate	—	3,572	—	—
Subtotal	**Ps. —**	**Ps. 3,572**	**Ps. —**	**Ps. —**
Total hedge derivatives	**Ps. 166,598**	**Ps. 94,298**	**Ps. 30,138**	**Ps. 195,539**

NOTE 11 – LOANS

11.1 Loan Portfolio by Product

The distribution of the loan portfolio of Grupo Aval by product is shown as follows:

	December 31, 2019	**December 31, 2018**
General purpose loans	Ps. 68,949,019	Ps. 65,923,472
Personal loans	36,998,746	33,791,703
Mortgages	18,661,389	17,279,362
Credit Cards	16,891,296	15,550,920
Working capital loans	15,476,328	15,192,830
Commercial financial leases	10,348,941	9,858,952
Interbank & overnight funds	2,718,961	7,635,188
Automobile and vehicle loans	5,759,560	5,951,793
Loans funded by development banks	3,546,973	3,222,754
Housing leases	1,560,294	1,312,741
Overdrafts	553,765	481,946
Microcredit	410,320	425,697
Consumer financial leases	252,522	254,483
Gross balance of loan portfolio	**Ps. 182,128,114**	**Ps. 176,881,841**
Loss allowance loan portfolio (1)	(8,185,797)	(8,196,187)
Net balance of loan portfolio	**Ps. 173,942,317**	**Ps. 168,685,654**

(1) See loss allowance reconciliations from the opening to the closing balance in note 4.1.5.

(Amounts expressed in millions of Colombian pesos)

11.2 Loan portfolio by maturity

The distribution of Grupo Aval´s loan portfolio by contractual maturity period is as follows:

December 31, 2019

	Up to 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Total
Commercial	Ps. 44,018,321	Ps. 18,223,388	Ps. 12,022,488	Ps. 17,042,522	Ps. 91,306,719
Consumer	16,949,266	11,080,750	10,905,187	20,652,726	59,587,929
Mortgage	325,908	583,177	734,982	17,017,322	18,661,389
Microcredit	225,439	171,325	11,060	2,496	410,320
Financial leasing (*)	2,385,372	3,363,063	2,608,974	3,804,348	12,161,757
Total gross loan portfolio	**Ps. 63,904,306**	**Ps. 33,421,703**	**Ps. 26,282,691**	**Ps. 58,519,414**	**Ps. 182,128,114**

December 31, 2018

	Up to 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Total
Commercial	Ps. 46,119,981	Ps. 18,810,647	Ps. 11,234,938	Ps. 16,384,459	Ps. 92,550,025
Consumer	15,798,783	10,507,521	10,794,506	18,099,771	55,200,581
Mortgage	287,133	504,727	676,978	15,810,524	17,279,362
Microcredit	226,651	182,245	13,345	3,456	425,697
Financial leasing (*)	2,344,468	2,826,293	2,801,147	3,454,268	11,426,176
Total gross loan portfolio	**Ps. 64,777,016**	**Ps. 32,831,433**	**Ps. 25,520,914**	**Ps. 53,752,478**	**Ps. 176,881,841**

(*) See note 4.1.1

11.3 Interest income by portfolio

The interest income of the loan portfolio of Grupo Aval by portfolio is shown as follows:

	December 31, 2019	December 31, 2018	December 31, 2017
Commercial	Ps. 6,810,728	Ps. 6,571,717	Ps. 7,327,525
Consumer	8,914,970	8,220,751	8,034,338
Mortgage	1,524,379	1,329,713	1,183,573
Microcredit	106,062	108,472	113,774
Financial leasing	1,135,028	1,159,962	1,240,757
Total interest income	**Ps. 18,491,167**	**Ps. 17,390,615**	**Ps. 17,899,967**

(Amounts expressed in millions of Colombian pesos)

11.4 Financial Leasing portfolio

As of December 31, 2019, and 2018 the following table shows the reconciliation between gross investment in financial leasing and the present value of minimum payments to be received in these dates:

	December 31, 2019		December 31, 2018	
Total gross rent payments receivable	Ps.	18,103,115	Ps.	17,372,906
Less amounts representing running costs (such as taxes, maintenance, insurances, etc.,)		(238)		(286)
Plus, estimated residual amount of assets given for rental (without guarantee)		22,625		36,166
Gross investment in contracts of financial leasing		**18,125,502**		**17,408,786**
Less unrealized financial income		(5,963,745)		(5,982,610)
Net investment in contracts of financial leasing		**12,161,757**		**11,426,176**
Loss allowance of net investment in financial leasing	**Ps.**	**(501,825)**	**Ps.**	**(471,007)**

The detailed information of gross investment and net investment in financial leasing contracts receivable as of December 31, 2019 and 2018 in each period is as follows:

	December 31, 2019			
	Gross investment		Net investment	
Up to 1 year	Ps.	2,284,884	Ps.	1,582,650
From 1 to 5 years		8,013,317		5,002,687
More than 5 years		7,827,301		5,576,420
Total	**Ps.**	**18,125,502**	**Ps.**	**12,161,757**

	December 31, 2018			
	Gross investment		Net investment	
Up to 1 year	Ps.	2,296,714	Ps.	1,579,195
From 1 to 5 years		6,799,539		4,870,790
More than 5 years		8,312,533		4,976,191
Total	**Ps.**	**17,408,786**	**Ps.**	**11,426,176**

The banks of Grupo Aval grant loans through the modality of financial leasing mainly for the financing of vehicles and computer equipment, generally with terms between 36 and 60 months with a purchase option at the end of the contract, machinery and equipment with terms between 60 to 120 months with a purchase option and for housing leasing with terms between 120 to 240 months transferring the asset at the end of the contract. All these leasing contracts are granted at current market interest rates at inception.

NOTE 12 – OTHER ACCOUNTS RECEIVABLE, NET

Balances of other accounts receivable, net of impairment losses, comprise the following as of December 31, 2019 and 2018:

	Reference	December 31, 2019		December 31, 2018	
Contract assets	12.1	Ps.	7,034,058	Ps.	5,119,649
Other accounts receivable	12.2		4,954,706		4,437,885
Total other accounts receivable			**11,988,764**		**9,557,534**
Loss allowance	4.1.5		(286,463)		(256,891)
Total other accounts receivable, net		**Ps.**	**11,702,301**	**Ps.**	**9,300,643**

(Amounts expressed in millions of Colombian pesos)

12.1 Contract assets

The following table provides information about assets from contracts with customers as of December 31, 2019 and 2018:

Contract assets	**December 31, 2019**		**December 31, 2018**	
Financial assets in concession arrangements rights at fair value (1)	Ps.	2,706,030	Ps.	2,488,414
Financial assets in concession arrangements rights at amortized cost (1)		4,328,028		2,631,235
Gross balance of other accounts receivable	**Ps.**	**7,034,058**	**Ps.**	**5,119,649**
Loss allowance (2)(3)		(2,142)		(966)
Total contract assets	**Ps.**	**7,031,916**	**Ps.**	**5,118,683**

(1) See note 16 details regarding concession arrangements rights.
(2) See reconciliations from the opening to the closing balance of the loss allowance on note 4.1.5.
(3) Grupo Aval has initially adopted IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Notes 2 (2.4) (C)

12.2 Other accounts receivable

The detailed information of other accounts receivable measured at amortized cost, except for prepaid expeses, as of December 31, 2019 and 2018 is as follows:

Other accounts receivable	**December 31, 2019**		**December 31, 2018**	
Accounts receivable for goods and services sales in Non-financial sector companies	Ps.	1,149,051	Ps.	962,364
Transfers in process		431,595		330,941
Payment in advance		416,764		370,144
Debtors		377,510		406,079
Dormant customer deposits ICETEX (1)(2)		330,996		279,219
Credit card compensations and network compensation		329,267		372,702
Fees, services and advances		302,861		241,147
Commissions		220,298		244,669
Guarantee deposits in foreign currency transactions		188,493		377,751
Conditional contributions		166,750		—
Holding and parent establishment		147,617		136,551
Payment in advance to supplier's contract		110,028		151,313
Interest		61,579		52,948
Transfers to the National Treasury (2)		60,487		61,046
Receivable from forward contracts		56,946		130,989
Other taxes		48,537		21,321
Storage services		44,674		40,265
Quota shares retirement pensions		29,613		29,768
Accounts receivable to payment offices		24,857		69,996
Claims to insurance companies		18,670		14,142
Payment in advance for industry and trade taxes		11,615		9,563
Promissory sellers		9,495		20,785
Deductible taxes		6,542		10,234
Dividends		2,041		1,086
Others (4)		408,420		102,862
Gross balance of other accounts receivable	**Ps.**	**4,954,706**	**Ps.**	**4,437,885**
Loss allowance (3)		(284,321)		(255,925)
Other accounts receivable, net	**Ps.**	**4,670,385**	**Ps.**	**4,181,960**

(1) Pursuant to Colombian Law number 1777 of 2016, financial institutions in Colombia since August 1, 2016, must transfer the funds from clients' in dormant customer deposits to a special fund as a loan to a Colombian Government

(Amounts expressed in millions of Colombian pesos)

entity denominated "ICETEX", and classified as "Other accounts receivable" given it is permanently deemed refundable to any particular client. This Government Entity Fund is responsible for managing the monies funds with the commitment to return them at the time the bank customer account holder requests them. Dormant client's customer deposits are accounts of savings or current accounts that exceed the 322 UVR (Real Value Units) equivalent to Ps. 270.713 in Colombian pesos, on which no deposit, withdrawal, transfer or, in general, debit or credit movements have been made during an uninterrupted period of three years.

(2) It is expected that these assets are realized in more than 12 months.

(3) See the loss allowance reconciliations from the opening to the closing balance in note 4.1.5.

(4) The table below shows detail of the others.

Detail others	December 31, 2019		December 31, 2018	
Customers	Ps.	85,402	Ps.	—
Value added taxes		82,553		39,098
Joint operations		15,811		—
Transactions between ATM´s		15,241		—
Deficiency in savings accounts		12,398		6,864
Transitional account		9,631		—
Clearance of accounts		5,835		—
Chargebacks		5,078		—
Transaction fees		4,730		4,731
Joint ventures		4,489		5,172
Operative process		2,486		4,486
SIIF condonations		2,235		2,219
Company merger		1,503		—
ACH, PSE, CENIT fees		—		4,988
Credit card brands compensations		—		3,247
Others		161,028		32,057
Total	**Ps.**	**408,420**	**Ps.**	**102,862**

NOTE 13 – NON-CURRENT ASSETS HELD FOR SALE

The movement of the non-current assets held for sale during the years ended December 31, 2019, 2018 and 2017 is as follows:

	December 31, 2019		December 31, 2018		December 31, 2017	
Balance at the beginning of the year	**Ps.**	**186,714**	**Ps.**	**101,382**	**Ps.**	**259,527**
Additions		193,735		180,296		89,216
Assets sold, net		(147,760)		(52,164)		(78,784)
Increase / decrease by changes in fair value (1)		2,296		(25,136)		(37,818)
Reclassifications (2)		(29,989)		(20,038)		(134,795)
Exchange gains in foreign currency		1,197		2,374		4,036
Balance at year end	**Ps.**	**206,193**	**Ps.**	**186,714**	**Ps.**	**101,382**

(1) Includes at December 2019, Ps. 8,055 by recovery of impairment losses.

(2) Includes reclassifications to: I) Investment properties by Ps. (21,722), II) other assets by Ps. (14,980) and III) from Properties, plant and equipment for own use Ps. 6,713 at December 2019; I) Investment properties by Ps. (19,718), II) other assets by Ps. (299) and III) Investments by Ps. (21) at December 2018 and I) Investment properties by Ps. (108,924); II) Investments by Ps. (23,368) and III) Other assets by Ps. (2,503) at December 2017.

(Amounts expressed in millions of Colombian pesos)

The following is the detail of the non-current assets held for sale:

		December 31, 2019		December 31, 2018
Foreclosed assets				
Movable property	Ps.	4,079	Ps.	19,733
Residential real estate		34,162		33,622
Other real estate		146,373		88,569
	Ps.	**184,614**	**Ps.**	**141,924**
Assets received from leasing agreements				
Machinery and equipment		3,777		14,989
Vehicles		104		984
Real estate		6,988		25,060
	Ps.	**10,869**	**Ps.**	**41,033**
Other non-current assets held for sale				
Land		1,225		—
Real estate		9,037		3,517
Other		448		240
		10,710		**3,757**
Total non-current assets held for sale	**Ps.**	**206,193**	**Ps.**	**186,714**

Following is the detail of the associated liabilities to assets held for sale:

		December 31, 2019		December 31, 2018
Commercial accounts payable	Ps.	54,834	Ps.	15,876
Total	**Ps.**	**54,834**	**Ps.**	**15,876**

Non-current assets held for sale are primarily assets received through foreclosure from assets pledged as loan collateral. Accordingly, Grupo Aval´s intention is to sell them immediately, and it has departments, processes and special sales programs for that purpose. Foreclosed assets are either sold for cash or financing for their sale is provided to potential buyers under normal market conditions. These are expected to be sold within a period of 12 months subsequent to their classification as assets held for sale. There are options contracts in place for some of these assets. (Note 4.1.8) on credit risk contains information on assets received through foreclosure and sold during the period.

NOTE 14 – INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The detail of the investments in associates and joint ventures is as follows:

		December 31, 2019		December 31, 2018
Associates	Ps.	985,497	Ps.	975,032
Joint ventures		2,465		7,711
Total	**Ps.**	**987,962**	**Ps.**	**982,743**

(Amounts expressed in millions of Colombian pesos)

The following table shows the balances of each investment in associates and joint ventures as of December 31, 2019 and 2018, and Grupo Aval's ownership interest percentage in those entities:

	December 31, 2019		December 31, 2018	
	Ownership interest	Book value	Ownership interest	Book value
Associates				
Gas Natural de Lima y Callao S.A. -Calidda S.A.	40 %	Ps. 435,359	40 %	Ps. 410,984
Gases del Caribe S.A. E.S.P.	31 %	268,234	31 %	269,185
Credibanco	25 %	200,953	25 %	195,157
Redeban Multicolor S.A.	20 %	22,825	20 %	20,508
A.C.H Colombia S.A.	34 %	17,187	34 %	14,010
Aerocali S.A.	50 %	12,648	50 %	19,157
Colombiana de Extrusión S.A. Extrucol	30 %	12,539	30 %	11,327
Energía Eficiente S.A.	39 %	10,119	39 %	8,252
Servicios de Identidad Digital S.A.S.	33 %	2,352	— %	—
Metrex S.A.	18 %	2,080	18 %	2,054
Concentra Inteligencia en Energía S.A.S.	29 %	692	24 %	601
ADL Digital Lab SAS	34 %	404	— %	—
C.I. Acepalma S.A. (*)	0.2 %	105	11 %	5,458
Concesionaria Tibitoc S.A.	— %	—	33 %	18,339
		Ps. 985,497		**Ps. 975,032**

(*) Grupo Aval has significant influence over C.I. Acepalma S.A. due to its participation in the Board of Directors. On November 2019, 98% of the shares held were sold.

	December 31, 2019		December 31, 2018	
	Ownership interest	Book value	Ownership interest	Book value
Joint ventures				
Cfc Sk El Dorado Latam Management Company Ltd (1)	50 %	Ps. 1,911	50 %	Ps. 6,764
Cfc Sk El Dorado Latam Capital Partner Ltd (1)	50 %	356	50 %	549
Cfc Sk El Dorado Latam Advisory Company S.A.S. (1)	50 %	198	50 %	398
Concesionaria Ruta Del Sol S.A.S. (2) (**)	33 %	—	33 %	—
		Ps. 2,465		**Ps. 7,711**

(**) On December 31, 2018 the investment in Concesionaria Ruta del Sol S.A.S. has been provisioned at 100% by Ps.111,783.

(Amounts expressed in millions of Colombian pesos)

All of the associates and joint ventures are domiciled in Colombia, with the exception of Gas Natural de Lima y Callao S.A. – Calidda wich resides in Perú.

The main corporate purpose of Grupo Aval´s associates is described as follows:

	Associate	**Corporate purpose**
1	Gas Natural de Lima y Callao S.A. - Calidda	Gas distribution
2	Gases del Caribe S.A. E.S.P.	Gas distribution
3	Credibanco S.A.	Payment processing
4	Redeban Multicolor S.A.	Payment processing
5	A.C.H. Colombia S.A.	Financial transactions
6	Aerocali S.A	Projects in airport infrastructure
7	Colombiana de Extrusión S.A. - Extrucol	Networks and infrastructure
8	Energía Eficiente S.A.	Gas distribution
9	Servicios de Identidad Digital S.A.S.	Digital services
10	Metrex S.A.	Manufacturing and commercialization of industrial equipment
11	Concentra Inteligencia en Energía S.A.S.	Gas distribution
12	ADL Digital Lab SAS	Tecnology or digital services
13	C.I. Acepalma S.A.	Oil palm farming and subproducts
14	Concesionaria Tibitoc S.A.	Infrastructure projects

Below is the detail of the corporate purpose of significant joint ventures in concession agreements:

(1) Different joint businesses executed by Grupo Aval’s subsidiaries with specific purposes wherein the joint business assumes no responsibilities for business results, not requiring significant equity resources from Grupo Aval.

(2) Estudios Proyectos del Sol S.A.S. ("Episol"), 100% owned subsidiary of Corficolombiana S.A. carried out an impairment analysis on its investment in Concesionaria Ruta del Sol S.A.S. (CRDS), a company in which it participates in 33% of its share capital, reflecting an adjustment in the amount of Ps.140,691 for 2017. The balance of this investment after the impairment expense amounts to Ps.111,783.

In November 2018, according to the analysis carried out internally and taking into account outlines set out in International Financial Reporting Standards, the deterioration of the remaining balance of the investment was recognized through a provision. To date 100% of the investment in the Concessionaire Ruta del Sol SAS has already been fully provisioned.

As of December 31, 2019, and 2018, Grupo Aval did not have contingent assets as income receivable that arose from any contractual difference with any concession, other than any tariff recognition. There were also no contingent liabilities for fines or sanctions imposed by the Government in the development of concession contracts for possible contractual breaches.

(Amounts expressed in millions of Colombian pesos)

A roll-forward of investments in associates and joint ventures accounts is shown below for the years ended at December 31, 2019, 2018 and 2017:

Associates

	December 31, 2019	December 31, 2018	December 31, 2017
Balance at the beginning of the year	**Ps. 975,032**	**Ps. 925,823**	**Ps. 865,410**
Change in accounting policy (IFRS 9)	—	(3,691)	—
Acquisitions	2,789	—	—
Participation in the profit or loss of the period	231,693	195,991	170,349
Participation in Other Comprehensive Income	(9,061)	22,400	1,135
Dividends received	(192,602)	(171,899)	(107,812)
Sale of investments	(5,125)	—	—
Entity Liquidation	(4,956)	—	—
Allowance for Impairment	(225)	—	—
Exchange difference	(12,048)	6,408	(3,259)
Year-end balance	**Ps. 985,497**	**Ps. 975,032**	**Ps. 925,823**

Joint ventures

	December 31, 2019	December 31, 2018	December 31, 2017
Balance at the beginning of the year	**Ps. 7,711**	**Ps. 117,191**	**Ps. 281,237**
Participation in the period profit or loss	(2,067)	1,724	1,615
Participation in Other Comprehensive Income	—	—	(7)
Dividends received	(3,310)	—	—
Capitalization	—	—	87
Allowance for impairment (*)	—	(111,783)	(140,691)
Transfers / reclassification	—	—	(12,405)
Exchange difference	131	579	—
Balance acquired in business combination	—	—	(12,645)
Year-end balance	**Ps. 2,465**	**Ps. 7,711**	**Ps. 117,191**

(*) Impairment of the investment in the Concesionaria Ruta del Sol S.A.S. joint businesses (CRDS).

(Amounts expressed in millions of Colombian pesos)

The condensed financial information of the associates and joint ventures registered based on the equity method is as follows:

Associates

The following table details the financial information of the associates:

When calculating the participation method, the closing financial information is not available, since the associates are in this process, and, therefore, the information of the immediately preceding month for the years 2019 and 2018 is taken.

December 31, 2019

	Assets	Liabilities	Equity	Income	Expenses	Net income
A.C.H. Colombia S.A.	Ps. 86,801	Ps. 35,964	Ps. 50,837	Ps. 103,702	Ps. 72,534	Ps. 31,168
Redeban Multicolor S.A.	231,453	118,474	112,979	254,615	238,215	16,400
Credibanco	373,818	176,118	197,700	282,888	238,143	44,745
Aerocali S.A.	82,107	56,812	25,295	155,643	136,736	18,907
Colombiana de Extrusión S.A. Extrucol	77,724	35,929	41,795	108,772	101,872	6,900
Concesionaria Tibitoc S.A. (*)	56,223	281	55,942	2,459	1,313	1,146
Metrex S.A.	33,408	21,852	11,556	30,561	28,689	1,872
C.I. Acepalma	240,527	193,974	46,553	528,203	520,083	8,120
Gases del Caribe S.A.	2,875,918	1,993,317	882,601	2,040,033	1,761,015	279,018
Cálidda S.A.	3,586,674	2,432,743	1,153,931	2,216,510	1,951,117	265,393
Concentra Inteligencia en Energía S.A.S.	2,829	400	2,429	2,006	1,628	378
Energía Eficiente S.A.	74,985	49,451	25,534	307,435	302,606	4,829
Servicios de Identidad Digital S.A.S.	7,824	769	7,055	1	53	(52)
ADL Digital Lab SAS	1,189	—	1,189	—	11	(11)
	Ps. 7,731,480	**Ps. 5,116,084**	**Ps. 2,615,396**	**Ps. 6,032,828**	**Ps. 5,354,015**	**Ps. 678,813**

(*) In December 2019 Concesionaria Tibitoc S.A. disposed of their operation.

December 31, 2018

	Assets	Liabilities	Equity	Income	Expenses	Net income
A.C.H. Colombia S.A.	Ps. 78,878	Ps. 37,437	Ps. 41,441	Ps. 83,612	Ps. 64,067	Ps. 19,545
Redeban Multicolor S.A.	213,133	111,626	101,507	214,360	201,980	12,380
Credibanco	263,521	93,951	169,570	240,489	219,166	21,323
Aerocali S.A.	104,506	66,191	38,315	214,805	205,171	9,634
Colombiana de Extrusión S.A. Extrucol	86,398	48,642	37,756	113,749	108,781	4,968
Concesionaria Tibitoc S.A.	57,420	2,403	55,017	20,468	15,964	4,504
Metrex S.A.	31,482	19,938	11,544	43,468	41,254	2,214
C.I. Acepalma	281,161	232,843	48,318	723,908	717,637	6,271
Gases del Caribe S.A.	2,585,669	1,608,107	977,562	1,938,431	1,646,970	291,461
Cálidda S.A.	2,943,477	1,916,017	1,027,460	2,007,368	1,804,907	202,461
Concentra Inteligencia en Energía S.A.S.	2,560	435	2,125	1,234	1,292	(58)
Energía Eficiente S.A.	57,226	36,188	21,038	112,914	109,488	3,426
	Ps. 6,705,431	**Ps. 4,173,778**	**Ps. 2,531,653**	**Ps. 5,714,806**	**Ps. 5,136,677**	**Ps. 578,129**

(Amounts expressed in millions of Colombian pesos)

Joint ventures

The following table details the financial information of the joint ventures:

December 31, 2019

	Assets	Liabilities	Equity	Income	Expenses	Net income
CFC SK El Dorado Latam Advisory Company S.A.S.	Ps. 662	Ps. 267	Ps. 395	Ps. 1,301	Ps. 1,701	Ps. (400)
Cfc Sk El Dorado Latam Management Company Ltd.	3,851	28	3,823	1	3,329	(3,328)
Cfc Sk El Dorado Latam Capital Partners, Ltd.	736	26	710	(198)	209	(407)
	Ps. 5,249	**Ps. 321**	**Ps. 4,928**	**Ps. 1,104**	**Ps. 5,239**	**Ps (4,135)**

December 31, 2018

	Assets	Liabilities	Equity	Income	Expenses	Net income
CFC SK El Dorado Latam Advisory Company S.A.S.	Ps. 1,077	Ps. 281	Ps. 796	Ps. 1,939	Ps. 1,762	Ps. 177
Cfc Sk El Dorado Latam Management Company Ltd.	13,573	45	13,528	3,697	410	3,287
Cfc Sk El Dorado Latam Capital Partners, Ltd.	1,125	26	1,099	150	126	24
	Ps. 15,775	**Ps. 352**	**Ps. 15,423**	**Ps. 5,786**	**Ps. 2,298**	**Ps 3,488**

(Amounts expressed in millions of Colombian pesos)

NOTE 15 – TANGIBLE ASSETS

The movement of the carrying value amounts of tangible assets for the years ended on December 31, 2019, 2018 and 2017 is as follows:

	For own use [1]	Given in operating leases	Right of use assets	Investment [3] properties	Biological assets	Total
Cost						
Balance as of January 1, 2017	**Ps. 8,388,936**	**Ps. 7,047**	**Ps. —**	**Ps. 610,188**	**Ps. 48,002**	**Ps. 9,054,173**
Purchases or capitalized expenses	470,650	3,102	—	84,036	24,409	582,197
Withdrawals / Sales [4]	(374,606)	(2,467)	—	(28,431)	(19,775)	(425,279)
Changes in fair value	—	—	—	46,675	13,503	60,178
Transfers to/from non-current assets held for sale	587	—	—	101,469	—	102,056
Effect of movements in exchange rates	(65,404)	—	—	—	—	(65,404)
Reclassifications	77,394	—	—	(30,143)	—	47,251
Balance as of December 31, 2017	**8,497,557**	**7,682**	**—**	**783,794**	**66,139**	**9,355,172**
Purchases or capitalized expenses [2]	547,668	1,641	—	61,300	20,900	631,509
Withdrawals / Sales [4]	(389,303)	(1,539)	—	(78,684)	(23,343)	(492,869)
Changes in fair value	—	—	—	39,415	20,606	60,021
Transfers to/from non-current assets held for sale	1,335	—	—	19,719	—	21,054
Effect of movements in exchange rates	120,766	—	—	—	—	120,766
Reclassifications	(37,538)	—	—	10,780	(96)	(26,854)
Balance as of December 31, 2018	**8,740,485**	**7,784**	**—**	**836,324**	**84,206**	**9,668,799**
Effects of amendments in accounting policies by rights of use	(91,604)	—	2,365,889	—	—	2,274,285
Purchases or capitalized expenses [2]	671,219	7,468	187,834	116,702	20,559	1,003,782
Withdrawals / Sales	(287,264)	(310)	(80,078)	(68,989)	(18,822)	(455,463)
Changes in fair value	—	—	—	19,597	18,914	38,511
Revaluation of investment properties	—	—	—	5,288	—	5,288
Transfers to/from non-current assets held for sale	(7,782)	—	—	21,722	—	13,940
Effect of movements in exchange rates	54,794	—	50,153	—	—	104,947
Reclassifications	143,507	(1,671)	(4,822)	(2,078)	—	134,936
Balance as of December 31, 2019	**9,223,355**	**13,271**	**2,518,976**	**928,566**	**104,857**	**12,789,025**
Accumulated Depreciation:						
Balance January 1, 2017	**(2,487,188)**	**(4,883)**	**—**	**—**	**—**	**(2,492,071)**
Depreciation of the year charged against profit or loss	(463,133)	(759)	—	—	—	(463,892)
Withdrawals / Sales [4]	274,804	2,036	—	—	—	276,840
Effect of movements in exchange rates	20,881	—	—	—	—	20,881
Reclassification	(35,531)	—	—	—	—	(35,531)
Balance December 31, 2017	**(2,690,167)**	**(3,606)**	**—**	**—**	**—**	**(2,693,773)**
Depreciation of the year charged against profit or loss	(477,260)	(1,346)	—	—	—	(478,606)
Withdrawals / Sales [4]	164,541	1,381	—	—	—	165,922
Effect of movements in exchange rates	(63,058)	—	—	—	—	(63,058)
Reclassification	(4,897)	—	—	—	—	(4,897)
Balance December 31, 2018	**(3,070,841)**	**(3,571)**	**—**	**—**	**—**	**(3,074,412)**
Effects of amendments in accounting policies by rights of use	25,446	—	(82,351)	—	—	(56,905)
Depreciation of the year charged against profit or loss	(513,357)	(2,552)	(323,196)	—	—	(839,105)
Withdrawals / Sales	231,892	19	8,302	—	—	240,213
Transfers to/from non-current assets held for sale	1,069	—	—	—	—	1,069
Effect of movements in exchange rates	(25,950)	—	772	—	—	(25,178)
Reclassification	(83,564)	1,062	3,055	—	—	(79,447)
Balance December 31, 2019	**(3,435,305)**	**(5,042)**	**(393,418)**	**—**	**—**	**(3,833,765)**
Impairment losses:						
Balance as of January 1, 2017	**(2,499)**	**(88)**	**—**	**—**	**—**	**(2,587)**
Year impairment charge	(4,894)	88	—	—	—	(4,806)
Balance as of December 31, 2017	**(7,393)**	**—**	**—**	**—**	**—**	**(7,393)**
Withdrawals / Year impairment charge	1,492	(3)	—	—	—	1,489
Balance as of December 31, 2018	**(5,901)**	**(3)**	**—**	**—**	**—**	**(5,904)**
Withdrawals / Year impairment charge	1,085	(30)	—	—	—	1,055
Balance as of December 31, 2019	**(4,816)**	**(33)**	**—**	**—**	**—**	**(4,849)**
Tangible Assets, net:						
Balance as of December 31, 2018	**Ps. 5,663,743**	**Ps. 4,210**	**Ps. —**	**Ps. 836,324**	**Ps. 84,206**	**Ps. 6,588,483**
Balance as of December 31, 2019	**Ps. 5,783,234**	**Ps. 8,196**	**Ps. 2,125,558**	**Ps. 928,566**	**Ps. 104,857**	**Ps. 8,950,411**

(1) Only includes assets for own use different than assets given in operating lease (see note 15.2).

(2) The total of purchases for own use, includes at December 31, 2019 Ps. 329 and Ps. 325 at December 31, 2018 for capitalization of intangible

(Amounts expressed in millions of Colombian pesos)

(3) The cost includes fair value. The total of purchases of investment properties, includes at December 31, 2019 Ps. 114,331; Ps. 6,895 at December 31, 2018 and Ps. 8,219 at December 31, 2017, of assets received in total or partial settlement of the payment obligations of debtors.

(4) The total of Withdrawals includes Ps. (114,099) in Own Use, Ps. 3,064 in investment properties and Ps. (4,225) in biological assets, from the liquidation of "Pizano" at December 31, 2018 and Ps. (30,440) in Own Use of the liquidation of "Consorcio Consol" at December 31, 2017.

15.1. Tangible assets for own use

The following is the detail of the balance at December 31, 2019 and 2018, by type:

	Cost	Accumulated depreciation	Impairment loss	Carrying amount
December 31, 2019				
Land	Ps. 1,007,388	Ps. —	Ps. (4,279)	Ps. 1,003,109
Buildings	2,770,341	(639,060)	—	2,131,281
Office equipment and accessories	1,069,621	(740,455)	(284)	328,882
Information technology equipment	2,028,137	(1,434,889)	—	593,248
Vehicles	135,334	(70,283)	—	65,051
Equipment and machinery	1,397,337	(267,216)	(253)	1,129,868
Silos	8,613	(6,718)	—	1,895
Warehouses	62,002	(33,006)	—	28,996
Improvements in leaseholds properties	410,224	(229,969)	—	180,255
Construction in progress	96,576	—	—	96,576
Bearer plants	237,782	(13,709)	—	224,073
Balance as of December 31, 2019	**Ps. 9,223,355**	**Ps. (3,435,305)**	**Ps. (4,816)**	**Ps. 5,783,234**

	Cost	Accumulated depreciation	Impairment loss	Carrying amount
December 31, 2018				
Land	Ps. 1,011,018	Ps. —	Ps. (3,742)	Ps. 1,007,276
Buildings	2,652,100	(569,741)	—	2,082,359
Office equipment and accessories	1,013,974	(684,617)	(262)	329,095
Information technology equipment	1,725,795	(1,260,973)	—	464,822
Vehicles	134,417	(70,826)	(35)	63,556
Equipment and machinery	1,355,555	(222,139)	(1,862)	1,131,554
Silos	8,613	(5,739)	—	2,874
Warehouses	44,416	(26,679)	—	17,737
Improvements in leaseholds properties	381,158	(220,939)	—	160,219
Construction in progress	185,264	—	—	185,264
Bearer plants	228,175	(9,188)	—	218,987
Balance as of December 31, 2018	**Ps. 8,740,485**	**Ps. (3,070,841)**	**Ps. (5,901)**	**Ps. 5,663,743**

15.2 Tangible assets given in operating lease:

The following is movement of carrying value amounts of the balance to as of December 31, 2019 and 2018, by type:

December 31, 2019	Cost	Accumulated depreciation	Impairment loss	Carrying amount
Equipment, furniture and office equipment	Ps. —	Ps. —	Ps. —	Ps. —
Computing equipment	8,758	(3,321)	—	5,437
Vehicles	3,061	(1,365)	—	1,696
Mobilization equipment and machinery	1,452	(356)	(33)	1,063
Balance as of December 31, 2019	**Ps. 13,271**	**Ps. (5,042)**	**Ps. (33)**	**Ps. 8,196**

(Amounts expressed in millions of Colombian pesos)

December 31, 2018	Cost	Accumulated depreciation	Impairment loss	Carrying amount
Equipment, furniture and office equipment	Ps. 98	Ps. (98)	Ps. —	Ps. —
Computing equipment	4,041	(1,641)	1	2,401
Vehicles	3,176	(1,648)	(4)	1,524
Mobilization equipment and machinery	469	(184)	—	285
Balance as of December 31, 2018	**Ps. 7,784**	**Ps. (3,571)**	**Ps. (3)**	**Ps. 4,210**

Below is a summary of the minimum lease payments to be received in the next years based on assets given in operating lease to December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Less than a year	Ps. 3,700	Ps. 2,313
More than a year, less than 5	3,937	2,588
Total	**Ps. 7,637**	**Ps. 4,901**

15.3 Right-of-use assets:

The following is movement of carrying value amounts of the balance to as of December 31, 2019 and 2018, by type:

	Cost	Accumulated depreciation	Impairment loss	Carrying amount
December 31, 2019				
Land	Ps. 27,411	Ps. (1,210)	Ps. —	Ps. 26,201
Buildings	2,028,767	(270,450)	—	1,758,317
Office equipment and accessories	73	(27)	—	46
Information technology equipment	89,818	(16,313)	—	73,505
Vehicles	74,410	(19,221)	—	55,189
Equipment and machinery	183,936	(69,194)	—	114,742
Warehouses	114,561	(17,003)	—	97,558
Balance as of December 31, 2019	**Ps. 2,518,976**	**Ps. (393,418)**	**Ps. —**	**Ps. 2,125,558**

15.4 Investment properties

The following table summarizes investment properties as of December 31, 2019 and 2018:

December 31, 2019	Cost	Accumulated adjustments to fair value	Carrying amount
Land	Ps. 446,012	Ps. 194,289	Ps. 640,301
Buildings	238,485	49,780	288,265
Balance as of December 31, 2019	**Ps. 684,497**	**Ps. 244,069**	**Ps. 928,566**

December 31, 2018	Cost	Accumulated adjustments to fair value	Carrying amount
Land	Ps. 371,087	Ps. 198,252	Ps. 569,339
Buildings	215,712	51,273	266,985
Balance as of December 31, 2018	**Ps. 586,799**	**Ps. 249,525**	**Ps. 836,324**

(Amounts expressed in millions of Colombian pesos)

The following amounts have been recognized in the Consolidated Statement of Income during the years ended on December 31, 2019, 2018 and 2017 in relation to investments properties:

	December 31, 2019		December 31, 2018		December 31, 2017	
Income from rents	Ps.	10,289	Ps.	10,370	Ps.	11,992
Direct operating expenses deriving from property investments which create income from rent		(1,929)		(1,486)		(1,053)
Direct operating expenses deriving from property investments which do not create income from rent		(6,211)		(5,112)		(4,239)
	Ps.	**2,149**	**Ps.**	**3,772**	**Ps.**	**6,700**

15.5 Biological Assets

Following is the detail of the biological assets by type:

	December 31, 2019		December 31, 2018	
African palm				
In production (at fair value)	Ps.	32,509	Ps.	29,783
Rubber plantations				
In production (at fair value)		57,698		41,533
Other (1)		14,650		12,890
Total	**Ps.**	**104,857**	**Ps.**	**84,206**

(1) Includes short-term crops and fish farming measured at cost by Ps. 9,081 at December 31, 2019 and Ps.7,633 at December 31, 2018.

During the years ended on December 31, 2019, 2018 and 2017, Grupo Aval recorded in its statement of income the following income and expenses related to biological assets:

	December 31, 2019		December 31, 2018		December 31, 2017	
Sales of biological goods	Ps.	107,590	Ps.	88,382	Ps.	43,788
Changes in fair value of biological assets		18,914		20,606		13,503
Subtotal		**126,504**		**108,988**		**57,291**
Costs and expenses		(93,626)		(73,981)		(37,313)
Depreciation of bearer plants		(5,249)		(11,816)		(3,405)
General administration costs and sales		(9,260)		(5,390)		(7,278)
Financial costs		(6,221)		(5,599)		(4,136)
Subtotal		**(114,356)**		**(96,786)**		**(52,132)**
Total net income	**Ps.**	**12,148**	**Ps.**	**12,202**	**Ps.**	**5,159**

(Amounts expressed in millions of Colombian pesos)

The following is the detail of the hectares sown by subordinates of Grupo Aval in the process of growth and in the production process as of December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Areas planted in hectares		
In production process	8,936	8,534

The following is the detail of hectares for expected years of production:

	December 31, 2019	December 31, 2018
Areas planted in hectares:		
Less than 1 year	435	1,639
Between 1 and 5 years	4,751	3,194
Between 5 and 10 years	1,610	1,966
More than 10 years	2,140	1,735
Total	**8,936**	**8,534**

NOTE 16 – CONCESSION ARRANGEMENTS RIGHTS

The following is the balance of the assets in concession agreements registered in the Group as of December 31, 2019 and 2018:

		December 31, 2019		December 31, 2018
Financial assets at fair value [2]	Ps.	2,706,030	Ps.	2,488,414
Financial asset at amortized cost net [1] [2]		4,325,886		2,630,269
Intangible asset		7,521,488		5,514,481
Total assets in concession contracts	**Ps**	**14,553,404**	**Ps.**	**10,633,164**

(1) At December 31, 2019 and 2018, the balance of the financial asset at amortized cost includes an impairment expense of Ps. 1,176 and Ps. 966 respectly, see note 16.1.

(2) See note 12, other accounts receivables.

(Amounts expressed in millions of Colombian pesos)

16.1 Financial Assets in Concession Arrangements

The following table shows the changes in financial assets in concession arrangements registered in Grupo Aval's subsidiaries for the years ended at December 31, 2019 and 2018:

	Gas and Energy	Infrastructure	Total
Balance at December 31, 2016	**Ps. 2,072,674**	**Ps. 203,241**	**Ps. 2,275,915**
Additions or new concession arrangements	—	698,749	698,749
Collections during the year	—	(162,271)	(162,271)
Adjustment to fair value credited to income	209,937	—	209,937
Accrued interest	—	46,299	46,299
Balance at December 31, 2017	**Ps. 2,282,611**	**Ps. 786,018**	**Ps. 3,068,629**
Impact of the adoption of IFRS 15 (1)	—	463,622	463,622
Impact of the adoption of IFRS 9 (1)	—	(568)	(568)
Balance at January 01, 2018	**Ps. 2,282,611**	**Ps. 1,249,072**	**Ps. 3,531,683**
Additions or new concession arrangements	—	1,361,261	1,361,261
Collections during the year	—	(22,803)	(22,803)
Adjustment to fair value credited to income	205,803	—	205,803
Accrued interest	—	43,137	43,137
Impairment expense	—	(398)	(398)
Balance at December 31, 2018	**Ps. 2,488,414**	**Ps. 2,630,269**	**Ps. 5,118,683**
Additions or new concession arrangements	—	1,495,035	1,495,035
Collections during the year	—	(23,674)	(23,674)
Adjustment to fair value credited to income	217,616	—	217,616
Accrued interest	—	225,432	225,432
Impairment expense	—	(1,176)	(1,176)
Balance at December 31, 2019	**Ps. 2,706,030**	**Ps. 4,325,886**	**Ps. 7,031,916**

(1) See note 2 (2.4. (B and C)).

16.2 Intangible Assets in Concession Arrangements

The following table shows a roll-forward of the main concession arrangements in Grupo Aval's subsidiaries under intangible assets during years ended at December 31, 2019, 2018 and 2017.

(Amounts expressed in millions of Colombian pesos)

Cost	**Gas and energy**	**Infrastructure**	**Total**
At December 31, 2016	**Ps. 2,369,931**	**Ps. 1,079,798**	**Ps. 3,449,729**
Additions	193,489	417,420	610,909
Reclassification to PPE	(14,408)	—	(14,408)
Withdrawals	(1,915)	(1,590)	(3,505)
Effect of movements in exchange rates	(1,041)	—	(1,041)
At December 31, 2017	**Ps. 2,546,056**	**Ps. 1,495,628**	**Ps. 4,041,684**
Impact of the adoption of IFRS 15 (3)	—	619,949	619,949
Balance at January 01, 2018	**Ps. 2,546,056**	**Ps. 2,115,577**	**Ps. 4,661,633**
Additions	428,375	1,617,306	2,045,681
Reclassification to PPE	25,840	—	25,840
Withdrawals	(1,250)	(124)	(1,374)
Effect of movements in exchange rates	33,993	—	33,993
At December 31, 2018	**Ps. 3,033,014**	**Ps. 3,732,759**	**Ps. 6,765,773**
Additions	760,982	1,525,013	2,285,995
Reclassification to PPE	407	—	407
Withdrawals (2)	(10,299)	(763,518)	(773,817)
Effect of movements in exchange rates	1,434	—	1,434
At December 31, 2019	**Ps. 3,785,538**	**Ps. 4,494,254**	**Ps. 8,279,792**

Accumulated Amortization	**Gas and energy**	**Infrastructure**	**Total**
At December 31, 2016	**Ps. (251,731)**	**Ps. (392,684)**	**Ps. (644,415)**
Amortization of the year	(119,549)	(164,940)	(284,489)
Reclassification to PPE	841	—	841
Withdrawals	630	—	630
Effect of movements in exchange rates	(84)	—	(84)
At December 31, 2017	**Ps. (369,893)**	**Ps. (557,624)**	**Ps. (927,517)**
Amortization of the year	(129,509)	(170,701)	(300,210)
Reclassification to PPE	(665)	—	(665)
Withdrawals (1)	147	(21,230)	(21,083)
Effect of movements in exchange rates	(1,817)	—	(1,817)
At December 31, 2018	**Ps. (501,737)**	**Ps. (749,555)**	**Ps. (1,251,292)**
Amortization of the year	(140,488)	(108,216)	(248,704)
Reclassification to PPE	7	—	7
Withdrawals (1) (2)	2,964	741,226	744,190
Effect of movements in exchange rates	(473)	—	(473)
At December 31, 2019	**Ps. (639,727)**	**Ps. (116,545)**	**Ps. (756,272)**

Impairment loss	**Gas and energy**	**Infrastructure**	**Total**
At December 31, 2018	**Ps. —**	**Ps. —**	**Ps. —**
Impairment charge	—	(2,032)	(2,032)
At December 31, 2019	**Ps. —**	**Ps. (2,032)**	**Ps. (2,032)**

Total Intangible Assets	**Gas and energy**	**Infrastructure**	**Total**
Balance at December 31, 2016	**Ps. 2,118,200**	**Ps. 687,114**	**Ps. 2,805,314**
Cost	176,125	415,830	591,955
Amortization	(118,162)	(164,940)	(283,102)
Balance at December 31, 2017	**Ps. 2,176,163**	**Ps. 938,004**	**Ps. 3,114,167**
Impact of the adoption of IFRS 15 (3)	—	619,949	619,949
Balance at January 01, 2018	**Ps. 2,176,163**	**Ps. 1,557,953**	**Ps. 3,734,116**
Cost	486,958	1,617,182	2,104,140
Amortization	(131,844)	(191,931)	(323,775)
Balance at December 31, 2018	**Ps. 2,531,277**	**Ps. 2,983,204**	**Ps. 5,514,481**
Cost	752,524	761,495	1,514,019
Amortization (2)	(137,990)	633,010	495,020
Impairment loss	—	(2,032)	(2,032)
Balance at December 31, 2019	**Ps. 3,145,811**	**Ps. 4,375,677**	**Ps. 7,521,488**

(Amounts expressed in millions of Colombian pesos)

(1) In infrastructure, Proyectos de Infraestructura PISA S.A. includes of Ps. 21,884 for 2019 and Ps. 21,230 for 2018 that was offset with a liability outstanding with Agencia Nacional de Infraestructura – (ANI), due to the liquidation of the capacity records with the ANI.

(2) As of December 31, 2019, Concesionaria Vial de los Andes - Coviandes finished its operation and maintenance stage. The infrastructure was returned to the grantor.

(3) See note 2 (2.4 (B and C)).

The following is a summary of the main concession contracts granted to Grupo Aval's subsidiaries as of December 31, 2019

Concession Owner	Business and country	Objective	Current stage	Contract date	Year of construction start	% progress of construction		Concession end date
Gas and Energy								
Surtigas S.A. E.S.P.	Gas and Energy Colombia	Purchase, storage, packaging and distribution of gases derived from hydrocarbons.	Operation	03/1984 to 04/1994	1984	100	%	2034 to 2045
Transmetano E.S.P. S.A.	Gas and Energy Colombia	Construction, operation and maintenance of gas transportation systems.	Operation	08/1994	1996	100	%	2044
Promigas S.A. E.S.P.	Gas and Energy Colombia	Purchase, sale, transportation, distribution, exploitation and exploration of natural gas, oil and hydrocarbons in general.	Operation	05/1976 to 11/1994	1976	100	%	2026 to 2044
Promioriente S.A. E.S.P.	Gas and Energy Colombia	Construction, operation and maintenance of gas pipelines.	Operation	09/1995	1995	100	%	2045
Gases de Occidente S.A. E.S.P.	Gas and Energy Colombia	Transportation and distribution of liquefied petroleum gas and natural gas.	Operation	08/1998	1998	100	%	2047
Compañía Energética de Occidente S.A. E.S.P.	Gas and Energy Colombia	Administrative, operational, technical and commercial management for the provision of electrical energy.	Construction and Operation	01/2010	2010	38.33	%	2035
Gases del Pacífico S.A.C.	Gas and Energy Perú	Purchase, sale, production, commercialization of energy in any of its forms.	Construction and Operation	10/2013	2015	62.00	%	2034
Gases del Norte del Perú S.A.C.	Gas and Energy Perú	Construction and distribution service of natural gas.	Construction	11/2019	2020	—	%	2051
Sociedad Portuaria El Cayao S.A. E.S.P.	Gas and Energy Colombia	Construction, maintenance and administration of ports.	Operation	07/2015	2015	100	%	2035
Infrastructure								
Proyectos de Infraestructura S.A.	Infrastructure Colombia	Design, construction, equipment, conservation, operation and maintenance of road infrastructure.	Operation	12/1993	1994	100	%	2033
Concesionaria Vial de los Andes S.A.S. - Coviandes	Infrastructure Colombia	Design, construction, equipment, conservation, operation and maintenance of road infrastructure.	Reversion	08/1994	1996	100	%	2019
Concesiones CCFC S.A.S.	Infrastructure Colombia	Design, construction, equipment, conservation, operation and maintenance of road infrastructure.	Operation	06/1995	2001	100	%	2024

(Amounts expressed in millions of Colombian pesos)

Concession Owner	Business and country	Objective	Current stage	Contract date	Year of construction start	% progress of construction	Concession end date
Concesionaria Panamericana S.A.S.	Infrastructure Colombia	Design, construction, equipment, conservation, operation and maintenance of road infrastructure.	Operation	12/1997	2009	100 %	2035
Concesionaria Vial del Pacífico S.A.S.	Infrastructure Colombia	Design, construction, equipment, conservation, operation and maintenance of road infrastructure.	Construction	09/2014	2018	33.85 %	2040
Concesionaria Nueva Vía del Mar S.A.S.	Infrastructure Colombia	Design, construction, equipment, conservation, operation and maintenance of road infrastructure.	Preconstruction	01/2015	N/A	3.85 %	2044
Concesionaria Vial Andina S.A.S.	Infrastructure Colombia	Design, construction, equipment, conservation, operation and maintenance of road infrastructure.	Construction	06/2015	2016	64.81 %	2050
Concesionaria Vial Del Oriente S.A.S.	Infrastructure Colombia	Design, construction, equipment, conservation, operation and maintenance of road infrastructure.	Construction	07/2015	2018	23.13 %	2038

NOTE 17 – GOODWILL

The following is the roll-forward of the goodwill balance during the years ended December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
Balance at the beginning of the year	**Ps.**	7,318,594	**Ps.**	6,901,056
Impairment charge		(13,041)		—
Effect of movements in exchange rates (1)		43,034		417,538
Balance at the end of the year	**Ps.**	**7,348,587**	**Ps.**	**7,318,594**

(1) The foreign exchange adjustment is attributable to Leasing Bogotá Panamá

(Amounts expressed in millions of Colombian pesos)

The following is the detail of goodwill assigned by cash generating units (CGU) representing the lowest identifiable level within Grupo Aval and monitored by management. In addition the values of goodwill are not greater than the identified business' segments:

Goodwill carrying amount

CGU	December 31, 2019	December 31, 2018
Leasing Bogotá Panamá (2)	Ps. 5,148,935	Ps. 5,105,901
Banco de Bogotá S.A. over Megabanco (1)	465,905	465,905
Promigas S.A. and Subsidiaries	169,687	169,687
Concesionaria Panamericana S.A.S.	106,874	119,915
Concesionaria Covipacífico S.A.S.	102,376	102,376
Hoteles Estelar S.A.	6,661	6,661
Banco de Occidente S.A. over Banco Unión (1)	22,724	22,724
Banco Popular S.A.	358,401	358,401
Banco de Bogotá S.A.	301,222	301,222
Banco de Occidente S.A.	127,571	127,571
Sociedad Administradora de Pensiones y Cesantías Porvenir S.A.	538,231	538,231
	Ps. 7,348,587	**Ps. 7,318,594**

(1) Goodwill recognized as a result of mergers into these entities.
(2) The change presented corresponds to the foreign exchange adjustment attributable to Leasing Bogotá Panamá.

The recoverable amount of each cash generating unit was determined based on market values of banks, listed in stock exchanges and a recoverable amount is determined by a study for those not listed in stock exchanges. Such calculations used cash flow projections, covering periods from 5 to 20 years. Cash flows subsequent to these periods were extrapolated using estimated growth rates for such flows, not exceeding the average of the economic sector where the cash generating unit operates.

Impairment

At date of completion, the carrying amount of Concesionaria Panamericana S.A.S's valuation was Ps. 190,567 and its recoverable amount of Ps. 177,526 which generates a recognition of impairment of Ps. 13,041 attributable to goodwill on this concession. The main assumptions and circumstances taken into account, for the recognition of this impairment were:

• The valuation horizon of the model is given by the remaining term of the concession, which has an end date in May 2035.

• Because the concession has a certain period of execution, the goodwill has a "determined useful life" and in that sense it was expected that in the last years of the administration and operation of the concession the paid goodwill began its deterioration process.

• The Concessionaire's income is made up of tolls, as well as future validity for additional works executed. Tolls revenue was updated by verifying the traffic study (actual traffic validation), considering the category of vehicles and incorporating the percentage of growth expected for each year of the concession. Additionally, tolls rates were updated due to the variation observed in the CPI (in some cases additional growth is incorporated). Revenues for the future validities, agreed in constant pesos in the concession contract, are updated with the variation of the CPI corresponding to the period in which they are received by the concessionaire.

• About administration and operation costs and expenses, internal projections were used, considering compliance with contractual obligations, as well as service level indicators.

• Under the above assumptions, the recoverable amount at December 31, 2019 was less than the carrying amount of the investment cost including goodwill.

Below is a detail of the most significant values that comprise Goodwill, representing more than 80% of the Goodwill balance detailed above:

A. Leasing Bogotá S.A. Panamá

On December 9, 2010, Banco de Bogotá S.A. acquired control of BAC Credomatic Inc (BAC COM) through its subsidiary Leasing Bogotá S.A. Panamá (LBP), which is the Panamanian company that executed the purchase agreement. BAC Credomatic Inc. (BAC COM), a company incorporated to do business under the laws of the British Virgin Islands, is the owner of Banco BAC International Bank, Inc. and the operations of BAC Credomatic Inc. (BAC) in Central America.

With the acquisition of BAC COM, through LBP, BAC's corporate structure now is controlled by Banco de Bogotá S.A., which is controlled, in turn, by Grupo Aval. Goodwill was generated and recognized as a result of that operation. Banco de Bogotá was authorized by the Superintendency of Finance to make this acquisition, through its subsidiary Leasing Bogotá Panamá, as indicated in Official Notice 2010073017- 048 dated December 3, 2010.

Afterwards, (98.92%) of the shares of Banco Bilbao Vizcaya Argentaria S.A. Panamá (BBVA Panamá, now BAC de Panamá) were acquired by Banco de Bogotá, through its subsidiary Leasing Bogotá Panamá, under authorization from the Superintendency of Finance, as per Official Notice 2013072962-052 dated December 12, 2013.

Also, (100.00%) of the shares of Banco Reformador de Guatemala (Reformador) and of Transcom Bank Limited in Barbados (Transcom) were acquired, and both banks were stated as Grupo Financiero Reformador de Guatemala. The Superintendency of Finance authorized Banco de Bogotá to acquire these banks, through its subsidiaries Credomatic International Corporation and BAC Credomatic Inc., as per Official Notice 2013068082-062 dated December 3, 2013.

Finally, during 2015, Credomatic International Corporation, a subsidiary of the company, acquired 100% of the issued and outstanding shares of COINCA Corporation Inc. (COINCA) and Corporación Tenedora BAC Credomatic S.A., and an indirect subsidiary of the Company, acquired 100% of the issued and outstanding shares of Medios de Pago MP S.A., domiciled in Costa Rica, generating with the latter an additional capital gain of Ps. 853,401 that was included in the consolidated financial statements of the Bank in the first quarter of 2016.

The latest valuation update for the groups of cash generating units to which this goodwill was allocated was done by an external adviser and reviewed by Management in January 2020, based on the financial statements of BAC Credomatic at September 30, 2019. The conclusion was that there are no situations that imply a possible impairment, given that the recoverable amount of the groups of cash generating units associated with goodwill was Ps. 21,490,101 exceeds the book value by Ps. 6,878,995.

The following table shows the averages of the main assumptions used in the reports on impairment of the cash-generating units with allocated goodwill, based on the impairment assessments done on the indicated dates. Although the valuation exercise includes a 10 year projection, the following tables only show the first 5 years as, following the first year of projection, rates are generally stable with no significant variations.

(Amounts expressed in millions of Colombian pesos)

December 31, 2019

	2020	2021	2022	2023	2024
Lending rate on the loan portfolio and investments	11.3 %	11.4 %	11.4 %	11.3 %	11.3 %
Borrowing rate	2.8 %	2.8 %	2.8 %	2.8 %	2.8 %
Growth in income from commissions	(0.2)%	6.6 %	8.4 %	8.7 %	8.7 %
Growth in expenses	5.9 %	5.5 %	5.4 %	5.7 %	6.2 %
Discount rate after taxes	11.5 %				
Growth rate after ten years	3.0 %				

December 31, 2018

	2019	2020	2021	2022	2023
Lending rate on the loan portfolio and investments	11.4 %	11.4 %	11.4 %	11.3 %	11.3 %
Borrowing rate	2.9 %	3.0 %	3.0 %	3.0 %	3.0 %
Growth in income from commissions	2.0 %	7.7 %	8.0 %	7.8 %	7.7 %
Growth in expenses	5.3 %	6.2 %	5.8 %	6.0 %	6.3 %
Discount rate after taxes	11.8 %				
Growth rate after ten years	3.0 %				

A 10-year projection was made to evaluate goodwill impairment, considering the business will have matured and the flow of funds will have stabilized once this period has elapsed. In turn, macroeconomic assumptions as well as those for BAC Credomatic's business in each of the countries where it operates were used for the projection, so as to reflect the reality that each market provides to the CGUs as a whole. The averages of the main premises used are listed in the foregoing tables, including the variables for all the countries where BAC Credomatic Inc. operates. The following is description of that process:

- Lending rates on loans and investments were projected based on historical data and on the expectations of management in each of the countries where BAC Credomatic Inc. operates, considering the competitiveness of the different services in their respective markets and the growth strategies for each segment. The projection on US Federal Reserve rates was taken into account as well, since these rates serve as a basis for international banking rates.

- Growth in income from commissions was projected in line with the growth in BAC Credomatic´s active portfolio, which allows for greater income through products and services like insurance, memberships. commissions on foreign currency exchange and also the implementation of new services among others. Competitive markets were also considered in the projected time horizon elapsed.

- Although the functional or reporting currency of the business is that of each country in the region where BAC Credomatic Inc´s. subsidiaries operate, the future flows of funds have been converted into nominal U.S. dollars in each projected period, discounted at a nominal rate in U.S. dollars, net of income tax, estimated as "Ke". A discount rate in U.S. dollars is used, given that a consistent discount rate in the respective local currencies cannot be estimated because of the lack of necessary data.

- The discount rate has been estimated in light of the risk profile of each of the markets where BAC Credomatic Inc. operates.

- To estimate the terminal value, the normalized flow of funds, adjusted according to expectations for its growth, was projected in perpetuity. This projection does not exceed the average long-term rate of growth for the economies in each of the countries where BAC operates. Consequently, an annual growth rate of 3.0% was estimated for the long term.

(Amounts expressed in millions of Colombian pesos)

The discount rate after taxes used to discount the dividend flows reflects the specific risks relative to the CGU and the markets where BAC Credomatic operates, as mentioned earlier. Had the USD denominated estimated 11.5% discount rate been 1.0% higher; it would not have been necessary to reduce the book value of goodwill, since the value-in-use of the cash-generating units associated with goodwill would have been Ps. 18,763,763, still exceeding book value as of December 31, 2019 of Ps. 14,611,105.

B. Cash-generating units inside Banco de Bogotá

Goodwill was generated in 2006 with the acquisition of 94.99% of the shares of Banco de Crédito y Desarrollo Social – MEGABANCO S.A. and later merged with Banco de Bogotá. This operation was authorized by the Office of the Superintendency of Finance in Resolution No. 917 dated June 2, 2006.

That goodwill was allocated to the groups of cash-generating units inside Banco de Bogotá involved in the following lines of business:

	Share (%)	Value
Commercial	32.7 %	Ps. 152,539
Consumer	30.8 %	143,287
Payroll installment loans	27.0 %	125,934
Vehicles	6.7 %	31,304
Microcredit	2.8 %	12,841
Total	**100.0 %**	**Ps. 465,905**

The latest valuation update for the business lines of the groups of cash-generating units to which this goodwill was allocated, was performed by an external adviser and reviewed by management. This valuation was conducted on January 2020 and is based on Banco de Bogotá´s financial statements at September 30, 2019. It was concluded that there are no situations that imply a possible impairment, given that the recoverable amount of the groups of cash generating units associated with goodwill was Ps. 11,106,623 exceeds the book value by Ps. 2,867,134.

The following table shows the main assumptions used in the latest impairment tests of the groups of cash-generating units with allocated goodwill.

December 31, 2019

	2020	2021	2022	2023	2024
Lending rate on the loan portfolio and investments	9.0 %	9.4 %	10.0 %	10.3 %	10.4 %
Borrowing rate	3.7 %	3.7 %	4.1 %	4.4 %	4.3 %
Growth in income from commissions	13.0 %	7.8 %	7.8 %	8.4 %	8.6 %
Growth in expenses	0.1 %	5.3 %	5.7 %	5.2 %	4.9 %
Inflation	3.2 %	2.7 %	3.5 %	3.3 %	3.3 %
Discount rate after taxes	13.0 %				
Growth rate after five years	3.3 %				

(Amounts expressed in millions of Colombian pesos)

December 31, 2018

	2019	2020	2021	2022	2023
Lending rate on the loan portfolio and investments	9.4 %	10.0 %	10.1 %	10.3 %	10.5 %
Borrowing rate	3.5 %	3.8 %	3.9 %	4.2 %	4.3 %
Growth in income from commissions	9.9 %	7.5 %	8.0 %	7.9 %	8.3 %
Growth in expenses	3.7 %	3.9 %	3.1 %	3.5 %	3.6 %
Inflation	2.9 %	3.1 %	2.7 %	3.5 %	3.3 %
Discount rate after taxes	14.0 %				
Growth rate after five years	3.1 %				

A 5-year projection was made to estimate goodwill, based on macroeconomic assumptions and those related to the businesses listed in the foregoing tables.

The following is a description of that process.

- The lending rates on loans and investments were projected based on the Company expected rates and lending rates from independent specialists (The Economist Intelligence Unit "EIU")
- The borrowing rates were projected based on the Company expected rates and the money market interest rate from EIU.
- Estimated growth in commissions is based on its historical percentage over the gross loan portfolio.
- Estimated growth in expenses is based on the inflation's growth and/or its historical percentage over revenues.
- The inflation rate used in the projections is based on reports from outside sources, such as The Economist Intelligence Unit, and Corficolombiana.
- The growth rate used for the terminal value was 3.3%, which is the average projected inflation provided by the independent specialists and reviewed by management.

The discount rate after taxes used to discount dividend flows reflects the specific risks relative to each cash-generating unit. If the 13.0% estimated discount rate had been 1.0% higher than the rate estimated in the models, the book value of goodwill would not have to be reduced, since the fair value of the groups of cash-generating units associated with goodwill would have been Ps. 10,030,439, which is above the book value of Ps. 8,239,489 as of December 31, 2019.

C. Sociedad Administradora de Fondos de Pensiones y Cesantías Porvenir S.A.

Porvenir absorbed AFP Horizonte Pensiones y Cesantías S.A. and the goodwill in question was allocated to the groups of cash-generating units that together made up Porvenir later that same year.

The latest valuation update for the business lines of the groups of cash-generating units to which this goodwill was allocated, was done by an external adviser and reviewed by management. This valuation was conducted on January 2020 and is based on financial statements of Porvenir at September 30, 2019. The conclusion was that there are no situations that imply a possible impairment, given that the recoverable amount of the groups of cash generating units associated with goodwill was Ps. 5,731,871, exceeding the book value by Ps. 2,259,084.

(Amounts expressed in millions of Colombian pesos)

The following are the main assumptions used in the impairment test reports taken as the basis for impairment testing on the dates listed, although the valuation exercise includes a 20 years projection, the following tables only show the first 5 years as reates, following the first year of projection, are generally stable with no significant variations.

December 31, 2019

	2020	**2021**	**2022**	**2023**	**2024**
Interest rate on investments	2.7 %	2.8 %	3.2 %	3.1 %	3.1 %
Borrowing rate	6.3 %	6.3 %	6.3 %	6.3 %	6.3 %
Growth in income from commissions	0.7 %	6.3 %	7.5 %	6.5 %	6.4 %
Growth in expenses	3.4 %	4.8 %	5.5 %	(0.5)%	3.2 %
Inflation	3.2 %	2.7 %	3.5 %	3.3 %	3.3 %
Discount interest rate after taxes	12.0 %				
Growth rate after twenty years	3.2 %				

December 31, 2018

	2019	**2020**	**2021**	**2022**	**2023**
Interest rate on investments	4.6 %	5.7 %	5.7 %	6.5 %	6.3 %
Borrowing rate	6.3 %	6.3 %	6.3 %	6.3 %	6.3 %
Growth in income from commissions	1.0 %	9.4 %	7.5 %	7.8 %	6.8 %
Growth in expenses	4.3 %	4.6 %	5.6 %	6.6 %	0.5 %
Inflation	2.9 %	3.1 %	2.7 %	3.5 %	3.3 %
Discount interest rate after taxes	13.0 %				
Growth rate after twenty years	3.1 %				

A 20-year projection was made to estimate goodwill based on macroeconomic assumptions and those related to the business of Porvenir, as indicated in the foregoing tables. The following is a description of that process.

- Investments and borrowing rates were projected using historical data and data provided by the Company on the business.
- The estimated increases in commissions and expenses are based on business growth and other transactions estimated by the Company.
- The inflation rate used in the projections is based on reports from outside sources, such as The Economist Intelligence Unit and Corficolombiana.
- The growth rate used for the terminal value was 3.2%, which is the average projected inflation provided by the independent specialists.

The discount interest rate after taxes that was used to discount dividend flows reflects the specific risks relative to each cash-generating unit. If the estimated discount rate of 12.0% had been 1.0% higher than the estimated rate in the valuation done by external experts, there would be no need to reduce the book value of goodwill, since the fair value of the groups of cash-generating units associated with goodwill would be Ps. 5,128,364 and exceeds their book value of Ps. 3,472,787 as of December 31, 2019.

(Amounts expressed in millions of Colombian pesos)

NOTE 18 – OTHER INTANGIBLE ASSETS

Below is the detail of the balances of other intangible assets as of December 31, 2019 and 2018:

December 31, 2019

Description	Cost	Accumulated amortization	Net book value
Licenses, software and information technology applications purchased	**Ps. 1,917,602**	**Ps. (763,787)**	**Ps. 1,153,815**
Internally generated	607,130	(71,431)	535,699
Non-internally generated	1,310,472	(692,356)	618,116
Other intangibles assets	**Ps. 76,036**	**Ps. (23,360)**	**Ps. 52,676**
Internally generated	5,356	—	5,356
Non-internally generated	70,680	(23,360)	47,320
Total	**Ps. 1,993,638**	**Ps. (787,147)**	**Ps. 1,206,491**

December 31, 2018

Description	Cost	Accumulated amortization	Net book value
Licenses, software and information technology applications purchased	**Ps. 1,564,536**	**Ps. (583,782)**	**Ps. 980,754**
Internally generated	418,852	(46,424)	372,428
Non-internally generated	1,145,684	(537,358)	608,326
Other intangibles assets	**Ps. 69,613**	**Ps. (16,483)**	**Ps. 53,130**
Internally generated	2,673	—	2,673
Non-internally generated	66,940	(16,483)	50,457
Total	**Ps. 1,634,149**	**Ps. (600,265)**	**Ps. 1,033,884**

(Amounts expressed in millions of Colombian pesos)

NOTE 19 – INCOME TAX

19.1 Components of the income tax expense:

The income tax expense for the years ended on December 31, 2019, 2018 and 2017 comprises the following:

	December 31, 2019	December 31, 2018	December 31, 2017
Current period income tax	Ps. 1,564,056	Ps. 1,746,881	Ps. 1,276,458
Income tax surcharge (1)	—	95,630	151,980
Subtotal current period taxes	**Ps. 1,564,056**	**Ps. 1,842,511**	**Ps. 1,428,438**
Prior years adjustments (2)	(16,931)	(74,230)	(117,568)
Adjustment due to settlement of uncertain tax positions from prior years	(22,113)	24,277	(7,367)
Deferred taxes			
Deferred taxes current period	647,718	357,032	449,291
Deferred taxes - Prior years adjustments (3)	(86,473)	—	—
Subtotal deferred taxes	**Ps. 561,245**	**Ps. 357,032**	**Ps. 449,291**
Total	**Ps. 2,086,257**	**Ps. 2,149,590**	**Ps. 1,752,794**

(1) The income tax surcharge applicable to financial entities was declared unconstitutional for the year 2019.

(2) In the year 2018 tax recovery includes Ps. 50,316 in Banco de Occidente. It was generated by the use of presumptive excesses of CREE for the years 2013 and 2014; it also includes Ps.17,812 in Corficolombiana for the reimbursement of income tax mainly from Episol and PISA Concessionaire. In the year 2017, it includes a Ps. 109,632 tax recovery at Banco de Bogotá for the years 2014, 2015 and 2016.

(3) The figure corresponds to the recovery originated on the deferred tax reversal on the property, plant and equipment which had been subject to a tax base update in accordance to the rules of the normalization tax. Banco de Occidente recorded a recovery of Ps. 63,849 and Banco Popular of Ps. 24,914.

19.2 Reconciliation of the Nominal Tax Rate and the Effective tax Rate:

The following are the existing legal provisions related to income tax:

In Colombia

The tax rules in relation to the income tax applicable during the years 2019, 2018 and 2017, among other things, establish the following:

- The income tax rate to be 33% in the year 2019, 33% plus an income tax surcharge of 4% applicable to financial entities in 2018 and 34% plus an income tax surcharge of 6% in 2017. The income tax surcharge stipulated for 2019 was declared unconstitutional by the Constitutional Court of Colombia through Judgment C-510 of October 2019.

- Gains on the sale or disposal of non-current assets held for more than two years is taxed at 10%.

- Gains of the entities that belong to the special free zone regime in Colombia is taxed at 20%.

- The tax rate on presumptive income is calculated to 1.5% in the years 2019 and 3.5% in the years 2018 and 2017.

- In 2019 there is the possibility of taking 50% of the industry and commerce tax paid in the taxable period as an income tax discount, which will be 100% as of the year 2022. For the years 2018 and 2017 this tax has the deduction treatment in the income tax.

- Tax loss-carry forwards incurred prior to 2017 may be offset on the same terms applicable for 2016, but they may not be fiscally readjusted. Tax loss carry-forwards incurred since 2017 may be offset against company taxable income over the following twelve years.

- The "presumptive income" incurred prior to 2017 may be offset on the same terms applicable for 2016, but they may not be fiscally readjusted. The "presumptive income" incurred since 2017 may be offset by taxable income over the following five years.

- As of 2017 the companies' taxable income will be determined based in the new accounting regulation in force in Colombia since January 1, 2015. However, the new tax regulation also includes special income tax rules for several transactions.

In December 2019, the Colombian congress issued Law 2010 of 2019 (Economic Growth Law), which replaces Law 1943 of 2018 (Financing Law) that was declared unconstitutional as of January 1, 2020 by the Constitutional Court of Colombia through Judgment C-481 of October 2019. The Economic Growth Law, among other things, establishes the following:

- The income tax rate to be 32% in the year 2020, 31% in the year 2021 and 30% in the year 2022 and following plus an income tax surcharge of 4% applicable to financial entities in 2018. In addition, for financial institutions in Colombia that obtain in the period a taxable income equal to or greater than 120,000 Units of Tax Value (UVT), which by 2020 equals 35,607 pesos, there is 4% income tax surcharge in 2020, and 3% for the years 2021 and 2022.

- The percentage of presumptive income is reduced at a rate of 0.5% in the year 2020 and 0% from the year 2021.

- It holds the possibility of taking 50% of the industry and commerce tax paid in the taxable period as an income tax discount, which will be 100% as of the year 2022.

- The audit benefit is extended for taxpayers who increase their net income tax of the taxable year in relation to the net income tax of the immediately preceding year by at least 30% or 20%, the expiration of a tax authority's rigth to examine the income tax will be 6 or 12 months from the date of its presentation, respectively.

- The expiration of a tax authority's rigth to examine the income tax will be five years after the filing date for taxpayers who determine or compensate tax losses or are subject to the transfer pricing regime.

<u>In other countries</u>

Given that our subsidiary Leasing Bogotá Panamá has an international license it has a tax rate of 0%. The subsidiaries in Guatemala are taxed at a rate of 25%; the subsidiaries in El Salvador, Honduras, Costa Rica and Nicaragua are taxed at a rate of 30% and the subsidiaries with a local license in Panamá are taxed at a rate of 25%. The subsidiaries in Perú are taxed at a rate of 29.5% since 2017.

(Amounts expressed in millions of Colombian pesos)

Below is the detailed reconciliation between total expenses of the income tax of Grupo Aval calculated at the applicable enacted tax rate and the tax expense recognized in the statement of income for the years ended on December 31, 2019, 2018 and 2017:

	Years ended on:		
	December 31, 2019	December 31, 2018	December 31, 2017
Profit before income tax	Ps. 7,451,711	Ps. 7,334,141	Ps. 4,915,227
Enacted tax rate in Colombia	33 %	37 %	40 %
Theoretical income tax expense	2,459,065	2,713,632	1,966,091
Nondeductible expenses	484,615	373,918	387,933
Tax losses considered non recoverable for income tax purpose	54,698	100,249	96,266
Presumptive income considered non recoverable for income tax purpose	7,071	33,296	7,991
Wealth tax	—	—	40,762
Nontaxable dividends	(24,172)	(23,457)	(19,587)
Nontaxable income under equity method in associates	(69,399)	(39,901)	(68,026)
Profit (loss) on sales or appraisal of investment	(1,167)	(2,148)	(16,584)
Nontaxable interest income and other income	(19,088)	(212,992)	(137,312)
Other nontaxable income	(339,253)	(167,091)	(155,010)
Revenues taxable at different tax rate	(5,851)	15,378	(658)
Difference from expenses deductibles at different tax rate	—	(11,060)	(11,822)
Tax benefits in the acquisition of property and equipment	(42,375)	(22,715)	(20,585)
Tax Discounts (1)	(80,742)	—	—
Profits (losses) in Subsidiaries in tax free countries or with different tax rate	(116,155)	(168,117)	(200,661)
Effect on the deferred income tax due to changes in tax rates (2)	(129,172)	(308,534)	(38,574)
Prior year adjustments	(16,931)	(74,230)	(117,568)
Adjustments due to uncertain tax positions in previous year	(22,113)	24,277	(7,367)
Deferred taxes - Prior years adjustments	(86,473)	—	—
Other	33,699	(80,915)	47,505
Total tax expense of the year	**Ps. 2,086,257**	**Ps. 2,149,590**	**Ps. 1,752,794**
Effective income tax rate	**28.00 %**	**29.31 %**	**35.66 %**

(1) Corresponds to the industry and commerce tax that during 2019 could be used as a tax discount following the Law 1943 of 2018. Banco de Bogotá recorded Ps. 47,155, Banco de Occidente Ps. 7,068, Banco Popular Ps. 6,257, Banco AV Villas Ps. 10,444, Corficolombiana Ps. 8,498 and Grupo Aval Holding Ps. 1,230.

(2) The effect is due to the application of the new tax rates established in Law 1943 of 2018, with which the deferred tax rates decreased from 33% to 30%. The impact on Corficolombiana was Ps. 233,865, in Banco de Bogotá it was Ps. 59,054, in Banco de Occidente Ps. 8,408, in Banco Av Villas Ps. 6,934 and in Banco Popular of Ps.362.

(Amounts expressed in millions of Colombian pesos)

19.3 Tax Losses and excess of Presumptive Income:

As of December 31, 2019 and 2018, the following table shows the detail of the tax loss carry forward and excess of presumptive income over taxable income of the entities of Grupo Aval which are not recognized as deferred tax assets.

	December 31, 2019		December 31, 2018	
Tax loss carry forwards expiring on:				
December 31, 2022	Ps.	—	Ps.	66
December 31, 2024		15		—
December 31, 2025		—		1,216
December 31, 2029		174,370		173,118
December 31, 2030		279,545		271,685
December 31, 2031		156,521		—
December 31, 2032		4,293		—
Without expiration date		431,428		458,499
Subtotal	**Ps.**	**1,046,172**	**Ps.**	**904,584**
Excess of presumptive income expiring on:				
December 31, 2019	Ps.	—	Ps.	61,152
December 31, 2020		44,318		45,738
December 31, 2021		60,302		61,296
December 31, 2022		51,056		51,077
December 31, 2023		58,965		48,218
December 31, 2024		28,380		—
Subtotal	**Ps.**	**243,021**	**Ps.**	**267,481**
Total	**Ps.**	**1,289,193**	**Ps.**	**1,172,065**

19.4 Deferred Taxes from Investments in Subsidiaries:

Grupo Aval did not recorded income tax liabilities related to temporary differences on investment subsidiaries of Ps. 10,176,800 and Ps. 8,231,985 as of December 31 2019 and 2018, respectively. This liability was not recognized because Grupo Aval controls the dividend policy of its subsidiaries and is able to control the timing of reversal of the related taxable temporary differences and Grupo Aval will not reverse them in the foreseeable future.

(Amounts expressed in millions of Colombian pesos)

19.5 Deferred taxes by Type of Temporary Difference:

The differences between the carrying value of the assets and liabilities and their tax bases give rise to the following temporary differences which result in deferred taxes, calculated and recorded in the years ended on December 31, 2019, 2018 and 2017, based on current tax regulations as references for the years wherein such temporary differences will be reverted:

Year ended on December 31, 2019

	Balance as of December 31, 2018	Change in accounting policies	Credited (charged) to profit or loss	Credited (charged) to OCI	Foreign exchange adjustments	Balance as of December 31, 2019
Deferred tax assets						
Debt securities at fair value	Ps. 29,650	Ps. —	Ps. (14,680)	Ps. (4,540)	Ps. 844	Ps. 11,274
Equity securities at fair value	622	—	(1,129)	872	—	365
Derivative instruments	73,154	—	68,038	15,351	—	156,543
Allowance of investments securities	136	—	37	—	—	173
Accounts receivable	—	—	147	—	—	147
Allowance for accounts receivable	41,390	—	8,750	—	4	50,144
Loans and receivables	14,917	—	(13,440)	—	173	1,650
Allowance for impairment on loans and receivables	159,169	—	54,517	—	(1,463)	212,223
Allowance for foreclosed assets	2,927	—	(1,203)	—	132	1,856
Property, plant and equipment costs	284,111	—	16,749	—	3,908	304,768
Depreciation of property, plant and equipment	20,903	—	15,180	—	—	36,083
Investment property	—	—	18,323	—	—	18,323
Deferred charges and of intangible assets	168,856	—	(69,272)	—	—	99,584
Tax losses carry forward	299,201	—	(24,518)	(240,420)	22,253	56,516
Surplus of presumptive income	4,670	—	991	—	—	5,661
Provisions	189,882	—	35,111	—	(1,755)	223,238
Employee benefits	131,783	—	(27,270)	15,308	546	120,367
Goodwill	—	—	859	—	—	859
Deferred Income	2,587	—	(2,587)	—	—	—
Financial assets in concession contracts	158,645	—	89,238	—	—	247,883
Biological assets	104	—	282	(166)	—	220
Lease agreements	8,592	649,307	(74,500)	—	3,480	586,879
Other	271,950	—	(3,989)	18,102	(595)	285,468
Subtotal	**Ps. 1,863,249**	**Ps. 649,307**	**Ps. 75,633**	**Ps. (195,492)**	**Ps. 27,527**	**Ps. 2,420,224**
Deferred tax liabilities						
Debt securities at fair value	Ps. (49,937)	Ps. —	Ps. 43,565	Ps. (65,399)	Ps. (3,343)	Ps. (75,114)
Equity securities at fair value	(115,877)	—	20,716	(10,773)	432	(105,502)
Derivative instruments	(17,565)	—	17,410	(10,272)	3,163	(7,264)
Accounts receivable	(287,526)	—	195,426	—	—	(92,100)
Allowance of investments securities	(23,150)	—	(62,434)	—	—	(85,584)
Loans and receivables	(63,567)	—	25,769	—	(288)	(38,086)
Allowance for impairment on loans and receivables	(270,947)	—	(163,948)	—	2,188	(432,707)
Foreclosed assets	(92,416)	—	2,140	—	—	(90,276)
Provision for foreclosed assets	(109,092)	—	100,172	—	309	(8,611)
Property plant and equipment costs	(357,384)	—	54,139	—	8,942	(294,303)
Depreciation of property, plant and equipment	(170,138)	—	(86,092)	—	(9,275)	(265,505)
Investment property	—	—	(69,732)	(333)	—	(70,065)
Right-of-use	—	(636,017)	144,618	—	(3,524)	(494,923)
Deferred charges and of intangible assets	(621,878)	—	539,796	—	—	(82,082)
Provisions	(24,280)	—	21,285	—	(6,413)	(9,408)
Employee benefits	—	—	(28,020)	322	206	(27,492)
Goodwill	(193,030)	—	(29,483)	—	—	(222,513)
Deferred Income	(116,034)	—	(11,189)	—	—	(127,223)
Financial assets in concession arrangements	(898,741)	—	(1,182,031)	—	—	(2,080,772)
Biological assets	(23,333)	—	(4,371)	—	—	(27,704)
Lease agreements	(4,293)	—	(226,874)	—	—	(231,167)
Other	(243,665)	—	62,260	(1,235)	6,106	(176,534)
Subtotal	**Ps. (3,682,853)**	**Ps. (636,017)**	**Ps. (636,878)**	**Ps. (87,690)**	**Ps. (1,497)**	**Ps. (5,044,935)**
Total	**Ps. (1,819,604)**	**Ps. 13,290**	**Ps. (561,245)**	**Ps. (283,182)**	**Ps. 26,030**	**Ps. (2,624,711)**

(Amounts expressed in millions of Colombian pesos)

Year ended on December 31, 2018

	Balance as of December 31, 2017	Change in accounting policies	Credited (charged) to profit or loss	Credited (charged) to OCI	Foreign exchange adjustments	Balance as of December 31, 2018
Deferred tax assets						
Debt securities at fair value	Ps. 8,081	Ps. (2,431)	Ps. 18,840	Ps. 4,563	Ps. 597	Ps. 29,650
Equity securities at fair value	8	102	512	—	—	622
Derivative instruments	36,805	—	(102,681)	185,803	(46,773)	73,154
Allowance of investments securities	366	31	(264)	—	3	136
Allowance for accounts receivable	333	—	44,660	—	(3,603)	41,390
Loans and receivables	71,938	64,527	(121,072)	—	(476)	14,917
Allowance for impairment on loans and receivables	66,127	68,513	13,808	—	10,721	159,169
Allowance for other accounts receivable	4,649	—	(4,649)	—	—	—
Foreclosed assets	18,161	—	(15,474)	—	240	2,927
Property, plant and equipment costs	364,540	—	(77,625)	—	(2,804)	284,111
Depreciation of property, plant and equipment	11,993	—	8,854	—	56	20,903
Deferred charges and of intangible assets	145,625	—	23,233	—	(2)	168,856
Tax losses carry forward	332,354	—	365,698	(402,042)	3,191	299,201
Surplus of presumptive income	2,528	—	2,142	—	—	4,670
Provisions	197,963	(11,038)	2,163	—	794	189,882
Employee benefits	98,924	—	41,406	(9,394)	847	131,783
Deferred income	—	12,349	(9,762)	—	—	2,587
Financial assets in concession contracts	28,536	(6,322)	136,431	—	—	158,645
Biological assets	169	—	(65)	—	—	104
Lease agreements	8,042	—	625	—	(75)	8,592
Other	123,645	(102)	(6,161)	165,680	(11,112)	271,950
Subtotal	**Ps. 1,520,787**	**Ps. 125,629**	**Ps. 320,619**	**Ps. (55,390)**	**Ps. (48,396)**	**Ps. 1,863,249**
Deferred tax liabilities						
Debt securities at fair value	Ps. (44,492)	Ps. 9,555	Ps. (14,843)	Ps. 26	Ps. (183)	Ps. (49,937)
Equity securities at fair value	(121,226)	(298)	7,361	2,084	(3,798)	(115,877)
Derivative instruments	(87,525)	—	23,187	—	46,773	(17,565)
Accounts receivable	(306,774)	(17)	17,677	1,588	—	(287,526)
Allowance of investments securities	(182)	57	(23,025)	—	—	(23,150)
Loans and receivables	(322,746)	3,668	256,357	—	(846)	(63,567)
Allowance for impairment on loans and receivables	(397,838)	204,100	(77,442)	—	233	(270,947)
Foreclosed assets	(72,209)	—	(20,314)	—	107	(92,416)
Provision for foreclosed assets	(41,654)	—	(67,096)	—	(342)	(109,092)
Property plant and equipment costs	(363,814)	—	11,305	—	(4,875)	(357,384)
Depreciation of property, plant and equipment	(179,877)	—	9,908	—	(169)	(170,138)
Deferred charges and of intangible assets	(107,721)	—	(514,157)	—	—	(621,878)
Provisions	(575)	—	(22,312)	304	(1,697)	(24,280)
Goodwill	(169,675)	—	(23,355)	—	—	(193,030)
Deferred Income	(40,534)	40,534	(116,034)	—	—	(116,034)
Financial assets in concession arrangements	(700,738)	(228,241)	30,238	—	—	(898,741)
Biological assets	(16,583)	—	(6,750)	—	—	(23,333)
Lease agreements	(32,636)	—	28,343	—	—	(4,293)
Other	(71,408)	(779)	(176,699)	(11,271)	16,492	(243,665)
Subtotal	**Ps. (3,078,207)**	**Ps. 28,579**	**Ps. (677,651)**	**Ps. (7,269)**	**Ps. 51,695**	**Ps. (3,682,853)**
Total	**Ps. (1,557,420)**	**Ps. 154,208**	**Ps. (357,032)**	**Ps. (62,659)**	**Ps. 3,299**	**Ps. (1,819,604)**

(Amounts expressed in millions of Colombian pesos)

Year ended on December 31, 2017

	Balance as of December 31, 2016	Credited (charged) to profit or loss	Credited (charged) to OCI	Foreign exchange adjustments	Balance as of December 31, 2017
Deferred tax assets					
Debt securities at fair value	Ps. 62,627	Ps. (30,580)	Ps. (23,966)	Ps. —	Ps. 8,081
Equity securities at fair value	1,583	(1,254)	(321)	—	8
Derivative instruments	78,740	(41,935)	—	—	36,805
Accounts receivable	16,278	(15,589)	—	10	699
Loans and receivables	6,014	65,924	—	—	71,938
Allowance for impairment on loans and receivables	105,573	(39,446)	—	—	66,127
Allowance for other accounts receivable	6,219	(1,570)	—	—	4,649
Financial assets in concession contracts	25,837	2,571	—	128	28,536
Foreclosed assets	4,846	13,315	—	—	18,161
Property, plant and equipment costs	296,269	68,271	—	—	364,540
Depreciation of property, plant and equipment	5,699	6,294	—	—	11,993
Biological assets	101	68	—	—	169
Deferred charges and of intangible assets	113,817	30,922	—	886	145,625
Tax losses carry forward	385,855	(53,556)	—	55	332,354
Surplus of presumptive income	19,480	(16,952)	—	—	2,528
Provisions	212,695	(17,649)	—	2,917	197,963
Employee benefits	104,606	(29,658)	23,976	—	98,924
Deferred income	113,380	(113,380)	—	—	—
Lease agreements	9,160	(1,118)	—	—	8,042
Other	69,022	52,233	935	1,455	123,645
Subtotal	**Ps. 1,637,801**	**Ps. (123,089)**	**Ps. 624**	**Ps. 5,451**	**Ps. 1,520,787**
Deferred tax liabilities					
Debt securities at fair value	Ps. (27,278)	Ps. 29,105	Ps. (46,319)	Ps. —	Ps. (44,492)
Equity securities at fair value	(100,484)	302	33	(21,077)	(121,226)
Unrealized profits of foreign subsidiaries	(22,029)	—	—	22,029	—
Derivative instruments	(67,974)	(15,190)	(4,361)	—	(87,525)
Accounts receivable	(260,621)	(46,335)	—	182	(306,774)
Allowance of investments securities	—	—	—	(182)	(182)
Loans and receivables	(268,747)	(53,999)	—	—	(322,746)
Allowance for impairment on loans and receivables	(275,785)	(122,053)	—	—	(397,838)
Foreclosed assets	(46,783)	(25,426)	—	—	(72,209)
Provision for foreclosed assets	(37,798)	(3,856)	—	—	(41,654)
Property plant and equipment costs	(400,180)	36,404	—	(38)	(363,814)
Depreciation of property, plant and equipment	(209,549)	30,948	—	(1,276)	(179,877)
Deferred charges and of intangible assets	(60,598)	(47,123)	—	—	(107,721)
Provisions	(471)	(62)	116	(158)	(575)
Goodwill	(86,036)	(83,639)	—	—	(169,675)
Deferred Income	(34,613)	(5,921)	—	—	(40,534)
Financial assets in concession arrangements	(718,496)	20,548	—	(2,790)	(700,738)
Biological assets	(6,806)	(9,777)	—	—	(16,583)
Lease agreements	—	—	—	(32,636)	(32,636)
Other	(65,400)	(30,128)	(11,053)	35,173	(71,408)
Subtotal	**Ps. (2,689,648)**	**Ps. (326,202)**	**Ps. (61,584)**	**Ps. (773)**	**Ps. (3,078,207)**
Total	**Ps. (1,051,847)**	**Ps. (449,291)**	**Ps. (60,960)**	**Ps. 4,678**	**Ps. (1,557,420)**

(Amounts expressed in millions of Colombian pesos)

Grupo Aval offsets deferred tax assets and liabilities by entity and tax authority, considering the application of the tax provisions in Colombia and other countries in which the legal right to offset tax assets and liabilities and other requirements in IAS 12, according to the following breakdown:

December 31, 2019	**Gross Deferred tax amounts**	**Offset**	**Balances on Statement of financial position**
Deferred tax asset	Ps. 2,420,224	Ps. (2,173,626)	Ps. 246,598
Deferred tax liability	(5,044,935)	2,173,626	(2,871,309)
Net	**Ps. (2,624,711)**	**Ps. —**	**Ps. (2,624,711)**

December 31, 2018	**Gross Deferred tax amounts**	**Offset**	**Balances on Statement of financial position**
Deferred tax asset	Ps. 1,863,249	Ps. (1,521,911)	Ps. 341,338
Deferred tax liability	(3,682,853)	1,521,911	(2,160,942)
Net	**Ps. (1,819,604)**	**Ps. —**	**Ps. (1,819,604)**

Grupo Aval estimates to recover its income tax assets and settle its income tax liabilities as shown below:

Deferred tax	**December 31, 2019**	**December 31, 2018**
Deferred tax asset recoverable before 12 months	Ps. 385,937	Ps. 399,074
Deferred tax asset recoverable after 12 months	2,034,287	1,464,175
Total Deferred tax asset	**Ps. 2,420,224**	**Ps. 1,863,249**
Deferred tax liability to settle before 12 months	Ps. (1,232,899)	Ps. (917,965)
Deferred tax liability to settle after 12 months	(3,812,036)	(2,764,888)
Total Deferred tax liability	**Ps. (5,044,935)**	**Ps. (3,682,853)**

Current tax	**December 31, 2019**	**December 31, 2018**
Current tax asset recoverable before 12 months	Ps. 987,830	Ps. 650,879
Current tax asset recoverable after 12 months	321,891	150,469
Total Current tax asset	**Ps. 1,309,721**	**Ps. 801,348**
Current tax liability to settle before 12 months	Ps. (698,901)	Ps. (507,555)
Current tax liability to settle after 12 months	(102,886)	(113,412)
Total Current tax liability	**Ps. (801,787)**	**Ps. (620,967)**

(Amounts expressed in millions of Colombian pesos)

19.6 Effect of the current and deferred taxes in each component of other comprehensive income in equity:

The effects of the current and deferred taxes in each component of other comprehensive income is detailed below during the years ended on December 31, 2019, 2018 and 2017:

	December 31, 2019			
Items that will be reclassified to profit or loss	**Amount before taxes**	**Current tax (expense) income**	**Deferred tax (expense) income**	**Net**
Hedging of net investments in foreign subsidiaries operations	Ps. 95,329	Ps. —	Ps. 145	Ps. 95,474
Hedging derivatives in foreign currency	(50,318)	—	18,221	(32,097)
Hedging financial liabilities in foreign currency	(47,942)	247,153	(229,627)	(30,416)
Cash Flow hedging	13,469	—	(4,988)	8,481
Foreign currency translation differences for foreign operations	128,135	—	(1,235)	126,900
Investment in associates and join ventures	(9,061)	—	—	(9,061)
Debt financial instruments	426,300	—	(69,707)	356,593
Subtotal Items that will be reclassified to profit or loss	**Ps. 555,912**	**Ps. 247,153**	**Ps. (287,191)**	**Ps. 515,874**
Items that will not be reclassified to profit or loss				
Effect of moving investment properties for own use	Ps. 5,288	Ps. —	Ps. (333)	Ps. 4,955
Equity financial instruments	237,781	—	(11,288)	226,493
Actuarial gains (losses) from defined benefit pension plans	(61,222)	—	15,630	(45,592)
Subtotal Items that will not be reclassified to profit or loss	**Ps. 181,847**	**Ps. —**	**Ps. 4,009**	**Ps. 185,856**
Total "other comprehensive income" during the period	**Ps. 737,759**	**Ps. 247,153**	**Ps. (283,182)**	**Ps. 701,730**

	December 31, 2018			
Items that will be reclassified to profit or loss	**Amount before taxes**	**Current tax (expense) Income**	**Deferred tax (expense) income**	**Net**
Hedging of net investments in foreign subsidiaries operations	Ps. 1,124,732	Ps. —	Ps. —	Ps. 1,124,732
Hedging derivatives in foreign currency	(547,310)	372,715	(227,807)	(402,402)
Hedging financial liabilities in foreign currency	(576,881)	—	176,378	(400,503)
Cash Flow hedging	(19,789)	—	6,697	(13,092)
Foreign currency translation differences for foreign operations	(299,804)	—	(16,006)	(315,810)
Investment in associates and joint ventures	(107,084)	—	11,554	(95,530)
Debt financial instruments	22,400	—	(393)	22,007
Subtotal Items that will be reclassified to profit or loss	**Ps. (403,736)**	**Ps. 372,715**	**Ps. (49,577)**	**Ps. (80,598)**
Items that will not be reclassified to profit or loss				
Asset revaluation	Ps. —	Ps. —	Ps. —	Ps. —
Equity financial instruments	(134,084)	—	(5,891)	(139,975)
Actuarial gains (losses) from defined benefit pension plans	18,013	—	(7,191)	10,822
Subtotal Items that will not be reclassified to profit or loss	**Ps. (116,071)**	**Ps. —**	**Ps. (13,082)**	**Ps. (129,153)**
Total "other comprehensive income" during the period	**Ps. (519,807)**	**Ps. 372,715**	**Ps. (62,659)**	**Ps. (209,751)**

(Amounts expressed in millions of Colombian pesos)

	December 31, 2017			
Items that will be reclassified to profit or loss	**Amount before taxes**	**Current tax (expense) Income**	**Deferred tax (expense) income**	**Net**
Hedging of net investments in foreign subsidiaries operations	Ps. (47,197)	Ps. —	Ps. —	Ps. (47,197)
Hedging derivatives in foreign currency	16,832	—	(5,554)	11,278
Hedging financial liabilities in foreign currency	30,568	—	(11,065)	19,503
Cash Flow hedging	(2,340)	—	969	(1,371)
Foreign currency translation differences for foreign operations	(91,497)	(12,657)	956	(103,198)
Debt financial instruments	284,480	—	(69,743)	214,737
Investment in associates and joint ventures	1,128	—	116	1,244
Subtotal Items that will be reclassified to profit or loss	**Ps. 191,974**	**Ps. (12,657)**	**Ps. (84,321)**	**Ps. 94,996**
Items that will not be reclassified to profit or loss				
Asset revaluation	Ps. —	Ps. —	Ps. —	Ps. —
Equity financial instruments	57,245	—	(720)	56,525
Actuarial gains (losses) from defined benefit pension plans	(100,232)	—	24,081	(76,151)
Subtotal Items that will not be reclassified to profit or loss	**Ps. (42,987)**	**Ps. —**	**Ps. 23,361**	**Ps. (19,626)**
Total “other comprehensive income” during the period	**Ps. 148,987**	**Ps. (12,657)**	**Ps. (60,960)**	**Ps. 75,370**

19.7 Uncertainties in Open Tax Positions

As of December 31, 2019, and 2018, Grupo Aval recognized tax uncertainty liabilities for Ps. 107,166 and Ps. 121,832 respectively, uncertain tax positions corresponding to expenses, considered deductible, and which, according to decisions of the tax authorities, uncertainties taken should be considered as non-deductible. The balance as of December 31, 2019 is expected to be used fully or released when the inspection rights of the tax authorities with respect to the open tax returns expire.

Uncertainties on open tax positions of Grupo Aval’s subsidiaries are as follows:

	December 31, 2019	December 31, 2018
Banco de Bogotá	Ps. 99,808	Ps. 113,345
Banco de Occidente	7,358	6,095
Corficolombiana	—	2,392
Total	**Ps. 107,166**	**Ps. 121,832**

The roll-forward of tax uncertainties during the years ended on December 31, 2019, 2018 and 2017 is as follows:

	December 31, 2019	December 31, 2018	December 31, 2017
Balance at the beginning of the year	**Ps. 121,832**	**Ps. 94,692**	**Ps. 104,156**
Provisions increased during the year	837	11,904	18,039
Provisions used	(4,301)	(1,088)	(873)
Amounts reversed due to provisions not used	(135)	(2,960)	(32,010)
Financial cost	(19,904)	16,421	7,477
Foreign exchange adjustments	8,836	2,863	(2,097)
Balance at the end of the year	**Ps. 107,166**	**Ps. 121,832**	**Ps. 94,692**

(Amounts expressed in millions of Colombian pesos)

The balance as of December 31, 2019 and 2018 is expected to be completely used or released once the inspection rights from the tax authorities regarding tax returns expire, as follows:

Year	December 31, 2019	December 31, 2018
2019	Ps. —	Ps. 3,006
2020	—	27,968
2021	33,869	30,478
2022	36,049	27,276
2023	30,221	31,373
2024	2,445	1,579
2025	1,391	152
2026	2,736	—
2027	179	—
2028	277	—
Total	**Ps. 107,166**	**Ps. 121,832**

NOTE 20 – CUSTOMER DEPOSITS

20.1 Detail of the composition of the deposits

The following is the detail of the balances of the deposits received from Grupo Aval´s customer and subsidiaries in development of their deposit collection operations:

Detail	December 31, 2019	December 31, 2018
Demand		
Checking accounts	Ps. 42,449,702	Ps. 39,702,878
Savings accounts	59,352,760	57,221,439
Other funds on demand	463,770	582,122
	102,266,232	**97,506,439**
Term deposits		
Fixed term deposit certificates [(1)]	73,225,189	66,853,012
Total deposits	**175,491,421**	**164,359,451**
Per currency		
In Colombian Pesos	101,427,370	99,388,366
In foreign currency	54,963,501	48,478,108
Other	19,100,550	16,492,977
Total per currency	**Ps. 175,491,421**	**Ps. 164,359,451**

(1) The amount of term deposits due over 12 months as December 31, 2019 is Ps. 23,808,900 and December 31, 2018 is Ps. 20,686,104.

(Amounts expressed in millions of Colombian pesos)

20.2 Detail of the effective interest rates

The following is a summary of the effective interest rates which are accrued on customer deposits is as follows:

December 31, 2019

	Deposits			
	In Colombian Pesos Rate		In foreign currency Rate	
	Minimum	Maximum	Minimum	Maximum
	%	%	%	%
Interest-bearing checking accounts	0.04 %	2.50 %	0.03 %	5.50 %
Saving accounts	0.01 %	6.03 %	0.02 %	8.00 %
Fixed term deposit certificates	0.01 %	11.60 %	0.15 %	10.35 %

December 31, 2018

	Deposits			
	In Colombian Pesos Rate		In foreign currency Rate	
	Minimum	Maximum	Minimum	Maximum
	%	%	%	%
Interest-bearing checking accounts	0.04 %	4.76 %	0.25 %	5.50 %
Saving accounts	0.01 %	6.00 %	0.05 %	8.00 %
Fixed term deposit certificates	0.05 %	9.05 %	0.05 %	11.45 %

20.3 Detail of the concentration of deposits received from customers per economic sector

	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%
Commerce	Ps. 24,234,289	14 %	Ps. 27,454,858	17 %
Financial	48,741,261	28 %	25,001,924	15 %
Individuals	30,714,387	18 %	26,626,082	16 %
Government and Colombian Government entities	16,670,646	9 %	20,817,529	13 %
Manufacturing	3,192,627	2 %	8,634,657	5 %
Real Estate	3,703,896	2 %	6,235,260	4 %
Agriculture and livestock	1,256,291	1 %	2,200,313	1 %
Colombian Municipalities	29,302	0 %	1,807,946	1 %
Foreign Governments	681,466	0 %	652,670	1 %
Other [(1)]	46,267,256	26 %	44,928,212	27 %
Total	**Ps. 175,491,421**	**100 %**	**Ps. 164,359,451**	**100 %**

(1) December 31, 2019, includes deposits from, education sector of Ps. 2,422,713, services sector of Ps. 17,279,692, insurance sector of Ps. 1,353,557, tourism sector Ps. 501,073, transportation sector of Ps. 1,176,385 and others sector of Ps. 23,533,836.

(Amounts expressed in millions of Colombian pesos)

NOTE 21 – FINANCIAL OBLIGATIONS

21.1 Financial obligations other than issued bonds

a) Interbank borrowings, overnight funds and borrowings from banks and others

The following is a summary of the financial obligations of Grupo Aval as of December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Local Currency		
Interbank funds		
Overnight funds	Ps. 9,027	Ps. 4,152
Interbank funds purchased	1,595,504	173,274
Commitments to transfer open and closed repo operations	1,706,368	1,884,750
Commitments to transfer simultaneous operations	4,456,544	2,306,037
Commitments originated in short positions simultaneous operations	262,873	362,833
Total interbank funds	Ps. **8,030,316**	Ps. **4,731,046**
Borrowings from banks and others		
Borrowings	2,192,128	1,964,408
Leases contracts*	1,539,871	—
Letters of credit	—	300
Bankers acceptances	17	217
Total borrowings from banks and others	**Ps. 3,732,016**	**Ps. 1,964,925**
Foreign currency		
Interbank funds		
Overnight funds	6,283	—
Interbank funds purchased	921,500	1,568,172
Commitments to transfer open and closed repo operations	282,380	514,860
Total interbank funds	**Ps. 1,210,163**	**Ps. 2,083,032**
Borrowings from banks and others		
Borrowings	12,336,206	17,190,315
Leases contracts*	1,493,631	—
Andean Development Corporation	551,198	384,758
Letters of credit	622,730	356,640
Bankers acceptances	1,008,485	664,429
Discoveries in bank current account	59,078	49,699
Total borrowings from banks and others	**Ps. 16,071,328**	**Ps. 18,645,841**
Total interbank borrowings, overnight funds and borrowings from banks and others	**Ps. 29,043,823**	**Ps. 27,424,844**

(*) Grupo Aval has initially adopted IFRS 16 as of January 1, 2019. According to the transition methods chosen, comparative information is not restated. See note 2(2.4)(A).

The amount of interbank borrowings, overnight funds and borrowings from banks and others due over 12 months as of December 31, 2019 is Ps. 8,692,991 and December 31, 2018 is Ps. 7,219,765.

As of December 31, 2019, short-term obligations associated with simultaneous and repo operations amounted to Ps. 4,456,544 and guaranteed with investments of Ps. 7,162,889 of December 31, 2018 Ps. 2,306,037 short-term obligations were guaranteed with investments for an amount of Ps. 4,663,828.

(Amounts expressed in millions of Colombian pesos)

b) Borrowings from development entities

The Colombian Government has established certain credit programs for promoting the development of specific sectors of the economy, including foreign trade, agriculture, tourism, housing construction and other industries. The programs are managed by many entities of the Government such as Banco de Comercio Exterior ("Bancoldex"), Fondo para el Financiamiento del Sector Agropecuario ("Finagro") and Financiera de Desarrollo Territorial ("Findeter").

The details of the borrowings from these entities as of December 31, 2019, and 2018 and are as follows:

	Interest rates in force at cut off		December 31, 2019		December 31, 2018
Banco de Comercio Exterior - "BANCOLDEX"	Fix between 0.02% and 21.15%, DTF + 0.10% to 5.83%, IBR + 0.10% to 8.31%, LIBOR1 + 2.15% to 4.54%, LIBOR6 + 2.38% to 5.08%	Ps.	1,326,045	Ps.	1,303,648
Fondo para el Financiamiento del Sector Agropecuario - "FINAGRO"	Fix between 0.50% and 15.48%, DTF + 0.50% to 7.00% and IBR + 0.90% to 1.90%		338,195		278,025
Financiera de Desarrollo Territorial "FINDETER"	Fix between 0.25% and 13.38%, DTF + 0.6% to 4.38%, IBR+ 0.40% to 3.90%, IPC+ 0.50% and 5.00% and LIBOR6 +4.51% and 4.81%		2,218,245		2,065,123
Total		**Ps.**	**3,882,485**	**Ps.**	**3,646,796**

The amount of borrowings from development entities due over 12 months as of December 31, 2019 is Ps. 3,633,973 and December 31, 2018 is Ps. 3,203,170.

21.2. 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 subsidiaries are non-guaranteed and represent exclusively the obligations of each of the issuers.

(Amounts expressed in millions of Colombian pesos)

The detail of liabilities as of December 31, 2019 and 2018, by issue date and maturity date was as follows:

Issuer	Issue Date	December 31, 2019	December 31, 2018	Maturity Date	Interest Rate
Local Currency					
Banco de Bogotá S.A.	23/02/2010	Ps. 137,598	Ps. 134,736	23/02/2020	CPI + 5.45% and UVR + 5.45%
Banco de Occidente	Between 22/09/2011 and 18/09/2019	3,246,333	3,143,903	Between 27/04/2020 and 14/12/2032	CPI + 1.75% a 4.65%, Fixed between 5.83% to 6.18%
Corporación Financiera Colombiana S.A.	Between 27/08/2009 and 27/08/2019	2,895,156	2,853,685	Between 29/01/2020 and 02/03/2043	CPI +2.16% to 5.99%, Fixed 7.10%
Banco Popular	Between 26/02/2013 and 13/02/2019	1,753,896	1,616,729	Between 14/02/2020 and 12/10/2026	CPI+ 2.90% to 4.13%; Fixed between 6.17% to 8.10%
Grupo Aval Acciones y Valores	Between 03/12/2009 and 14/11/2019	1,201,189	1,108,713	Between 28/06/2020 and 28/06/2042	CPI + 2.69% to 5.20% and Fixed 6.42%
Peso denominated Total		**Ps. 9,234,172**	**Ps. 8,857,766**		
Foreign Currency					
Banco de Bogotá S.A. Under rule 144A.	Between 19/02/2013 and 03/08/2017	7,109,822	7,042,678	Between 19/02/2023 and 03/08/2027	Fixed between 4.38% to 6.25%
BAC Credomatic					
El Salvador	Between 11/02/2013 and 19/08/2019	726,607	753,556	Between 11/02/2020 and 19/08/2024	Between 5.20% to 5.85%
Honduras	Between 12/05/2017 and 15/11/2019	320,162	205,017	Between 12/05/2020 and 11/04/2022	Between 0.75% to 9.50%
Guatemala	Between 09/07/2018 and 24/08/2018	—	14,025	Between 09/07/2019 and 26/08/2019	Between 4.25% to 5.50%
BAC Credomatic Total		**Ps. 1,046,769**	**Ps. 972,598**		
Banco Bogotá and BAC Credomatic Total		**Ps. 8,156,591**	**Ps. 8,015,276**		
Grupo Aval Limited	19/09/2012	3,268,629	3,267,308	26/09/2022	Fixed 4.75%
Corficolombiana	16/10/2019	1,258,876	—	16/10/2029	Fixed 3.75%
Foreign Currency Total		**Ps. 12,684,096**	**Ps. 11,282,584**		
Total of Bonds		**Ps. 21,918,268**	**Ps. 20,140,350**		

The amount of issued bonds due over 12 months as of December 31, 2019 is Ps. 19,908,991 and December 31, 2018 is Ps. 18,772,405.

Grupo Aval has not had any defaults of principal or interest or other breaches with respect to its liabilities during the years ended 31 December 2019 and 2018, and Grupo Aval is complying with the related covenants agreed with investors and debtors.

(Amounts expressed in millions of Colombian pesos)

21.3 Analysis of changes in financing during the year

Reconciliation of movements of liabilities to cash flows arising from financing activities:

		Liabilities			Equity			Total
	Notes	**Dividends payable**	**Bonds issued**	**Leases**	**Subscribed and paid-in capital**	**Additional paid-in capital**	**Non-controlling interest**	
Balance at December 31, 2016		**Ps. 644,733**	**Ps. 18,568,236**	**Ps. 1,108,400**	**Ps. 22,281**	**Ps. 8,307,527**	**Ps. 9,057,669**	**Ps. 37,708,846**
Cash flows from financing activities:								
Dividens paid to shareholders		(1,307,525)	—	—	—	—	—	**(1,307,525)**
Dividens paid to non-controlling interest	**26**	(768,769)	—	—	—	—	—	**(768,769)**
Issuance of debt securities		—	4,548,108	—	—	—	—	**4,548,108**
Payment of outstanding debt securities		—	(3,913,694)	—	—	—	—	**(3,913,694)**
Acquisition of NCI Without a change in control		—	—	—	—	(4,096)	—	**(4,096)**
Net cash used in financing activities		**(2,076,294)**	**634,414**	**—**	**—**	**(4,096)**	**—**	**(1,445,976)**
Cash flows from operating activities:								
Accrued interest		**—**	1,162,203	—	—	—	**—**	**1,162,203**
Interest paid		**—**	(1,205,741)	—	—	—	**—**	**(1,205,741)**
Other changes		**2,021,602**	**(56,916)**	**(53,395)**	**—**	**—**	**(711,578)**	**1,199,713**
Total liabilities related to other changes		**2,021,602**	**(100,454)**	**(53,395)**	**—**	**—**	**(711,578)**	**1,156,175**
Total equity related to other changes		**—**	**—**	**—**	**—**	**—**	**1,218,493**	**1,218,493**
Balance at December 31, 2017		**590,041**	**19,102,196**	**1,055,005**	**22,281**	**8,303,431**	**9,564,584**	**38,637,538**
Cash flows from financing activities:								
Dividens paid to shareholders		(1,128,535)	—	—	—	—	—	**(1,128,535)**
Dividens paid to non-controlling interest	**26**	(745,932)	—	—	—	—	—	**(745,932)**
Issuance of debt securities		—	1,095,892	—	—	—	—	**1,095,892**
Payment of outstanding debt securities		—	(1,139,897)	—	—	—	—	**(1,139,897)**
Issuance of shares	**26**	—	—	—	—	—	988,072	**988,072**
Equity transaction		—	—	—	—	(12,674)	(54,483)	**(67,157)**
Net cash used in financing activities		**(1,874,467)**	**(44,005)**	**—**	**—**	**(12,674)**	**933,589**	**(997,557)**
Cash flows from operating activities:								
Accrued interest		—	1,162,699	—	—	—	—	**1,162,699**
Interest paid		—	(922,968)	—	—	—	—	**(922,968)**
Other changes		**1,819,736**	**842,429**	**(31,416)**	**—**	**—**	**(749,987)**	**1,880,762**
Total liabilities related to other changes		**1,819,736**	**1,082,160**	**(31,416)**	**—**	**—**	**(749,987)**	**2,120,493**
Total equity related to other changes		**—**	**—**	**—**	**—**	**181,579**	**2,016,453**	**2,198,032**
Balance at December 31, 2018		**535,310**	**20,140,351**	**1,023,589**	**22,281**	**8,472,336**	**11,764,639**	**41,958,506**
Change in accounting policies on january 1, 2019		—	—	2,225,545	—	—	—	**2,225,545**
Cash flows from financing activities:								
Dividens paid to shareholders		(1,266,920)	—	—	—	—	—	**(1,266,920)**
Dividens paid to non-controlling interest	**26**	(804,302)	—	—	—	—	—	**(804,302)**
Issuance of debt securities		—	3,130,254	—	—	—	—	**3,130,254**
Interest issuance of debt securities		—	18,633	—	—	—	—	**18,633**
Payment of outstanding debt securities		—	(1,544,225)	—	—	—	—	**(1,544,225)**
Leases		—	—	(362,334)	—	—	—	**(362,334)**
Equity transaction		—	—	—	—	(26,570)	(40,527)	**(67,097)**
Net cash used in financing activities		**(2,071,222)**	**1,604,662**	**(362,334)**	**—**	**(26,570)**	**(40,527)**	**(895,991)**
Cash flows from operating activities:								
Accrued interest		—	1,220,437	205,627	—	—	—	**1,426,064**
Interest paid		—	(1,103,218)	(194,589)	—	—	—	**(1,297,808)**
Other Changes		**2,167,023**	**56,037**	**135,665**	**—**	**—**	**(830,160)**	**1,528,564**
Total liabilities related to other changes		**2,167,023**	**173,255**	**146,703**	**—**	**—**	**(830,160)**	**1,656,821**
Total equity related to other changes		**—**	**—**	**—**	**—**	**—**	**2,603,750**	**2,603,750**
Balance at December 31, 2019		**Ps. 631,111**	**Ps. 21,918,268**	**Ps. 3,033,502**	**Ps. 22,281**	**Ps. 8,445,766**	**Ps. 13,497,702**	**Ps. 47,548,631**

(Amounts expressed in millions of Colombian pesos)

NOTE 22 – EMPLOYEE BENEFITS

In accordance with Colombian and other countries labor legislation where Grupo Aval has subsidiaries, and based on a labor conventions and labor collective agreements signed between como Group entities and their employees, employees are entities have short term benefits such as: salaries, holidays, legal and extralegal premiums, severances and interests on severance, long-term benefits such as seniority bonds premiums and post-employment benefits such medical aids and retirement benefits such as: severance payments to employees that continue with labor regime before Law 50 of 1990 and legal and extralegal retirement pensions. Compensation for key personnel of the management includes salaries and benefits different than cash. (see note 34).

Through personnel benefits plans, Grupo Aval is exposed to several risks (interest rates and operating), which are intended to be minimized by applying the risk management policies and procedures defined in Note 4 above.

The detail of the balance of liabilities for employee benefits at December 31, 2019, and 2018 is as follows:

	December 31, 2019		December 31, 2018	
Short term	Ps.	480,489	Ps.	481,320
Post-employment		590,914		541,226
Long term		186,333		242,335
Total	**Ps.**	**1,257,736**	**Ps.**	**1,264,881**
Plan Asset	Ps.	(22,756)	Ps.	—
Net employee benefits	**Ps.**	**1,234,980**	**Ps.**	**1,264,881**

22.1 Post-employment benefits

- In Colombia, when employees retire after completing certain years and time of service, retirement pensions are assumed by public or private pension funds based on defined contribution plans, to which entities and employees contribute monthly defined amounts by law for being entitled to the pension at the time of retirement. However, for some employees hired by Grupo Aval entities prior to 1968 that have fulfilled the requirements of age and years of service the pensions are directly assumed by some of the entities of Grupo Aval.

- Certain employees hired by entities of Grupo Aval before 1990 are entitled to receive a compensation equivalent to the last month of salary multiplied by each year of service.

- Some subsidiaries have labor conventions or pay extra-legal premiums to employees retiring in compliance with the required age and time of service, when they start enjoying the pension granted by the pension funds.

- Some pensioners for Grupo Aval and its entities receive benefits that include coverage of medical treatments.

As of December 31, 2019 and 2018, the post-employment benefit expense is composed of:

	December 31, 2019		December 31, 2018	
Defined contribution plan	Ps.	73,297	Ps.	88,147
Defined benefit plan		52,723		31,336

(Amounts expressed in millions of Colombian pesos)

22.2 Long Term Employee Benefits

- Some Grupo Aval subsidiaries grant their employees extra-legal long term premiums during their working lives every five years of service are completed, calculated as days of salary per year of work.

- Grupo Aval has recognized the liabilities corresponding to these benefits, based on the same actuarial calculations carried out under the same parameters of retirement benefits.

Post-employment and long-term benefits movements during the years ended at December 31, 2019, 2018 and 2017 are as follows:

	Post-Employment benefits			Long-term Benefits		
	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2019	December 31, 2018	December 31, 2017
Balance at the beginning of the year	**Ps. 541,226**	**Ps. 604,110**	**Ps. 509,022**	**Ps. 242,335**	**Ps. 229,770**	**Ps. 191,112**
Service costs	14,567	13,127	4,425	22,860	21,040	18,201
Interests cost	37,138	36,700	50,826	14,252	13,460	12,889
Gain on settlements	—	(18,300)	253	—	—	(112)
Past Service Costs [(1)]	1,018	(191)	200	(49,400)	1,632	(3,961)
	Ps. 593,949	**Ps. 635,446**	**Ps. 564,726**	**Ps. 230,047**	**Ps. 265,902**	**Ps. 218,129**
Changes in actuarial assumptions from changes in demographic assumptions	7,407	6,136	(8,863)	—	388	(1,432)
Changes in actuarial assumptions from changes in financial assumptions	54,674	(24,149)	109,095	(13,008)	11,831	43,870
	Ps. 62,081	**Ps. (18,013)**	**Ps. 100,232**	**Ps. (13,008)**	**Ps. 12,219**	**Ps. 42,438**
Payments to employees	(63,580)	(79,709)	(59,866)	(30,706)	(35,786)	(30,797)
Effect of movements in exchange rates	(1,536)	3,502	(982)	—	—	—
Liability balance at the end of the year	**Ps. 590,914**	**Ps. 541,226**	**Ps. 604,110**	**Ps. 186,333**	**Ps. 242,335**	**Ps. 229,770**
Plan Assets						
Recognition of the active plan	(21,474)	—	—	—	—	—
Interests income	(318)	—	—	—	—	—
Remeasurements on plan assets	(859)	—	—	—	—	—
Effect of movements in exchange rates	(105)	—	—	—	—	—
Balance at the end of the year plan assets	**Ps. (22,756)**	**Ps. —**	**Ps. —**	**Ps. —**	**Ps. —**	**Ps. —**
Net Balance at the end of the year	**Ps. 568,158**	**Ps. 541,226**	**Ps. 604,110**	**Ps. 186,333**	**Ps. 242,335**	**Ps. 229,770**

(1) The variation includes the effect of a change in a long-term institutional benefit plan at Banco de Bogotá, which went from being a defined benefit plan to a defined contribution plan, through which the bank makes monthly contributions into a fund created for each employee.

The assumptions used to calculate the obligation projected for different post-employment benefits employees are as follows:

Post-Employment Benefits	**December 31, 2019**	**December 31, 2018**
Discount interest rate	5.87 %	7.29 %
Inflation rate	3.00 %	3.00 %
Salary growth rate	4.00 %	3.00 %
Pension growth rate	3.00 %	3.00 %
Employee turnover rate (between service year 1 and 40 for men and women the following is the turnover rate)	Tabla de Rotación SoA 2003 (1)	Tabla de Rotación SoA 2003 (1)

(Amounts expressed in millions of Colombian pesos)

Long-Term Benefits	December 31, 2019	December 31, 2018
Discount interest rate	5.34 %	6.75 %
Inflation rate	3.00 %	3.00 %
Salary growth rate	4.00 %	3.00 %
Pension growth rate	N/A	N/A
Employee turnover rate (between service year 1 and 40 for men and women the following is the turnover rate)	Tabla de Rotación SoA 2003 (1)	Tabla de Rotación SoA 2003 (1)

(1) For those entities where a sufficiently large statistic is not yet available to support the actuarial bases, the SoA2003 table is used as a reference. With this table, the probability of permanence of personnel in the entity is established, modified according to the population factor of each benefit.

Employee´s life expectancy is calculated based on the mortality tables published by the Superintendency of Finance, which are based on mortality experiences provided to the Superintendency of Finance by several insurance companies operating in Colombia.

The sensitivity analysis for post-employment and long-term benefits liabilities due to defined benefits plans to different actuarial and financial variables is shown below, maintaining other variables at constant values (increase or decrease 0.5%):

	-0.50 basic points			
At December 31, 2019		**Post-Employment Benefits**		**Long-Term Benefits**
Discount interest rate	Ps.	24,833	Ps.	4,993
Salaries growth rate		(5,057)		(5,628)
Retirement growth rate		(14,827)		N/A

	+0.50 basic points			
At December 31, 2019		**Post-Employment Benefits**		**Long-Term Benefits**
Discount interest rate	Ps.	(20,931)	Ps.	(4,721)
Salaries growth rate		5,297		5,904
Retirement growth rate		18,921		N/A

Future benefit payments projected, reflecting services, as the case may be, are expected to be paid as follows:

Year		Payments for Post-Employment		Payments for Long-term Benefits
2020	Ps.	65,527	Ps.	30,418
2021		58,646		24,672
2022		58,776		25,342
2023		56,645		24,512
2024		55,602		27,014
Years 2025 – 2029		257,815		114,490

(Amounts expressed in millions of Colombian pesos)

NOTE 23 – LEGAL AND OTHER PROVISIONS

Roll-forward of legal provisions during the years ended on December 31, 2019, 2018 and 2017 are as follows:

	For Legal		Other Provisions		Total Provisions	
Balance as of December 31, 2016	**Ps.**	**155,749**	**Ps.**	**464,607**	**Ps.**	**620,356**
Provisions increase during the year		32,670		222,349		255,019
Use of provisions		(15,012)		(117,643)		(132,655)
Amounts reversed due to provisions not utilized		(7,870)		(42,459)		(50,329)
Reclassifications		(184)		408		224
Balance as of December 31, 2017	**Ps.**	**165,353**	**Ps.**	**527,262**	**Ps.**	**692,615**
Impact of the adoption of IFRS 9 (1)		—		16,217		16,217
Balance as of January 01, 2018	**Ps.**	**165,353**	**Ps.**	**543,479**	**Ps.**	**708,832**
Provisions increase during the year		98,473		190,686		289,159
Use of provisions		(73,086)		(149,026)		(222,112)
Amounts reversed due to provisions not utilized		(64,562)		(19,852)		(84,414)
Effect of movements in exchange rates		(249)		4,072		3,823
Balance as of December 31, 2018	**Ps.**	**125,929**	**Ps.**	**569,359**	**Ps.**	**695,288**
Impact of the adoption of IFRS 16 (1)		—		32,107		32,107
Balance as of January 01, 2019	**Ps.**	**125,929**	**Ps.**	**601,466**	**Ps.**	**727,395**
Provisions increase during the year		116,627		177,606		294,233
Use of provisions		(34,603)		(52,296)		(86,899)
Amounts reversed due to provisions not utilized		(13,296)		(51,905)		(65,201)
Effect of movements in exchange rates		23		(909)		(886)
Balance as of December 31, 2019	**Ps.**	**194,680**	**Ps.**	**673,962**	**Ps.**	**868,642**

(1) See Notes 2 (2.4 (A and C)).

Estimated period of time to be canceled	Legal provisions		Other provisions		Total	
Within twelve months	Ps.	3,496	Ps.	71,966	Ps.	75,462
After twelve months		191,184		601,996		793,180

Legal provisions:

Administrative proceedings

At December 31, 2019 and 2018 provisions were recorded for administrative proceedings for Ps.18,391 and Ps. 12,296 respectively, by way of claims for administrative or judicial processes of a tax nature, initiated by national and local authorities that establish, in some cases sanctions in which the subsidiaries of Grupo Aval would incur.

Labor proceedings

At December 31, 2019 and 2018 provisions were recorded for labor proceedings for Ps. 38,848 and Ps. 41,618 respectively. Labor proceedings include labor pursuits, indemnities for ex-employees against of several subsidiaries of Grupo Aval. The time expected for resolution is uncertain due to the fact that each proceeding is based on different instances, however, most cases are normally resolved in favor of Grupo Aval.

Other proceedings

At December 31, 2019 and 2018 other legal provisions were recorded for Ps. 137,441 and Ps. 72,015, respectively, being the most representative:

- Provisions were made to cover claims for nullity of affiliations to the Porvenir´s for Ps. 105,118 and Ps. 20,937, respectively.

- Litigation against Compañía Hotelera Cartagena de Indias for Ps. 24,815 for both periods, due to a legal action which pursued ordering the hotel to restitute an area of 37,018 square meters back to the State, on the basis that alleged improper transfer of land destined for the public use.

Other provisions:

At December 31, 2019 and 2018 other provisions recorded amounting Ps. 673,962 and Ps. 569,359, respectively, are mainly comprised by:

- Provisions of Corficolombiana affiliates for Ps. 259,185 and Ps. 242,446, respectively, associated with the maintenance, restoration and rehabilitation of constructions and buildings, professional fees relating to development of concession contracts.

- Provision of Porvenir´s subsidiary for Ps. 233,128 and Ps. 206,786 respectively, where the main provision balance corresponds to the undercapitalized accounts, these are individual accounts called "Fondo de Pensiones Obligatorias Especial Porvenir de Retiro Programado", which according to actuarial projections do not have the required balance to achieve minimum pension payment.

- Provisions of several subsidiaries of Grupo Aval for Ps. 85,385 and Ps. 46,868, respectively, corresponding to the dismantling of ATMs and offices.

- Provisions for Ps. 49,962 and Ps. 59,428 respectively, for provisions of losses on loan commitments (see note 4.1.5 Loan commitments and financial guarantee contracts)

(Amounts expressed in millions of Colombian pesos)

NOTE 24 – OTHER LIABILITIES

Accounts payable and other liabilities of December 31, 2019 and 2018 comprise the following:

Items		December 31, 2019		December 31, 2018
Suppliers and services payable	Ps.	1,877,694	Ps.	1,846,831
Income received for third parties [(1)]		1,338,265		453,450
Cashier checks		789,680		690,195
Dividends payable		631,111		535,311
Transactions ACH and ATH		585,526		605,657
Contract liability related to concessions		539,584		535,960
Non-financial liabilities		507,513		478,833
Withholdings taxes and labor contributions		471,201		427,782
Commissions and fees		290,160		430,279
Collection service		282,184		314,785
Collection on behalf of third parties [(2)]		250,769		1,514,309
Cash Surplus		235,840		167,309
Affiliate establishments		169,807		335,078
Customer loyalty programs [(3)]		150,846		154,979
Tax levies		86,568		71,691
Checks drawn and not paid		46,220		48,864
Anticipated income		39,427		34,605
Canceled accounts		28,524		26,987
Contributions and affiliations		27,004		28,785
Insurance payables		26,767		48,505
Financial transactions tax		22,280		45,905
Promissory buyers		8,601		18,371
Leases		5,778		7,347
Compensation to customers		2,102		3,191
Deferred credits		1,075		938
Other liabilities		314,856		182,006
Total	**Ps.**	**8,729,382**	**Ps.**	**9,007,953**

(1) The increase presented is due to advance payments made by the Agencia Nacional de Infraestructura (ANI) for Ps. 857,990, which correspond to the resources of the autonomous patrimony of future validities, collections of tolls and financial returns.

(2) The decrease shown as of December 31, 2019 is due to the fact that most of the withholding tax collections were transferred to the tax authority in the same year, an event that had not taken place in 2018.

(3) The amount of customer loyalty points not exchanged has a validity of two years after being granted, which in redemption or expiration will be recognized as income.

Other		December 31, 2019		December 31, 2018
Liabilities to be canceled within twelve months		5,946,523		6,970,611
Liabilities to be canceled after twelve months		2,782,859		2,037,342
Total	**Ps.**	**8,729,382**	**Ps.**	**9,007,953**

(Amounts expressed in millions of Colombian pesos)

NOTE 25 – EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

Authorized, issued and outstanding shares as of December 31, 2019 and 2018 consisted of the following:

	December 31, 2019	December 31, 2018
Authorized shares	120,000,000,000	120,000,000,000
Subscribed fully paid shares	22,281,017,159	22,281,017,159
Total outstanding shares	**22,281,017,159**	**22,281,017,159**
The outstanding shares are as follows:		
Common voting shares [(1)]	15,137,789,974	15,164,816,696
Preferred non-voting shares [(2)]	7,143,227,185	7,116,200,463

(1) Common Voting shares with a nominal value of (Ps. 1) Colombian peso.

(2) Since 2011, Grupo Aval allows its shareholders to convert their common shares into preferred shares. For the years ended December 31, 2019 and 2018, 27,026,722 and 8,364,069 common shares were converted into preferred shares, respectively. Preferred shares have the right to receive a preferential minimum dividend of one Colombian peso (Ps. 1) per semester per share. This preferential minimum dividend is only applicable when dividends declared for common shares are less than one Colombian peso (Ps. 1). Preferential minimum dividends are not cumulative.

25.1 Appropriated retained earnings

As of December 31, 2019, and 2018 the appropriation of retained earnings is as follows:

		December 31, 2019		December 31, 2018
Retained earnings	Ps.	2,475,939	Ps.	2,321,729
Withholding Tax over dividends		(14,344)		—
Legal reserve		11,140		11,140
Statutory and voluntary reserves		7,816,338		6,265,450
	Ps.	**10,289,073**	**Ps.**	**8,598,319**

25.1.1 Legal Reserve

In accordenace with current legal regulations, Grupo Aval and its subsidiaries in Colombia shall create a legal reserve through the appropriation of (10%) of the net profits of each year up to an amount equal to (50%) of the subscribed capital stock. This reserve may be reduced below (50%) of the subscribed capital stock to stem losses in excess of retained earnings. The legal reserve cannot be less than the percentage aforementioned except to cover losses in excess of retained earnings.

25.1.2 Statutory and Voluntary Reserves

The Statutory and voluntary reserves are determined during the Shareholders Meetings.

(Amounts expressed in millions of Colombian pesos)

25.2 Declared Dividends

The dividends are decreed and paid to shareholders based on occasional reserves available to the Board, the dividends decreed were as follows

	December 31, 2018	December 31, 2017	December 31, 2016
Net income for the periods ended in	Ps. 2,887,749	Ps. 2,001,178	Ps. 1,053,594
Cash dividends declared	In the general assembly held in March 2019, 60.00 pesos per share payable in twelve installments of 5.00 pesos per share, from April 2019 to March 2020.	In the general assembly held in March 2018, 48.00 pesos per share payable in twelve installments of 4.00 pesos per share, from April 2018 to March 2019.	In the general assembly held in March 2017, 58.80 pesos per share payable in twelve installments of 4.90 pesos per share, from April 2017 to March 2018.
Total outstanding shares	22,281,017,159	22,281,017,159	22,281,017,159
Total dividends declared	**Ps. 1,336,861**	**Ps. 1,069,489**	**Ps. 1,310,124**

25.3 Earnings per share

- Basic earnings per share

Grupo Aval calculates basic earnings per share by dividing net income for the year attributable to controlling interest of Grupo Aval parent company by the weighted average number of shares outstanding during the year (including common and preferred shares).

The following table summarizes the earnings per share for the year ended as of December 31, 2019, 2018 and 2017:

	December 31, 2019	December 31, 2018	December 31, 2017
Net income for the year	Ps. 5,365,454	Ps. 5,184,551	Ps. 3,162,433
Less: participation of non- controlling interests	(2,331,045)	(2,271,857)	(1,200,019)
Net income attributable to owners of the parent	**3,034,409**	**2,912,694**	**1,962,414**
Less: preferred dividends declared	—	—	—
Less: Allocation of undistributed earnings to preferred stockholders [1][2]	(970,070)	(929,656)	(622,215)
Net Income allocated to common shareholders for basic and diluted EPS	Ps. 2,064,339	Ps. 1,983,038	Ps. 1,340,199
Weighted average number of common shares outstanding used in basic EPS calculation [2]	15,158,004,812	15,169,502,784	15,216,468,601
Basic and Diluted earnings per share to common shareholders (pesos)	136.188	130.725	88.076
Basic and Diluted earnings per ADS in Colombian pesos [3]	2,723.76	2,614.51	1,761.51
Weighted average of the common and preferred shares used in the calculation of earnings per basic share (common and preferred)	22,281,017,159	22,281,017,159	22,281,017,159
Basic earnings of the owners of the parent per share in Colombian pesos	**136.188**	**130.725**	**88.076**

(1) Based on a weighted average of preferred shares.
(2) Averages based on an end of month number of preferred or common shares.
(3) Each ADS represents 20 preferred shares.

(Amounts expressed in millions of Colombian pesos)

- Diluted earnings per share

At December 31, 2019, 2018 and 2017, Grupo Aval did not have any dilutive instruments.

25.4 Equity transactions

On September 30, 2019, some transactions took place which resulted in changes to the interests which Grupo Aval and its subsidiaries have on the following investments:

The Board of Directors of Proyectos de Infraestructura - PISA S.A. authorized the purchase of 290,061,750 minority shares equivalent to 49.50% of Concesiones CCFC S.A.S., for a value of 67,097 million, with which PISA S.A. increased its ownership from 50.50% to 100% of CCFC S.A.S.

During Corficolombiana´s dividend distribution process, Grupo Aval and its subsidiaries received dividends in shares, unlike some minority shareholders who chose to receive the dividend payment in cash, generating a dilution effect at a consolidated level for Grupo Aval, which resulted in a modification of its participation going from 38.25% to 38.63%.

25.5 Consolidated Other Comprehensive Income (OCI):

Components of Accumulated Other Comprehensive Income for the years ended December 31, 2019, 2018 and 2017 are as follows:

	Net gain (loss) on hedges of net investment in foreing operations	Cash flow hedges	Foreing currency translation differences from unhedged foreign operations	Effect of moving investment properties for own use	Unrealized gains (losses) debt securities	Unrealized gains (losses) Equitysecurities	Investments in associates and join ventures	Actuarial gains(losses)	Income tax	Total comprehensive income, net of taxes
Beginning balance 2016	**Ps. (207,527)**	**Ps. 7,786**	**Ps. (74,911)**	**Ps. —**	**Ps. (272,216)**	**Ps. 489,884**	**Ps. 91,509**	**Ps. (32,225)**	**Ps. 1,276,840**	**Ps. 1,279,140**
Current-period change	203	(2,340)	(91,497)	—	284,480	57,245	1,128	(100,232)	(73,617)	75,370
Ending balance 2017	**Ps. (207,324)**	**Ps. 5,446**	**Ps. (166,408)**	**Ps. —**	**Ps. 12,264**	**Ps. 547,129**	**Ps. 92,637**	**Ps. (132,457)**	**Ps. 1,203,223**	**Ps. 1,354,510**
Change in accounting policy	—	—	—	—	56,198	71,229	(3,691)	—	(19,723)	104,013
Current-period change	541	(19,789)	(299,804)	—	(107,084)	(134,084)	22,400	18,013	310,056	(209,751)
Ending balance 2018	**Ps. (206,783)**	**Ps. (14,343)**	**Ps. (466,212)**	**Ps. —**	**Ps. (38,622)**	**Ps. 484,274**	**Ps. 111,346**	**Ps. (114,444)**	**Ps. 1,493,556**	**Ps. 1,248,772**
Current-period change	(2,931)	13,469	128,135	5,288	426,300	237,781	(9,061)	(61,222)	(36,029)	701,730
Ending balance 2019	**Ps. (209,714)**	**Ps. (874)**	**Ps. (338,077)**	**Ps. 5,288**	**Ps. 387,678**	**Ps. 722,055**	**Ps. 102,285**	**Ps. (175,666)**	**Ps. 1,457,527**	**Ps. 1,950,502**

(Amounts expressed in millions of Colombian pesos)

	Non - controlling interest	Owners of the parent	Total comprehensive income, net of taxes
Beginning balance 2016	**Ps. 529,523**	**Ps. 749,617**	**Ps. 1,279,140**
Current-period change	38,121	37,249	75,370
Ending balance 2017	**Ps. 567,644**	**Ps. 786,866**	**Ps. 1,354,510**
Change in accounting policy	58,180	45,833	104,013
Current-period change	(73,825)	(135,926)	(209,751)
Ending balance 2018	**Ps. 551,999**	**Ps. 696,773**	**Ps. 1,248,772**
Current-period change	305,056	396,674	701,730
Ending balance 2019	**Ps. 857,055**	**Ps. 1,093,447**	**Ps. 1,950,502**

NOTE 26 - NON- CONTROLLING INTEREST

The following table includes financial information regarding each subsidiary of Grupo Aval that has significant non-controlling interests at December 31, 2019 and 2018:

December 31, 2019

Entity	Country	Non-controlling Interest	Non-controlling Interest share of equity	Non-controlling interest share of net income	Dividends paid to non-controlling interest in the year
Corporación Financiera Colombiana S.A.	Colombia	61.37 %	Ps. 6,045,690	Ps. 1,231,081	Ps. (319,429)
Banco Bogotá S.A.	Colombia	31.26 %	5,813,830	876,732	(381,111)
Banco de Occidente S.A.	Colombia	27.73 %	1,068,830	156,587	(78,235)
Banco Comercial AV Villas S.A.	Colombia	20.13 %	348,711	46,705	(16,508)
Banco Popular S.A.	Colombia	6.26 %	220,641	19,940	(9,019)
		Total	**Ps. 13,497,702**	**Ps. 2,331,045**	**Ps. (804,302)**

December 31, 2018

Entity	Country	Non-controlling Interest	Non-controlling Interest share of equity	Non-controlling interest share of net income	Dividends paid to non-controlling interest in the year
Corporación Financiera Colombiana S.A.	Colombia	61.75 %	Ps. 5,071,562	Ps. 1,222,634	Ps. (308,254)
Banco Bogotá S.A.	Colombia	31.26 %	5,851,536	858,253	(332,297)
Banco de Occidente S.A.	Colombia	27.73 %	305,790	110,321	(75,838)
Banco Comercial AV Villas S.A.	Colombia	20.13 %	324,151	43,896	(15,425)
Banco Popular S.A.	Colombia	6.26 %	211,600	36,753	(14,118)
		Total	**Ps. 11,764,639**	**Ps. 2,271,857**	**Ps. (745,932)**

(Amounts expressed in millions of Colombian pesos)

The following table includes information regarding each subsidiary of Grupo Aval that has significant non-controlling interests to December 31, 2019 and 2018 (before eliminations):

December 31, 2019

Entity		Assets		Liabilities		Total Income		Net Income		OCI - Controlling		Cash Flow from operating activities
Corporación Financiera Colombiana S.A.	Ps.	31,809,578	Ps.	21,841,524	Ps.	10,244,488	Ps.	2,004,164	Ps.	780,447	Ps.	2,006,112
Banco Bogotá S.A.		175,019,580		153,159,578		19,207,112		3,073,654		1,378,393		6,671,466
Banco de Occidente S.A.		42,577,698		37,708,620		4,296,870		568,059		102,338		(570,873)
Banco Comercial AV Villas S.A.		15,207,537		13,412,397		1,823,204		236,624		62,949		231,652
Banco Popular S.A.	Ps.	25,117,577	Ps.	22,047,597	Ps.	2,757,661	Ps.	302,120	Ps.	2,134	Ps.	(931,478)

December 31, 2018

Entity		Assets		Liabilities		Total Income		Net Income		OCI - Controlling		Cash Flow from operating activities
Corporación Financiera Colombiana S.A.	Ps.	26,240,636	Ps.	18,121,948	Ps.	9,159,971	Ps.	2,068,518	Ps.	505,807	Ps.	4,597,371
Banco Bogotá S.A.		163,302,510		143,634,735		17,725,706		3,131,213		853,134		2,868,435
Banco de Occidente S.A.		38,921,610		34,415,453		4,040,260		416,294		29,097		339,411
Banco Comercial AV Villas S.A.		14,207,481		12,587,301		1,724,332		216,468		38,065		858,440
Banco Popular S.A.	Ps.	24,648,668	Ps.	21,757,734	Ps.	2,666,731	Ps.	354,961	Ps.	(7,631)	Ps.	1,106,042

NOTE 27 – COMMITMENTS AND CONTINGENCIES

The outcomes of the following legal processes are being categorized as “possible” in accordance with IAS 37.

Capital Expenses Commitments

As of December 31, 2019, and 2018, Grupo Aval and its subsidiaries had contractual disbursement commitments of capital expenditures for Ps. 311,729 and Ps. 127,367, respectively.

Contingencies

As of December 31, 2019, and 2018, Grupo Aval and its subsidiaries was part of administrative and legal proceedings as defendant; the claims of the proceedings were assessed based on analyses and opinions of responsible lawyers. The following legal contingencies were determined:

Labor Proceedings

As of December 31, 2019, and 2018, labor complaints had been recognized for Ps. 85,663 and Ps. 80,113 respectively. Historically, the majority of these proceedings have been resolved in favor of Grupo Aval and its subsidiaries.

Civil Proceedings

As of December 31, 2019, and 2018, the result of the assessment of the claims of legal proceedings for civil suits, not including those with remote probability, reached an amount of Ps. 305,198 and Ps. 391,310 respectively.

Administrative, Tax Proceedings and Other Proceedings

Claims derived from administrative and judicial processes include those of fiscal responsibility over concession contracts, tax proceedings and others. Filed with national and local tax authorities. These authorities may establish, in some cases, sanctions in which Grupo Aval and its subsidiaries may incur as a result of: (i) the performance of their duty as a withholder or collector of national and local taxes, and/or (ii) a higher value in their obligations as taxpayers. As of December 31, 2019, and 2018, the amount of the claims reached the sum of Ps. 64,077 and Ps. 241,092 respectively.

Other matters

The outcomes of the following legal processes are not being categorized as “possible” in accordance with IAS 37, however, they are being disclosed herein in attention to their relevance.

Investigation of the Superintendency of Industry and Commerce in relation to the Ruta del Sol Project Sector 2

On September 13, 2018, the Superintendency of Industry and Commerce ("SIC") issued Resolution No. 67837 ordering an investigation and formulating charges against a number of individuals and entities, including Grupo Aval Acciones y Valores S.A. ("Grupo Aval"), Corporación Financiera Colombiana S.A. ("Corficolombiana"), Estudios y Proyectos del Sol S.A.S. ("Episol"), a company 100% owned by Corficolombiana and Concesionaria Ruta del Sol (CRDS), a company in which Corficolombiana participates with 33%. Likewise, the SIC decided to charge some current and former officials of Corficolombiana and Grupo Aval, including José Elías Melo Acosta, Luis Carlos Sarmiento Gutiérrez and Diego Fernando Solano Saravia.

The SIC argues alleged violations of the Colombian legal regime of free economic competition in the bidding process for the awarding of the Ruta del Sol Sector 2 Project. As a result of the above, the SIC formulated two charges against Corficolombiana, two charges against Episol, one charge against CRDS and one charge against Grupo Aval.

The formulation of charges made by the SIC corresponds to the opening of a formal investigation which, after the different stages of the proceeding are conducted, may result in the dismissal of the charges or in the imposition of economic sanctions. In this regard, numeral 15 of article 4 of Decree 2153 of 1992, modified by article 25 of Law 1340 of 2009, provides that for the violation of any of the provisions on protection of competition, the SIC may impose sanctions up to the amount of 100,000 current monthly minimum wages (currently Ps. 87,780 for each charge) or, if it turns out to be greater, up to 150% of the profits derived from the conduct by the offender. In case of an unfavorable decision, the maximum amount of an eventual penalty would impact the net attributable profit of Grupo Aval in Ps.234,602.

Grupo Aval, Corficolombiana and Episol, as well as their officials subject to the investigation, submitted their respective defenses in October 2018, accompanied by documentary evidence and requests for the practice of evidence to debate the reasons that led the SIC to these accusations.

On August 5, 2019, through Resolution 33788, the SIC initiated the evidence stage which concluded on December 19, 2019. The next phase of the investigation corresponds to the submission of a report (“Informe Motivado”) by the Deputy Superintendent for the Protection of Competition with the conclusions about the investigation and the recommendation to the Superintendent of Industry and Commerce.

In accordance with the regulations applicable to the aforementioned administrative investigation, the report that the Deputy Superintendent submits to the Superintendent of Industry and Commerce must be notified to the investigated parties and to third parties accredited as such in the process. Such parties will be provided with a 20 days period for the formulation of observations to the report.

Even though it is not possible to establish the time it will take the Deputy Superintendent to issue the report and the SIC to make a decision in relation to this case, it is expected that it will be resolved this year. There is also no certainty about the assessment of this contingency, since it will be the result of the investigation and analysis of the SIC in relation to the evidence and various documents of defense that were filed, which will lead to the dismissal of the charges or the possible imposition of a fine and graduation of the same.

Class Action before the Administrative Tribune of Cundinamarca in connection with the Ruta del Sol Project Sector 2

On January 26, 2017, the Procurator-General Office (Procuraduría General de la Nación or "PGN") filed a class action against CRDS, (a company formed by Construtora Norberto Odebrecht S.A., Odebrecht Investimentos em Infraestructura Ltda., CSS Constructores S.A. and Episol), the National Infrastructure Agency ("ANI") and its members, for the violation of the collective rights of administrative morality, defense of public patrimony and access to public services, action that was conducted before the first section of the Administrative Tribunal of Cundinamarca ("TAC").

On December 6, 2018 the TAC, issued a first instance ruling in the referred class action against CRDS, and its shareholders including Episol, and other individuals and entities, including the former President of Corficolombiana, Jose Elias Melo Acosta. In its ruling, the TAC found the defendants jointly and severally liable for the damages caused to the collective interests and ordered the payment of Ps. 800,156 in favor of the Nation-Ministry of Transportation. Likewise, the TAC debarred the defendants for a term of ten years to contract with the Colombian government and to hold positions in public office. Subsequently, by order of February 8, 2019 alleging arithmetical errors in its ruling, the TAC corrected the amount of the sentence reducing it to an amount of Ps. 715,656.

The aforementioned ruling is not final since several appeals were filed against it by Episol and the other defendants, which were granted by the TAC on February 25, 2019 and it will be up to the Consejo de Estado (Colombia's Supreme Court on administrative matters) to issue a final decision in this regard.
By order of February 14, 2020, the Consejo de Estado ruled in relation to the effects of the appeal, stating that the provisions of the first instance ruling regarding the delivery of money or other goods and the provisions in relation to the debarment from government contracting would only be enforceable in the event of a duly executed second instance ruling confirming the decision appealed.

In the case of Episol, the appeal filed argues multiple substantive and procedural defects in accordance with which it argues that the decisions against it should be revoked. It is not possible to establish the time it will take for the Consejo de Estado to make a decision in relation to this case. In the event that the decision of the TAC is confirmed and that Episol is compelled to assume the entire amount of the sentence, the maximum impact to the net attributable profit of Grupo Aval would be Ps. 276,445.

Investigations by United States authorities

The Department of Justice of the United States ("DOJ") and the United States Securities and Exchange Commission ("SEC") informed Grupo Aval that they had opened an investigation on matters related to the Ruta del Sol II project. Grupo Aval is cooperating with the DOJ and the SEC in these investigations. It is not possible to predict the decisions that the DOJ or the SEC will take as a result of the issues that are the subject of these investigations, nor the impact that such investigations and their outcome may have on Grupo Aval and / or its subsidiaries entities.

(Amounts expressed in millions of Colombian pesos)

NOTE 28 – INCOME FROM CONTRACTS WITH CUSTOMERS

Below is a detail of the income and expenses for commissions and fees of contracts with customers for the years ended as of December 31, 2019, 2018 and 2017:

Income from commissions and fees	December 31, 2019	December 31, 2018	December 31, 2017
Commissions on banking services	Ps. 3,006,506	Ps. 2,718,482	Ps. 2,567,704
Fees on credit cards	1,364,244	1,187,716	1,112,319
Pension and severance fund management	1,129,391	987,323	926,771
Trust activities	334,910	312,901	311,837
Storage services	161,298	156,638	169,815
Commissions on drafts, checks and checkbooks	50,026	49,645	60,768
Office network services	24,618	30,220	42,639
Other commissions	12,350	10,457	10,272
Total income from commissions and fees(*)	**Ps. 6,083,343**	**Ps. 5,453,382**	**Ps. 5,202,125**

(*) See note 31.6

Expenses from commissions and fees	December 31, 2019	December 31, 2018	December 31, 2017
Banking services	Ps. (311,098)	Ps. (307,191)	Ps. (332,811)
Sales and services commissions	(184,481)	(171,680)	(119,987)
Fees paid to pension funds sales forces	(94,285)	(75,130)	(74,531)
Information processing services of operators	(17,969)	(22,525)	(23,039)
Offices network services	(8,508)	(23,040)	(29,874)
Collection service of contributions to financial entities	(1,177)	(7,110)	(5,618)
Banks guarantees	(18)	(128)	(88)
Fiduciary businesses	(61)	(46)	(41)
Credit cards	(6)	(12)	(2)
Other	(10,396)	(6,901)	(37,123)
Total expenses from commissions and fees	**Ps. (627,999)**	**Ps. (613,763)**	**Ps. (623,114)**
Net income from commissions and fees	**Ps. 5,455,344**	**Ps. 4,839,619**	**Ps. 4,579,011**

Below is the detail of the income and cost for goods and services for the years ended as of December 31, 2019, 2018 and 2017:

Income from sales of goods and services	December 31, 2019	December 31, 2018	December 31, 2017
Energy and gas E&G	Ps. 4,524,903	Ps. 3,411,674	Ps. 2,908,292
Infrastructure	3,783,534	3,826,101	2,290,786
Hotels	366,835	332,749	236,760
Agribusiness	135,928	133,095	87,800
Others Services	205,813	239,801	132,833
Others operating income	139,575	182,594	136,379
Total income from sales of good and services (*)	**Ps. 9,156,588**	**Ps. 8,126,014**	**Ps. 5,792,850**

(*) See note 31.6

(Amounts expressed in millions of Colombian pesos)

Costs and expenses of sales goods and services	December 31, 2019	December 31, 2018	December 31, 2017
Cost of sales of companies from non-financial sector	Ps. (5,041,089)	Ps. (3,812,993)	Ps. (3,408,808)
Allowance for impairment of loans and receivables	(43,401)	(21,829)	(22,239)
General and administrative expenses	(659,262)	(645,690)	(668,616)
Personnel expenses	(555,038)	(499,750)	(481,892)
Amortization	(267,808)	(317,035)	(300,325)
Depreciation	(98,963)	(100,388)	(79,981)
Depreciation right of use assets	(30,425)	—	—
Bonus payments	(36,300)	(34,503)	(34,436)
Commissions and fees expenses	(30,885)	(32,876)	(24,361)
Donations expenses	(14,704)	(14,320)	(12,604)
Labor severances	(3,902)	(2,718)	(2,565)
Total costs and expenses of sales goods and services	**Ps. (6,781,777)**	**Ps. (5,482,102)**	**Ps. (5,035,827)**
Gross profit from sales of goods and services	**Ps. 2,374,811**	**Ps. 2,643,912**	**Ps. 757,023**

NOTE 29 – NET TRADING INCOME

Net trading income includes income from client driven trading activities primarily conducted in markets, including foreign exchange, credit, rates and equities trading, as follows:

	December 31, 2019	December 31, 2018	December 31, 2017
Trading investment income [(1)]			
Fixed income securities	Ps. 270,310	Ps. 98,024	Ps. 218,994
Equities	349,526	57,477	177,448
Total trading investment income	**Ps. 619,836**	**Ps. 155,501**	**Ps. 396,442**
Derivatives income			
Net income (loss) on financial derivatives [(2)]	Ps. 19,932	Ps. 247,880	Ps. (75,224)
Other trading income [(3)]	122,143	179,328	240,144
Total derivatives income	**Ps. 142,075**	**Ps. 427,208**	**Ps. 164,920**
Total net trading income	**Ps. 761,911**	**Ps. 582,709**	**Ps. 561,362**

(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.
(3) Includes gains/losses from: (i) Net changes in the valuation of hedging derivatives from mark-to-market valuations from unhedged, (ii) the ineffective portion of the hedge, (iii) Transfers of due hedging derivatives from OCI to the statement of income.

NOTE 30 – OTHER INCOME AND EXPENSE

Below is a detail of the other income and expense in the years ended December 31, 2019, 2018 and 2017:

Other Income	December 31, 2019	December 31, 2018	December 31, 2017
Foreign exchange gains (losses), net	Ps. 312,267	Ps. 283,440	Ps. 424,483
Share of profit of equity accounted investees, net of tax	229,626	197,715	171,964
Net gain on sale of debt and equity securities [(1)]	198,562	1,104	51,712
Dividends	84,686	71,487	50,439
Gain on the sale of non-current assets held for sale	23,381	20,062	13,568
Gain on sale of property, plant and equipment [(2)]	24,381	390,472	10,581
Net gain in assets valuation	14,151	37,307	39,012
Other income	395,909	357,094	389,986
Total other income	Ps. **1,282,963**	Ps. **1,358,681**	Ps. **1,151,745**

(1) The increase of Ps. 197,458 is due to the realization of the gains recognized in OCI for the sale of fixed income investments.

(Amounts expressed in millions of Colombian pesos)

(2) The year 2018 includes the recognition of income from sales with subsequent leasing of assets in Banco de Bogota by Ps. 312,316 and Ps. 60,474 in Banco Popular.

Other Expense	December 31, 2019	December 31, 2018	December 31, 2017
Personnel expenses	Ps. (4,085,396)	Ps. (3,877,584)	Ps. (3,671,117)
Taxes and fees	(914,476)	(757,936)	(731,316)
Affiliation contributions and transfers	(664,835)	(511,811)	(429,825)
Consultancy, audit and other fees	(661,645)	(569,276)	(460,978)
Maintenance and repairs	(458,522)	(378,433)	(392,271)
Depreciation of tangible assets	(416,946)	(378,218)	(383,911)
Wealth tax (1)	—	—	(101,988)
Insurance	(382,322)	(375,611)	(351,745)
Marketing	(351,104)	(327,539)	(314,657)
Depreciation right of use assets (2)	(292,771)	—	—
Warehouse services	(277,574)	(270,223)	(277,849)
Amortization of intangible assets	(191,768)	(161,533)	(137,497)
Transportation services	(184,720)	(181,687)	(166,429)
Leases (Rent)	(175,002)	(476,590)	(431,507)
Outsourcing services	(149,280)	(128,495)	(128,656)
Cleaning and security services	(137,721)	(126,822)	(131,451)
Supplies and stationary	(103,104)	(85,128)	(82,113)
Data processing	(83,542)	(81,426)	(73,872)
Adaptation and installation	(58,904)	(55,815)	(62,809)
Travel expenses	(58,663)	(52,584)	(48,193)
Impairment losses other assets (3)	(20,755)	(166,300)	(174,255)
Loss from sale of non-current assets held for sale	(4,392)	(5,200)	(6,957)
Other	(497,907)	(402,822)	(443,695)
Total other expense	**Ps. (10,171,349)**	**Ps. (9,371,033)**	**Ps. (9,003,091)**

(1) Grupo Aval and its subsidiaries in Colombia were subject to wealth tax for the year 2017 by law 1739 of 2014.
(2) The Group adopted IFRS 16 on January 1, 2019. (See Note 2.4A)
(3) The year 2018 includes the provision of investment in Concesionaria Ruta del Sol S.A.S at 100%.

NOTE 31 – ANALYSIS OF OPERATING SEGMENTS

Operating segments are components of Grupo Aval responsible for developing commercial activities that can generate revenue or incur expenses and whose operating profit or loss are regularly reviewed by the Board of Directors of Grupo Aval, and for which financial information is available:

31.1 Description of products and services from which each reportable segment derives its income

Grupo Aval is organized into five business segments comprised by the four main banks of Grupo Aval: Banco de Bogotá, Banco de Occidente, Banco AV Villas, Banco Popular and Corficolombiana. All these banks and Corficolombiana, provide services relating to banking activities in Colombia and others countries in commercial, consumer, mortgage housing and microcredit banking. Corficolombiana´s core business is the active management of an equity portfolio.

31.2 Factors used by management to identify reportable segments

Operating segments identified above are based on the strategic organization of Grupo Aval in order to serve different sectors of the economy in Colombia and América Central.

31.3 Measurement of net income, assets and liabilities of operating segments

The Board of Directors of Grupo Aval reviews the financial information of each of its operating segments and assesses the performance of each segment based on Statements of Financial Position and the Statement of Income of each of them, and on certain credit risk indicators, as described in note 2.31.

(Amounts expressed in millions of Colombian pesos)

31.4 Information on net income, assets and liabilities of reportable operating segments

The following is the detail of the reportable financial information summarized for each segment as of December 31, 2019, 2018 and 2017:

Statement of Financial Position

December 31, 2019

	Banco de Bogotá S.A.	Banco de Occidente S.A.	Banco Popular S.A.	Banco AV Villas S.A.	Corficolombiana S.A.	Other segments (1)	Eliminations	Total
Assets								
Trading assets	Ps. 4,199,830	Ps. 2,730,366	Ps. 284,790	Ps. 295,234	Ps. 1,729,563	Ps. 187	Ps. (126,302)	Ps. 9,113,668
Investment securities	14,721,063	4,487,707	2,556,181	1,675,897	3,316,757	—	(757,294)	26,000,311
Hedging derivatives assets	163,004	—	—	—	3,594	—	—	166,598
Investments in associates and joint ventures	4,752,358	1,434,246	486,524	3,027	752,060	405	(6,440,658)	987,962
Loans, net	113,110,128	29,374,122	19,260,152	11,671,190	2,115,859	—	(1,589,134)	173,942,317
Other assets	38,073,197	4,551,257	2,529,930	1,562,189	23,891,745	4,129,975	(6,116,560)	68,621,733
Total assets	**Ps. 175,019,580**	**Ps. 42,577,698**	**Ps. 25,117,577**	**Ps. 15,207,537**	**Ps. 31,809,578**	**Ps. 4,130,567**	**Ps. (15,029,948)**	**Ps. 278,832,589**
Liabilities								
Customer deposits	117,794,986	28,726,381	16,988,939	11,851,426	4,067,504	—	(3,937,815)	175,491,421
Financial obligations	29,359,125	7,195,231	3,955,801	1,078,588	12,152,007	4,484,293	(3,380,469)	54,844,576
Other liabilities	6,005,467	1,787,008	1,102,857	482,383	5,622,013	519,887	(371,292)	15,148,323
Total liabilities	**Ps. 153,159,578**	**Ps. 37,708,620**	**Ps. 22,047,597**	**Ps. 13,412,397**	**Ps. 21,841,524**	**Ps. 5,004,180**	**Ps. (7,689,576)**	**Ps. 245,484,320**

(1) Includes Grupo Aval Holding, Grupo Aval Limited and ATH Negocio Conjunto.

Statement of income for 2019

	Banco de Bogotá S.A.	Banco de Occidente S.A.	Banco Popular S.A.	Banco AV Villas S.A.	Corficolombiana S.A.	Other segments [1]	Eliminations	Total
External income								
Interest income	Ps. 12,279,546	Ps. 3,107,030	Ps. 2,297,087	Ps. 1,460,981	Ps. 407,843	Ps. 248	Ps. —	Ps. 19,552,735
Income from commissions and fees	4,948,265	423,571	263,985	281,324	77,012	89,186	—	6,083,343
Income from sales of goods and services	107,012	58,947	—	(5,466)	8,996,095	—	—	9,156,588
Share of profit of equity accounted investees, net of tax	10,633	4,272	5,232	3,819	205,674	(4)	—	229,626
Dividends	4,878	336	1,155	1,795	76,522	—	—	84,686
Other income	1,183,179	262,541	97,372	53,340	348,779	2,967	—	1,948,178
	Ps. 18,533,513	**Ps. 3,856,697**	**Ps. 2,664,831**	**Ps. 1,795,793**	**Ps. 10,111,925**	**Ps. 92,397**	**Ps. —**	**Ps. 37,055,156**

	Banco de	Banco de	Banco Popular	Banco AV	Corficolombiana	Other

	Bogotá S.A.	Occidente S.A.	S.A.	Villas S.A.	S.A.	segments [1]	Eliminations	Total
Intersegment income								
Interest income	Ps. 95,675	Ps. 13,344	Ps. 13,411	Ps. 3,441	Ps. 128,352	Ps. 79	Ps. (254,302)	Ps. —
Income from commissions and fees	4,339	8,328	2,904	18,905	1,474	68,227	(104,177)	—
Income from sales of goods and services	1,968	164,635	—	5,466	5,866	—	(177,935)	—
Share of profit of equity accounted investees, net of tax	513,721	246,576	73,370	(3,997)	1,665	—	(831,335)	—
Dividends	5,288	2,022	2,925	2,053	105	—	(12,393)	—
Other income	52,608	5,268	220	1,543	(4,899)	88,628	(143,368)	—
	673,599	**440,173**	**92,830**	**27,411**	**132,563**	**156,934**	**(1,523,510)**	**—**
Total income	**Ps. 19,207,112**	**Ps. 4,296,870**	**Ps. 2,757,661**	**Ps. 1,823,204**	**Ps. 10,244,488**	**Ps. 249,331**	**Ps. (1,523,510)**	**Ps. 37,055,156**
Expenses								
Interest expense	Ps. (4,879,514)	Ps. (1,228,385)	Ps. (880,056)	Ps. (421,033)	Ps. (925,197)	Ps. (240,723)	Ps. 307,691	Ps. (8,267,217)
Loans and other accounts receivable	(2,767,818)	(867,085)	(350,302)	(269,269)	(11,598)	—	72,092	(4,193,980)
Depreciation and amortization	(631,835)	(107,651)	(82,028)	(65,455)	(7,789)	(10,135)	3,408	(901,485)
Expenses from commissions and fees	(382,972)	(85,289)	(65,713)	(137,275)	(12,737)	(4,419)	60,406	(627,999)
Costs and expenses of sales goods and services	(235,928)	(305,866)	—	—	(6,256,833)	20,755	(3,905)	(6,781,777)
Administrative expenses	(3,406,083)	(725,963)	(640,153)	(392,862)	(85,533)	(279,356)	575,643	(4,954,307)
Other expense	(2,830,267)	(347,474)	(384,756)	(195,290)	(137,701)	366,572	(347,764)	(3,876,680)
Income tax expense	(999,041)	(61,098)	(52,533)	(105,396)	(802,936)	(62,399)	(2,854)	(2,086,257)
Total expenses	**(16,133,458)**	**(3,728,811)**	**(2,455,541)**	**(1,586,580)**	**(8,240,324)**	**(209,705)**	**664,717**	**(31,689,702)**
Net income for the year	**Ps. 3,073,654**	**Ps. 568,059**	**Ps. 302,120**	**Ps. 236,624**	**Ps. 2,004,164**	**Ps. 39,626**	**Ps. (858,793)**	**Ps. 5,365,454**

[1] Includes Grupo Aval Holding, Grupo Aval Limited and ATH Negocio Conjunto.

	Banco de Bogotá S.A.	Banco de Occidente S.A.	Banco Popular S.A.	Banco AV Villas S.A.	Corficolombiana S.A.	Other segments [1]	Eliminations	Total
Revenue from contracts with customers [2]	**Ps. 5,060,573**	**Ps. 651,537**	**Ps. 266,889**	**Ps. 300,229**	**Ps. 8,679,277**	**Ps. 437,415**	**Ps. (155,989)**	**Ps. 15,239,931**
Timing of revenue recognition								
At a point in time	232,277	31,763	22,784	83,687	116,974	436,504	(365,398)	558,591
Over time	4,828,296	619,774	244,105	216,542	8,562,303	911	209,409	14,681,340

[1] Includes Grupo Aval Holding, Grupo Aval Limited and ATH Negocio Conjunto.
[2] Income from contracts with customers, see note 28.

(Amounts expressed in millions of Colombian pesos)

Statement of Financial Position December 31, 2018

	Banco de Bogotá S.A.	Banco de Occidente S.A.	Banco Popular S.A.	Banco AV Villas S.A.	Corficolombiana S.A.	Other segments [1]	Eliminations	Total
Assets								
Trading assets	Ps. 3,086,060	Ps. 1,670,934	Ps. 235,283	Ps. 302,226	Ps. 1,987,205	Ps. 212	Ps. (77,608)	Ps. 7,204,312
Investment securities	11,238,754	5,070,964	2,900,778	1,225,551	3,189,297	—	(595,185)	23,030,159
Hedging derivatives assets	32,981	—	—	—	43	—	(2,886)	30,138
Investments in associates and joint ventures	4,157,015	1,247,935	396,289	2,347	759,222	—	(5,580,065)	982,743
Loans, net	111,018,238	26,996,654	18,287,166	11,027,826	2,575,561	—	(1,219,791)	168,685,654
Other assets	33,769,462	3,935,123	2,829,152	1,649,531	17,729,308	3,924,117	(4,094,546)	59,742,147
Total assets	**Ps. 163,302,510**	**Ps. 38,921,610**	**Ps. 24,648,668**	**Ps. 14,207,481**	**Ps. 26,240,636**	**Ps. 3,924,329**	**Ps. (11,570,081)**	**Ps. 259,675,153**
Liabilities								
Customer deposits	Ps. 108,404,522	Ps. 25,592,232	Ps. 17,571,388	Ps. 11,425,400	Ps. 3,805,028	Ps. —	Ps. (2,439,119)	Ps. 164,359,451
Financial obligations	28,560,065	6,881,717	3,139,013	647,872	9,673,342	4,376,021	(2,066,040)	51,211,990
Other liabilities	6,670,148	1,941,504	1,047,333	514,029	4,643,578	443,591	(710,819)	14,549,364
Total liabilities	**Ps. 143,634,735**	**Ps. 34,415,453**	**Ps. 21,757,734**	**Ps. 12,587,301**	**Ps. 18,121,948**	**Ps. 4,819,612**	**Ps. (5,215,978)**	**Ps. 230,120,805**

(1) Includes Grupo Aval Holding, Grupo Aval Limited, Grupo Aval International Limited and ATH Negocio Conjunto.

Statement of Income for the year 2018

	Banco de Bogotá S.A.	Banco de Occidente S.A.	Banco Popular S.A.	Banco AV Villas S.A.	Corficolombiana S.A.	Other segments [1]	Eliminations	Total
External income								
Interest income	Ps. 11,136,903	Ps. 3,087,525	Ps. 2,192,941	Ps. 1,383,023	Ps. 556,068	Ps. 176	Ps. —	Ps. 18,356,636
Income from commissions and fees	4,394,989	399,785	245,721	261,769	77,936	73,182	—	5,453,382
Income from sales of goods and services	130,007	65,916	12,124	—	7,917,967	—	—	8,126,014
Share of profit of equity accounted investees, net of tax	6,126	2,688	3,083	2,550	183,268	—	—	197,715
Dividends	4,855	286	2,314	1,399	62,633	—	—	71,487
Other income	1,211,601	152,866	132,562	53,724	324,524	2,714	—	1,877,991
	Ps. 16,884,481	**Ps. 3,709,066**	**Ps. 2,588,745**	**Ps. 1,702,465**	**Ps. 9,122,396**	**Ps. 76,072**	**Ps. —**	**Ps. 34,083,225**

	Banco de Bogotá S.A.	Banco de Occidente S.A.	Banco Popular S.A.	Banco AV Villas S.A.	Corficolombiana S.A.	Other segments [1]	Eliminations	Total
Intersegment income								
Interest income	Ps. 58,463	Ps. 10,971	Ps. 3,681	Ps. 1,726	Ps. 30,590	Ps. 144	Ps. (105,575)	Ps. —
Income from commissions and fees	5,977	9,395	6,760	19,992	1,350	80,403	(123,877)	—
Income from sales of goods and services	580	109,927	—	—	5,767	—	(116,274)	—
Share of profit of equity accounted investees, net of tax	562,070	180,142	57,340	(3,230)	1,151	—	(797,473)	—
Dividends	12,894	2,414	9,355	1,614	1,211	—	(27,488)	—
Other income	201,241	18,345	850	1,765	(2,494)	53,808	(273,515)	—
	841,225	**331,194**	**77,986**	**21,867**	**37,575**	**134,355**	**(1,444,202)**	**—**

(Amounts expressed in millions of Colombian pesos)

Total income	**Ps. 17,725,706**	**Ps. 4,040,260**	**Ps. 2,666,731**	**Ps. 1,724,332**	**Ps. 9,159,971**	**Ps. 210,427**	**Ps. (1,444,202)**	**Ps. 34,083,225**
Expenses								
Interest expense	Ps. (4,328,845)	Ps. (1,135,189)	Ps. (850,707)	Ps. (370,015)	Ps. (781,037)	Ps. (222,519)	Ps. 203,471	Ps. (7,484,841)
Loans and other accounts receivable	(2,610,893)	(1,014,420)	(186,622)	(297,265)	(40,772)	—	—	(4,149,972)
Depreciation and amortization	(363,264)	(77,174)	(50,819)	(33,438)	(7,750)	(7,306)	—	(539,751)
Expenses from commissions and fees	(362,810)	(71,570)	(89,515)	(107,759)	(13,322)	(2,511)	33,724	(613,763)
Costs and expenses of sales goods and services	(254,904)	(242,943)	(13,962)	—	(5,011,808)	5,409	36,106	(5,482,102)
Administrative expenses	(3,171,147)	(699,653)	(564,289)	(408,079)	(95,338)	(206,690)	504,736	(4,640,460)
Other expense	(2,552,588)	(418,471)	(402,933)	(190,005)	(233,165)	283,719	(324,752)	(3,838,195)
Income tax expense	(950,042)	35,454	(152,923)	(101,303)	(908,261)	(70,145)	(2,370)	(2,149,590)
Total expenses	**(14,594,493)**	**(3,623,966)**	**(2,311,770)**	**(1,507,864)**	**(7,091,453)**	**(220,043)**	**450,915**	**(28,898,674)**
Net income for the year	**Ps. 3,131,213**	**Ps. 416,294**	**Ps. 354,961**	**Ps. 216,468**	**Ps. 2,068,518**	**Ps. (9,616)**	**Ps. (993,287)**	**Ps. 5,184,551**

(1) Includes Grupo Aval Holding, Grupo Aval Limited, Grupo Aval International Limited and ATH Negocio Conjunto.

	Banco de Bogotá S.A.	**Banco de Occidente S.A.**	**Banco Popular S.A.**	**Banco AV Villas S.A.**	**Corficolombiana S.A.**	**Other segments (1)**	**Eliminations**	**Total**
Revenue from contracts with customers (2)	**Ps. 4,530,757**	**Ps. 582,571**	**Ps. 262,703**	**Ps. 281,761**	**Ps. 7,770,108**	**Ps. 437,292**	**Ps. (285,796)**	**Ps. 13,579,396**
Timing of revenue recognition								
At a point in time	1,156,598	126,524	72,090	159,147	167,440	436,697	(377,760)	1,740,736
Over time	3,374,159	456,047	190,613	122,614	7,602,668	595	91,964	11,838,660

(1) Includes Grupo Aval Holding, Grupo Aval Limited, Grupo Aval International Limited and ATH Negocio Conjunto.
(2) Income from contracts with customers, see note 28.

(Amounts expressed in millions of Colombian pesos)

Statement of Income of the year 2017

	Banco de Bogotá S.A.	Banco de Occidente S.A.	Banco Popular S.A.	Banco AV Villas S.A.	Corficolombiana S.A.	Other segments (1)	Eliminations	Total
External income								
Interest income	Ps. 11,241,897	Ps. 3,450,056	Ps. 2,196,753	Ps. 1,305,784	Ps. 547,028	Ps. 315	Ps. —	Ps. 18,741,833
Income from commissions and fees	4,187,221	396,658	224,233	250,824	95,086	48,103	—	5,202,125
Income from sales of goods and services	104,277	62,294	58,184	—	5,568,095	—	—	5,792,850
Share of profit of equity accounted investees, net of tax	5,847	2,402	2,622	2,043	159,050	—	—	171,964
Dividends	1,321	370	1,991	1,514	45,243	—	—	50,439
Other income	954,355	194,155	63,157	62,642	423,255	3,077	—	1,700,641
	Ps. 16,494,918	**Ps. 4,105,935**	**Ps. 2,546,940**	**Ps. 1,622,807**	**Ps. 6,837,757**	**Ps. 51,495**	**Ps. —**	**Ps. 31,659,852**

	Banco de Bogotá S.A.	Banco de Occidente S.A.	Banco Popular S.A.	Banco AV Villas S.A.	Corficolombiana S.A.	Other segments (1)	Eliminations	Total
Intersegment income								
Interest income	Ps. 72,910	Ps. 1,818	Ps. 1,047	Ps. 4,797	Ps. 62,097	Ps. 277	Ps. (142,946)	Ps. —
Income from commissions and fees	2,988	5,171	4,133	15,065	1,339	95,312	(124,008)	—
Income from sales of goods and services	15	78,286	—	—	6,992	14,060	(99,353)	—
Share of profit of equity accounted investees, net of tax	36,782	139,555	(376)	132	159	—	(176,252)	—
Dividends	3,101	5,494	6,810	1,170	1,244	—	(17,819)	—
Other income	24,536	2,494	5,978	1,977	(18,243)	62,335	(79,077)	—
	140,332	**232,818**	**17,592**	**23,141**	**53,588**	**171,984**	**(639,455)**	**—**
Total income	**Ps. 16,635,250**	**Ps. 4,338,753**	**Ps. 2,564,532**	**Ps. 1,645,948**	**Ps. 6,891,345**	**Ps. 223,479**	**Ps. (639,455)**	**Ps. 31,659,852**
Expenses								
Interest expense	Ps. (4,594,100)	Ps. (1,388,144)	Ps. (977,441)	Ps. (423,069)	Ps. (852,501)	Ps. (216,694)	Ps. 224,250	Ps. (8,227,699)
Loans and other accounts receivable	(2,459,293)	(993,350)	(258,926)	(327,833)	(79,932)	—	—	(4,119,334)
Depreciation and amortization	(361,621)	(69,255)	(45,417)	(29,897)	(5,881)	(9,337)	—	(521,408)
Expenses from commissions and fees	(351,073)	(94,089)	(86,228)	(108,572)	(10,772)	(2,550)	30,170	(623,114)
Costs and expenses of sales goods and services	(238,836)	(206,532)	(26,764)	—	(4,577,538)	5,901	7,942	(5,035,827)
Administrative expenses	(3,035,346)	(703,106)	(520,204)	(375,522)	(119,271)	(229,821)	470,122	(4,513,148)
Other expense	(2,491,823)	(390,812)	(334,944)	(180,186)	(241,854)	311,137	(375,613)	(3,704,095)
Income tax expense	(970,207)	(115,778)	(108,914)	(63,174)	(440,043)	(51,957)	(2,721)	(1,752,794)
Total expenses	**(14,502,299)**	**(3,961,066)**	**(2,358,838)**	**(1,508,253)**	**(6,327,792)**	**(193,321)**	**354,150**	**(28,497,419)**
Net income for the year	**Ps. 2,132,951**	**Ps. 377,687**	**Ps. 205,694**	**Ps. 137,695**	**Ps. 563,553**	**Ps. 30,158**	**Ps. (285,305)**	**Ps. 3,162,433**

(1) Includes Grupo Aval Holding, Grupo Aval Limited, Grupo Aval International Limited and ATH Negocio Conjunto.

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.
- Leases and commissions pay between entities of Grupo Aval.
- Expenses and incomes from commissions

31.5 Analysis of Revenues by Products and Services

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

(Amounts expressed in millions of Colombian pesos)

31.6 Income by Country

Grupo Aval's revenues for each individual country for which revenues are significant, are the following during the years ended December 31, 2019, 2018 and 2017:

	December 31, 2019									
	Country									
	Colombia	Panamá	Costa Rica	Guatemala	Honduras	Nicaragua	El Salvador	Perú	Other countries	Total income
Interest income	**Ps. 12,891,567**	**Ps. 1,418,362**	**Ps. 2,128,292**	**Ps. 1,058,404**	**Ps. 950,760**	**Ps. 391,889**	**Ps. 660,029**	**Ps. 6,162**	**Ps. 47,270**	**Ps. 19,552,735**
Income from commissions and fees	**3,506,114**	**352,996**	**1,173,411**	**278,198**	**344,010**	**170,261**	**223,982**	**—**	**34,371**	**6,083,343**
Storage services	161,298	—	—	—	—	—	—	—	—	161,298
Trust activities	334,910	—	—	—	—	—	—	—	—	334,910
Pension and severance fund management	1,088,849	—	31,711	—	8,831	—	—	—	—	1,129,391
Fees on credit cards	606,581	45,016	406,458	69,367	99,055	50,568	63,467	—	23,732	1,364,244
Office network services	24,618	—	—	—	—	—	—	—	—	24,618
Commissions on drafts, checks and checkbooks	49,546	480	—	—	—	—	—	—	—	50,026
Other commissions	12,350	—	—	—	—	—	—	—	—	12,350
Commissions on banking services	1,227,962	307,500	735,242	208,831	236,124	119,693	160,515	—	10,639	3,006,506
Share of profit of equity accounted investees, net of tax	**229,626**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**229,626**
Dividends	**80,443**	**2,666**	**—**	**870**	**707**	**—**	**—**	**—**	**—**	**84,686**
Income from sales of goods and services	**8,710,572**	**669**	**—**	**—**	**—**	**—**	**—**	**445,347**	**—**	**9,156,588**
Energy and gas E&G	4,102,181	—	—	—	—	—	—	422,722	—	4,524,903
Infrastructure	3,783,534	—	—	—	—	—	—	—	—	3,783,534
Hotels	343,541	669	—	—	—	—	—	22,625	—	366,835
Agribusiness	135,928	—	—	—	—	—	—	—	—	135,928
Others Services	205,813	—	—	—	—	—	—	—	—	205,813
Others operating income	139,575	—	—	—	—	—	—	—	—	139,575
Other income	**1,484,085**	**44,292**	**72,026**	**147,776**	**59,667**	**114,740**	**5,486**	**6,635**	**13,471**	**1,948,178**
Total income	**Ps. 26,902,407**	**Ps. 1,818,985**	**Ps. 3,373,729**	**Ps. 1,485,248**	**Ps. 1,355,144**	**Ps. 676,890**	**Ps. 889,497**	**Ps. 458,144**	**Ps. 95,112**	**Ps. 37,055,156**

(Amounts expressed in millions of Colombian pesos)

	December 31, 2018									
	Country									
	Colombia	**Panamá**	**Costa Rica**	**Guatemala**	**Honduras**	**Nicaragua**	**El Salvador**	**Perú**	**Other countries**	**Total income**
Interest income	**Ps. 12,721,895**	**Ps. 1,205,059**	**Ps. 1,797,230**	**Ps. 882,648**	**Ps. 763,975**	**Ps. 423,149**	**Ps. 544,267**	**Ps. 107**	**Ps. 18,306**	**Ps. 18,356,636**
Income from commissions and fees	**3,238,516**	**309,546**	**999,648**	**260,158**	**275,111**	**157,034**	**194,870**	**—**	**18,499**	**5,453,382**
Storage services	156,638	—	—	—	—	—	—	—	—	156,638
Trust activities	312,901	—	—	—	—	—	—	—	—	312,901
Pension and severance fund management	955,912	—	25,516	—	5,895	—	—	—	—	987,323
Fees on credit cards	557,533	42,560	343,791	57,929	81,512	41,552	54,590	—	8,249	1,187,716
Office network services	30,220	—	—	—	—	—	—	—	—	30,220
Commissions on drafts, checks and checkbooks	49,196	449	—	—	—	—	—	—	—	49,645
Other commissions	10,457	—	—	—	—	—	—	—	—	10,457
Commissions on banking services	1,165,659	266,537	630,341	202,229	187,704	115,482	140,280	—	10,250	2,718,482
Share of profit of equity accounted investees, net of tax	**197,715**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**197,715**
Dividends	**66,980**	**3,143**	**—**	**713**	**651**	**—**	**—**	**—**	**—**	**71,487**
Income from sales of goods and services	**7,861,701**	**575**	**—**	**—**	**—**	**—**	**—**	**263,738**	**—**	**8,126,014**
Energy and gas E&G	3,168,649	—	—	—	—	—	—	243,025	—	3,411,674
Infrastructure	3,826,101	—	—	—	—	—	—	—	—	3,826,101
Hotels	311,461	575	—	—	—	—	—	20,713	—	332,749
Agribusiness	133,095	—	—	—	—	—	—	—	—	133,095
Others Services	239,801	—	—	—	—	—	—	—	—	239,801
Others operating income	182,594	—	—	—	—	—	—	—	—	182,594
Other income	**1,307,370**	**9,302**	**269,119**	**130,052**	**55,773**	**90,549**	**8,060**	**3,297**	**4,469**	**1,877,991**
Total income	**Ps. 25,394,177**	**Ps. 1,527,625**	**Ps. 3,065,997**	**Ps. 1,273,571**	**Ps. 1,095,510**	**Ps. 670,732**	**Ps. 747,197**	**Ps. 267,142**	**Ps. 41,274**	**Ps. 34,083,225**

(Amounts expressed in millions of Colombian pesos)

	December 31, 2017									
	Country									
	Colombia	**Panamá**	**Costa Rica**	**Guatemala**	**Honduras**	**Nicaragua**	**El Salvador**	**Perú**	**Other countries**	**Total income**
Interest income	**Ps. 13,512,361**	**Ps. 1,076,412**	**Ps. 1,647,600**	**Ps. 830,179**	**Ps. 759,401**	**Ps. 413,925**	**Ps. 485,703**	**Ps. 87**	**Ps. 16,165**	**Ps. 18,741,833**
Income from commissions and fees	**3,122,497**	**294,630**	**922,251**	**233,758**	**255,317**	**164,030**	**185,761**	**—**	**23,881**	**5,202,125**
Storage services	169,815	—	—	—	—	—	—	—	—	169,815
Trust activities	311,837	—	—	—	—	—	—	—	—	311,837
Pension and severance fund management	898,537	—	23,342	—	4,892	—	—	—	—	926,771
Fees on credit cards	534,209	23,247	320,208	61,599	66,210	50,344	51,686	—	4,816	1,112,319
Office network services	42,639	—	—	—	—	—	—	—	—	42,639
Commissions on drafts, checks and checkbooks	60,268	500	—	—	—	—	—	—	—	60,768
Other commissions	10,272	—	—	—	—	—	—	—	—	10,272
Commissions on banking services	1,094,920	270,883	578,701	172,159	184,215	113,686	134,075	—	19,065	2,567,704
Share of profit of equity accounted investees, net of tax	**171,964**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**171,964**
Dividends	**50,023**	**416**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**50,439**
Income from sales of goods and services	**5,570,536**	**409**	**—**	**—**	**—**	**—**	**—**	**221,906**	**—**	**5,792,850**
Energy and gas E&G	2,701,124	—	—	—	—	—	—	207,168	—	2,908,292
Infrastructure	2,290,786	—	—	—	—	—	—	—	—	2,290,786
Hotels	221,613	409	—	—	—	—	—	14,738	—	236,760
Agribusiness	87,800	—	—	—	—	—	—	—	—	87,800
Others Services	132,833	—	—	—	—	—	—	—	—	132,833
Others operating income	136,379	—	—	—	—	—	—	—	—	136,379
Other income	**1,267,920**	**38,701**	**182,258**	**68,709**	**42,229**	**84,453**	**4,812**	**6,345**	**5,214**	**1,700,641**
Total income	**Ps. 23,695,301**	**Ps. 1,410,568**	**Ps. 2,752,109**	**Ps. 1,132,646**	**Ps. 1,056,947**	**Ps. 662,408**	**Ps. 676,276**	**Ps. 228,338**	**Ps. 45,260**	**Ps. 31,659,852**

(Amounts expressed in millions of Colombian pesos)

During the years ended December 31, 2019, 2018 and 2017, Grupo Aval reported no concentration of revenue in customers with more than a 10% share of revenue from ordinary activities.

The foregoing analysis is based on the customer's domicile. Income from off- shore entities of Colombian customers are reported as income from Colombia. The revenues include income from interest, fees, commissions and other operating income.

31.7 Non-current assets by Country

Grupo Aval's non-current assets for each individual country for which non-current assets are significant, are as follows as of December 31, 2019 and 2018:

December 31, 2019		**(1) Own – use Property, plant and equipment, net**		**(2) Intangible assets**
Colombia	Ps.	4,441,733	Ps.	10,299,669
Panamá		210,348		4,005,751
Costa Rica		403,107		101,324
Guatemala		139,793		17,981
Other countries		588,253		1,651,841
Total	**Ps.**	**5,783,234**	**Ps.**	**16,076,566**

December 31, 2018		**(1) Own – use Property, plant and equipment, net**		**(2) Intangible assets**
Colombia	Ps.	4,450,061	Ps.	8,625,595
Panamá		213,090		3,979,443
Costa Rica		378,554		100,631
Guatemala		108,167		15,988
Other countries		513,871		1,145,302
Total	**Ps.**	**5,663,743**	**Ps.**	**13,866,959**

(1) see note 15.1
(2) see notes 16 to 18.

(Amounts expressed in millions of Colombian pesos)

NOTE 32 – UNCONSOLIDATED STRUCTURED ENTITIES

The term "unconsolidated structured entities" refers to all structured entities that are not controlled by Grupo Aval. Grupo Aval enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities.

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:

Nature and risks associated with Grupo Aval's interests in unconsolidated structured entities

December 31, 2019		**Securitizations**		**Grupo Aval's managed funds**		**Total**
Grupo Aval's interest-assets						
Investments at fair value through profit or loss	Ps.	10,102	Ps.	3,486,646	Ps.	3,496,748
Other account receivables		—		40,149		40,149
Total assets in relation to Grupo Aval's interests in the unconsolidated structured entities		**10,102**		**3,526,795**		**3,536,897**
Grupo Aval's maximum exposure (*)	**Ps.**	**10,102**	**Ps.**	**3,526,795**	**Ps.**	**3,536,897**

(*) Represent 1.26%, respectively of the Grupo Aval's managed funds total assets.

December 31, 2018		**Securitizations**		**Grupo Aval's managed funds**		**Total**
Grupo Aval's interest-assets						
Investments at fair value through profit or loss	Ps.	13,733	Ps.	2,181,725	Ps.	2,195,458
Other account receivables		—		34,431		34,431
Total assets in relation to Grupo Aval's interests in the unconsolidated structured entities		**13,733**		**2,216,156**		**2,229,889**
Grupo Aval's maximum exposure (*)	**Ps.**	**13,733**	**Ps.**	**2,216,156**	**Ps.**	**2,229,889**

(*) Represent 1.35%, respectively of the Grupo Aval's managed funds total assets.

Grupo Aval invests in asset-backed securities issued by securitization entities for which underlying assets are mortgages granted by financial institutions. Grupo Aval does not have a significant exposure to sub-prime securities. The asset-backed securities are denominated in local market TIPS and accounted for as investment at fair value through profit or loss. These asset-backed securities have different maturities and are generally classified by credit ratings. Also, Grupo Aval retains beneficial interests in the form of servicing fees on the securitized receivable and manages funds.

In the normal course of operations, Grupo Aval has trust companies that manage collective investment funds and assets of third parties whose the managing trustees receive commissions. Additionally, Grupo Aval has the subsidiary Fondo de Pensiones y Cesantias Porvenir that manages mandatory pension funds and defined contribution plans. For management services provided by the trust and Porvenir, commissions vary according to the conditions of each fund or asset managed are received.

The obligations of these entities in the administration of these assets are of means and do not guarantee the results. The maximum exposure risk of loss is determined by the possible failures in the administration of the funds by the amount of the returns that manages and the return of the results of assets the clients.

NOTE 33 - TRANSFERS OF FINANCIAL ASSETS

Grupo Aval 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

Sales and repurchase agreements are transactions in which Grupo Aval sells securities and simultaneously agrees to repurchase them (or assets that are substantially the same) at a fixed price on a future date. Grupo Aval continues to recognize the securities in their entirety in the statement of financial position because it retains substantially all of the risks and rewards of ownership. The cash consideration received is recognized as a financial asset and a financial liability is recognized for the obligation to pay the repurchase price. Because Grupo Aval sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred assets during the term of the arrangement. As of December 31, 2019, the financial assets held for trading that are being used as collateral in repo operations amounted Ps.620,920 (December 31, 2018 Ps.1,139,782) see note 8.4, the financial investments debt securities at amortized cost Ps.323,954 see note 9.5.2 and the financial investments debt securities FVOCI that are being used as collateral in repo operations amounted Ps. 6,662,608 (December 31, 2018 Ps. 4,029,816) see note 9.5.1 (only pledged as collateral in money market operations and pledged as collateral to special entities such as CRCC, BR and BVC).

   ii. Securities lending

As of December 31, 2019, and 2018 Grupo Aval has not recorded securities lending.

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

   i. Securitizations

   Certain securitization transactions undertaken by Grupo Aval result in the derecognizing transferred assets in their entirety. This is the case when Grupo Aval transfers substantially all of the risks and rewards of ownership of financial assets to unconsolidated securitization vehicle and retains a relatively small interest in the vehicle or a service arrangement in respect of the transferred financial assets. If the financial assets are derecognized in the entirety, then the interest in unconsolidated securitization vehicles that Grupo Aval receives as part of the transfer and the service arrangement represent continuing involvement with those assets.

NOTE 34 – RELATED PARTIES

To verify the correct identification of relationships and transaction with related parties, Grupo Aval has established a specific formal Procedure for the Identification and Disclosure of Balances and Transactions with Related Parties. Such procedure is communicated and made available to our personnel through Grupo Aval's intranet. In application of this procedure, our members of the board of directors and our key management personnel are periodically required to identify close family members and entities over which such persons have significant influence. Such process is conducted by a written request containing the criteria that such person must consider in order to provide information on close family members and entities that must be disclosed as their related parties.

In addition, Grupo Aval Vice-Presidency of Accounting Consolidation periodically performs an evaluation of its controlling and non-controlling investments in other entities to identify if such entities should be treated as a related entity.

The following are some of the guidelines included in the abovementioned corporate framework:

- Grupo Aval and its subsidiaries shall permanently carry out the registration of the operations performed with related parties, identifying the type of operation, its purpose, economic conditions and authorizations received when applicable.

- Grupo Aval and its subsidiaries shall establish limits of indebtedness or exposure and perform constant monitoring of the intragroup operations, complying for such purpose with the restrictions set forth under applicable regulations.

- All intragroup operations shall be fully identified by accounting areas of the respective entities.

- Authorization levels are defined within the governance and control structure, assigned as may be deemed adequate as a function of the magnitude and type of transaction, keeping the evidence of such authorizations.

- It should be verified that related party transactions are carried out for a good and valuable consideration, at market conditions, maintaining a financial equilibrium in the relationships between the entities participating in the operation.

This Reference Framework for Institutional Relations was also submitted to the consideration and approval of the Board of Directors of our subsidiaries and has been made available in the web sites of Grupo Aval and its subsidiaries.

(Amounts expressed in millions of Colombian pesos)

Balances as of December 31, 2019 and 2018, with related parties, are detailed in the following tables:

	Individuals		Entities		
December 31, 2019	**Individuals 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. —
Financial assets in investments	—	—	1,006,340	—	—
Financial assets in credit operations	2,936	7,775	1,148,522	1,513,287	122,964
Accounts receivable	9	14	12,243	2,958	241
Other assets	—	—	14,118	3,232	—
Liabilities					
Deposits	Ps. 273,224	Ps. 27,000	Ps. 97,097	Ps. 1,290,574	Ps. 7,032
Accounts payable	561	347	9,165	514,976	21
Financial obligations	3	15	72	30,000	—
Other liabilities	—	—	1,937	714	—

(*) Include family members

	Individuals		Entities		
December 31, 2018	**Individuals 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. —
Financial assets in investments	—	—	920,170	—	—
Financial assets in credit operations	2,680	17,062	1,443,476	1,513,218	102,958
Accounts receivable	9	58	8,105	3,329	17
Other assets	—	—	20,348	5,030	—
Liabilities					
Deposits	Ps. 100,199	Ps. 21,726	Ps. 70,960	Ps. 570,558	Ps. 23,470
Accounts payable	38	686	10,114	291,328	1
Financial obligations	1	3	102	7	—
Other liabilities	—	—	25,040	194	3

(*) Include family members

(Amounts expressed in millions of Colombian pesos)

Transactions during the years ended as of December 31, 2019, 2018 and 2017, with related parties are as follows:

a. Profit or loss

	Individuals		Entities		
December 31, 2019	**Individuals with control over Grupo Aval (1)**	**Key management personnel (1)**	**Associates and joint ventures (2)**	**Entities controlled by individuals**	**Entities with significant influence by individuals**
Income					
Interest income	Ps. 290	Ps. 722	Ps. 28,172	Ps. 90,281	Ps. 7,998
Fee income and commissions	17	45	36,505	106,120	6
Leases	—	—	—	324	—
Other income	7	7	274,349	6,285	534
Expenses					
Financial expenses	Ps. (169)	Ps. (628)	Ps. (1,251)	Ps. (20,319)	Ps. (28)
Fee expenses and commissions	(3)	(1,410)	(20,066)	(2,098)	(380)
Operating expenses	(300)	(7,850)	—	(3,278)	—
Other expenses	(14)	(1,893)	(444,730)	(41,276)	(25)

(1) Include family members
(2) Expenses were recognized during the current period with respect to bad debts owed by related parties for 400,630

	Individuals		Entities		
December 31, 2018	**Individuals with control over Grupo Aval (*)**	**Key management personnel (*)**	**Associates and joint ventures**	**Entities controlled by individuals**	**Entities with significant influence by individuals**
Income					
Interest income	Ps. 216	Ps. 907	Ps. 101,539	Ps. 131,368	Ps. 4,789
Fee income and commissions	5	58	6,664	65,615	5
Leases	—	—	45	315	—
Other income	4	243	241,797	4,252	—
Expenses					
Financial expenses	Ps. (216)	Ps. (740)	Ps. (735)	Ps. (17,322)	Ps. (22)
Fee expenses and commissions	(4)	(1,549)	(14,741)	(1,796)	(5)
Operating expenses	—	(25,808)	(53)	(4,013)	—
Other expenses	(16)	(496)	(30,250)	(27,034)	—

(*) Include family members

(Amounts expressed in millions of Colombian pesos)

	Individuals		Entities		
December 31, 2017	Individuals with control over Grupo Aval (*)	Key management personnel (*)	Associates and joint ventures	Entities controlled by individuals	Entities with significant influence by individuals
Income					
Interest income	Ps. 164	Ps. 757	Ps. 155,690	Ps. 123,671	Ps. 543
Fee income and commissions	5	48	26,249	57,180	—
Leases	—	—	321	301	—
Other income	4	59	236,871	6,391	—
Expenses					
Financial expenses	Ps. (243)	Ps. (1,197)	Ps. (129,335)	Ps. (30,431)	Ps. (6)
Fee expenses and commissions	(4)	(1,510)	(24,039)	(3,276)	(1)
Operating expenses	—	(9,706)	(3,572)	(1,892)	(113)
Other expenses	—	(1,635)	(32,691)	(34,400)	—

(*) Include family members

Outstanding amounts are not guaranteed and shall be liquidated in cash. Guarantees have not been granted or received.

b. Compensation of Key Management Personnel

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

	Year ended as of		
Items	**December 31, 2019**	**December 31, 2018**	**December 31, 2017**
Salaries	Ps. 16,778	Ps. 18,123	Ps. 17,073
Short term benefits for employees	4,654	3,244	3,167
Subtotal	**21,432**	**21,367**	**20,240**
Subsidiaries	37,590	54,161	32,795
Total	**Ps. 59,022**	**Ps. 75,528**	**Ps. 53,035**

Transactions with our related parties correspond primarily to the normal course of banking business activities carried out under market conditions. Such transactions include demand and saving deposits, time deposits, commercial, consumer and mortgage loans, financial leases, payment of dividends and or interest.

NOTE 35 – SUBSEQUENT EVENTS

Issued of Bonds

Grupo Aval Acciones y Valores S.A. ("Grupo Aval") announced that a Senior Notes issuance was held on January 28, 2020 in the international capital markets for a total value of US $ 1 billion. The Notes were issued for a term of ten (10) years, with a coupon of 4.375%. The Notes will mature on February 4, 2030 and the interest payment will be semiannual.

The bonds were issued by Grupo Aval Ltd., a subsidiary of Grupo Aval, guaranteed by Grupo Aval, in accordance with Rule 144 A and Regulation S issued under the Securities Act of 1933 of the United States of America.

(Amounts expressed in millions of Colombian pesos)

Dividends

At the General Meeting of Shareholders that took place on March 30, 2020, it was declared a dividend of 5.00 per month for the preferred and common shares, during period of twelve-month between April, 2020 and March 2021, for a total dividend of 1,336,861 according to the following:

Net income for period ended December 31, 2019 included in the unconsolidated financial statements of Grupo Aval		3,031,238
Occasional reserve release at the disposal of the General Meeting of Shareholders		7,816,338
Total Income available for disposal of the General Meeting of Shareholders		**10,847,576**
Cash Dividends		Ps. 60 per share payable in twelve monthly installments of Ps. 5.00 per share, from April 2020 to March, 2021.
Total shares outstanding		22,281,017,159
Total dividends declared	**Ps.**	**1,336,861**
To Occasional reserve at the disposal of General Meeting of Shareholders		**9,510,715**

In a meeting held on March 4, 2020, Grupo Aval's Board of Directors approved the presentation of the consolidated financial statements under Colombian IFRS and the accompanying notes for the period ended December 31, 2019, for consideration of the General Meeting of Shareholders.

Global Events

The COVID 19 outbreak is having different effects worldwide, the different governments are taking measures to reduce its impacts, which effects are already being seen in the different economies where Grupo Aval has operations.

Grupo Aval does not prepare a complete set of consolidated quarterly financial statements, including notes, under IFRS as issued by the IASB. In addition, given the highly dynamic environment and the complexity of calculations, it is not possible to estimate the financial effect of COVID 19 as of the date of issuance of the consolidated financial statements. The following are the evaluations carried out by Grupo Aval on the impacts of COVID 19.

Our net interest income, impairment loss on financial assets, net income from commissions and fees, gross profit from sales of goods and services, net trading income and other line items could be negatively impacted by COVID-19, quarantines and the slowdown of the economy in countries in which we operate.

Measurement of financial instruments – Loan reliefs for customers

The measures taken or suggested by Governments of the countries where Grupo Aval operates have prompted the banks to aid companies or individuals in relation to their loans or loan agreements in force, which imply renegotiating their terms. The impact of changes in the terms of any loan or loan agreement involves establishing whether the conditions are met for the loans to be derecognized or modified, and in either case, recognize the resulting gains or losses in the Statement of Income.

Impairment of assets - Goodwill, Property, plant and equipment and Intangibles

The temporary disruption of some of Grupo Aval´s business operations could give rise to impairment indicators. Updating the impairment tests that had been carried out at the end of 2019 will be necessary and it will likely lead to tests that had not been performed before, given the absence of impairment indicators. As part of these new assessments we will have to consider and evaluate updated forecasts and other assumptions different from those previously used to determine the recoverable amount of assets, so that they reflect the economic conditions being observed, specifically addressing the increased risk and uncertainty, which will involve formulating multiple probability-weighted scenarios. The factors used to determine discount rates will also have to be reviewed to reflect the impact of the measures taken to control the virus (risk-free rate, country risk and market risk). We do not expect significant impairments in relation to this type of assets based on current and future projections, which in any case will be kept under evaluation until the effects of COVID-19 dissipate.

Impairment of financial instruments - Loans

Financial instruments within the scope of IFRS 9 ´s expected credit loss (ECL) model will have to be reviewed to consider the impacts of COVID-19 on the ECL. Instruments considered include loans, trade and other accounts receivable, debt instruments not measured at fair value through profit or loss, contractual assets, accounts receivable for leasing, financial guarantees and loan commitments.

Impacts could fundamentally arise in connection with the following aspects:

- Whether ECL is measured for a 12-month period or for an instrument´s lifetime. If credit risk (probability of default) has increased significantly since initial recognition, the ECL should be measured for the entire life of the instrument; and

- The estimate of the ECL itself, which will include the following:
  (i) the credit risk (probability of default) could increase if the debtor's business is negatively impacted;
  (ii) the amount subject to risk (exposure at default) if the debtors affected drawdown on unused credit facilities, stop making discretionary advance or over-payments, or take longer than normal to pay; and
  (iii) the estimated loss as a result of default (loss given default), which can increase if there is a decrease in the fair value of a financial and non-financial asset pledged as collateral.
  (iv) Forward-looking information (including macroeconomic information) will need to be considered both when evaluating whether there has been a significant increase in credit risk (SICR) and when measuring ECL. Forward-looking information could include additional negative scenarios by adding one or more additional scenarios to Grupo Aval existing scenarios, modifying one or more of the existing scenarios, adjusting the weighting given to the negative scenarios, or using a general factor if the impact is not included in Grupo Aval´s main credit loss model.

(Amounts expressed in millions of Colombian pesos)

NOTE 36 – PARENT COMPANY INFORMATION

Condensed separate statement of financial position

The following are the condensed separate (alone) statements of financial position of Grupo Aval Acciones y Valores S.A., at December 31, 2019, and 2018 and condensed separate statements of income and statement of cash flows for the fiscal year ended December 31, 2019, 2018 and 2017.

Condensed separate Statement of Financial Position

	December 31,			
	2019		2018	
Current Assets				
Cash and cash equivalents	Ps.	51,299	Ps.	38,667
Held for trading securities		212		1,543
Accounts receivable from related parties		328,307		267,640
Other assets		442		517
Total current assets	**Ps.**	**380,260**	**Ps.**	**308,367**
Non current Assets				
Investments in subsidiaries and associates		22,016,681		19,932,376
Property plant and equipment		8,351		2,414
Deferred tax		331		476
Total non current assets	**Ps.**	**22,025,363**	**Ps.**	**19,935,266**
Total assets	**Ps.**	**22,405,623**	**Ps.**	**20,243,633**
Current liabilities				
Borrowings at amortized cost		189,297		2,808
Outstanding bonds at amortized cost		107,435		284,758
Accounts payable		468,298		405,372
Other non-financial liabilities		1,214		1,214
Total current liabilities	Ps.	**766,244**	Ps.	**694,152**
Long-term liabilities				
Borrowings at amortized cost		241,141		541,924
Outstanding bonds		1,124,520		824,520
Total non current liabilities	Ps.	**1,365,661**	Ps.	**1,366,444**
Total liabilities	Ps.	**2,131,905**	Ps.	**2,060,596**
Equity				
Shareholders' equity		20,273,718		18,183,037
Total liabilities and shareholders' equity	**Ps.**	**22,405,623**	**Ps.**	**20,243,633**

(Amounts expressed in millions of Colombian pesos)

Condensed separate Statement of Income	December 31, 2019	December 31, 2018	December 31, 2017
Operating revenue			
Equity method income, net	3,014,756	2,893,435	2,005,155
Other revenue from ordinary activities	286,778	285,218	234,502
Total operating revenue	**Ps. 3,301,534**	**Ps. 3,178,653**	**Ps. 2,239,657**
Expenses, net			
Administrative expenses	(83,902)	(75,348)	(89,823)
Other expenses	(236)	(166)	(274)
(Losses) gains from exchange differences	(812)	(1,601)	98
Operating income	**Ps. 3,216,584**	**Ps. 3,101,538**	**Ps. 2,149,658**
Financial expenses	(121,794)	(118,892)	(133,171)
Net income before taxes	**3,094,790**	**2,982,646**	**2,016,487**
Income tax expense	(61,411)	(66,662)	(51,568)
Net income	**Ps. 3,033,379**	**Ps. 2,915,984**	**Ps. 1,964,919**

Condensed separate Cash flow	December 31, 2019	December 31, 2018	December 31, 2017
Net income	Ps. 3,033,379	Ps. 2,915,984	Ps. 1,964,919
Adjustments to reconcile net income to net cash used by operating activities	(1,753,640)	(1,785,764)	(880,322)
Net cash provided by operating activities	**1,279,739**	**1,130,220**	**1,084,597**
Net cash provided (used in) by investing activities	(145)	(144)	(295)
Net cash (used in) provided by financing activities	(1,267,976)	(1,128,498)	(1,096,011)
Increase (decrease) in cash and cash equivalents	**11,618**	**1,578**	**(11,709)**
Effect of foreign currency changes on cash and cash equivalents	1,014	1,611	(93)
Cash and cash equivalents at beginning of year	38,667	35,478	47,280
Cash and cash equivalents at end of year	**Ps. 51,299**	**Ps. 38,667**	**Ps. 35,478**

Basis for presenting and summary of significant accounting policies

The attached separated financial statement of Grupo Aval have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and their interpretations from the International Financial Reporting Standards Committee (IFRIC), currently in force and on the basis of historic cost, except for financial assets at fair value through profit or loss.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with IFRS have been condensed or omitted.

The separated financial statements of Grupo Aval have been prepared using the same IFRS basis and principles that Grupo Aval used to prepare it consolidated financial statements described in Note 2, except as provided below for its investments in subsidiaries and associates.

Commitments and contingencies

In the normal course of business, certain subsidiaries of Grupo Aval are defendants in various tax and legal proceedings. Grupo Aval is not aware of any pending legal proceedings which could have a significant effect on its financial position or the results of its operations.

Investment in subsidiaries and associates companies

Based on the IAS 27, when an entity prepares separate financial statements it shall account for investments in subsidiaries either: a) at cost or b) at fair value, in accordance with IFRS 9 or c) using the equity method. Accordingly Grupo Aval accounts for its investments in subsidiaries using the equity method.

The equity method is an accounting method according to which the investment is initially reconizes at cost, and they are periodically adjusted due to changes in the interest of the parent company over the net assets of the subsidiaries. Grupo Aval records on the result of the period its participation in the profit or loss of the subsidiaries, and in OCI its participation in the “Other comprehensive income account” of the subsidiary. In applying equity method Grupo Aval uses the subsidiaries consolidated financial statements at the end of the period prepared under IFRS.

Gain and losses resulting from transactions between Grupo Aval and its subsidiaries are recognized in the Grupo Aval´s financial statement only to the extent of Grupo Aval´s interest in the subsidiaries, unless the transaction provides evidence of an impairment in the book value of transferred assets.

Additionally, in a business combination process, to acquire some subsidiaries any difference between the cost of investment and Grupo Aval’s share on the net fair value of the subsidiary identifiable acquired assets and assumed liabilities is accounted as follows:

Goodwill relating to the acquisition is included in the carrying amount of the investment. Amortization of goodwill is not permitted.

Appropriate adjustments to Grupo Aval’s investments in the subsidiary after acquisition are made to account for example for depreciation of assets acquired in the business combination process based on their fair value at the acquisition date and for the impairment losses in such assets.

(Amounts expressed in millions of Colombian pesos)

Investment in Subsidiaries and Associates

Investment in subsidiaries and associates as of December 31, 2019 and 2018 comprise the following:

	December 31, 2019		December 31, 2018	
Subsidiary	**Ownership interest held by Grupo Aval**	**Book Value**	**Ownership interest held by Grupo Aval**	**Book Value**
Banco de Bogotá S.A.	68.74 %	Ps. 13,325,612	68.74 %	Ps. 11,905,815
Banco de Occidente S.A.	72.27 %	3,415,545	72.27 %	3,183,351
Banco Comercial AV Villas S.A.	79.87 %	1,410,765	79.87 %	1,290,056
Banco Popular S.A.	93.74 %	3,074,428	93.74 %	2,923,562
Corporación Financiera Colombiana S.A.	38.63 %	821,827	38.25 %	674,484
Sociedad Administradora de Fondos de Pensiones y Cesantías Porvenir S.A.	75.67 %	503,993	75.69 %	440,707
Grupo Aval Limited	100 %	(535,893)	100.00 %	(347,082)
Grupo Aval International Limited [(1)]	— %	—	100.00 %	(138,517)
Total subsidiaries		**Ps. 22,016,277**		**Ps. 19,932,376**
Associates				
ADL Digital Lab S.A.S	34.00 %	404		—
Total associates		**404**		—
Total investment in subsidiaries and associates		**Ps. 22,016,681**		**Ps. 19,932,376**

(1) See note 1 reporting entity.

Outstanding bonds

Bonds at December 31, 2019 and 2018 comprise the following:

Issuance date	Tranches	Maturity	Coupon rate	Amounts outstanding 2019	Amounts outstanding 2018
November, 2019	Ps. 100,000	November, 2024	6.42 %	Ps. 100,824	Ps. —
November, 2019	300,000	November, 2039	IPC + 3.69 %	302,951	—
June, 2017	100,000	June, 2020	IPC + 2.69 %	100,071	100,065
June, 2017	300,000	June, 2042	IPC + 3.99 %	300,255	300,237
November, 2016	93,000	November, 2026	IPC + 3.86 %	93,741	93,690
November, 2016	207,000	November, 2036	IPC + 4.15 %	208,709	208,597
December, 2009	279,560	December, 2019	IPC + 4.84 %	-	281,341
December, 2009	124,520	December, 2024	IPC + 5.20 %	125,404	125,348
Total Bonds	**Ps. 1,504,080**			**Ps. 1,231,955**	**Ps. 1,109,278**

The scheduled maturities of bonds as of December 31, 2019 are as follows

Period	Amount
2020	107,435
2021	—
2022 and thereafter	1,124,520
Total	**Ps. 1,231,955**