4Q2021 CONSOLIDATED EARNINGS RESULTS CALL TRANSCRIPT

GRUPO AVAL ACCIONES Y VALORES S.A.

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Operator: Welcome to Grupo Aval third quarter 2021 consolidated results conference call. My name is Hilda and I will be your operator for today's call.

Grupo Aval Acciones y Valores S.A., Grupo Aval, is an issuer of securities in Colombia and in the United States. As such, it is subject to compliance with securities regulation in Colombia and applicable U.S. securities regulations. Grupo Aval is also subject to the inspection and supervision of the Superintendency of Finance as holding company of the Aval financial conglomerate.

The consolidated financial information included in this document is presented in accordance with IFRS as currently issued by the IASB. Details of the calculations of non-GAAP measures such as ROAA and ROAE, among others, are explained when required in this report.

This report includes forward-looking statements. In some cases, you can identify these forward-looking statements by words such as "may", "will", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue", or the negative of these and other comparable words. Actual results and events may differ materially from those anticipated herein as a consequence of changes in general, economic and business conditions, changes in interest and currency rates, and other risks described from time to time in our filings with the Registro Nacional de Valores y Emisores and the SEC.

Recipients of this document are responsible for the assessment and use of the information provided herein. Matters described in this presentation and our knowledge of them may change extensively and materially over time, but we expressly disclaim any obligation to review, update or correct the information provided in this report, including any forward-looking statements, and do not intend to provide any update for such material developments prior to our next earnings report.

The content of this document and the figures included herein are intended to provide a summary of the subjects discussed rather than a comprehensive description.

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

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. I will now turn the call over to Mr. Luis Carlos Sarmiento Gutiérrez, Chief Executive Officer. Mr. Luis Carlos Sarmiento Gutiérrez, you may begin.

Luis Carlos Sarmiento Gutiérrez: Good morning and thank you all for joining our fourth quarter 2021 conference call. It is my pleasure to share with you our strong financial results for the year 2021. I am proud to report that during 2021, in the backdrop of a country's very strong economic recovery, we at Grupo Aval achieved the highest net income in the company's history.

It has been two years since the lockdowns caused by the pandemic began. Since, we believe we successfully managed the crisis appropriately, addressing risk management and commercial issues, supporting our customers, and caring for our employees. We further believe that our handling of the crisis, coupled with our diversification strategy, resulted in a manageable volatility in our results, especially when compared to our peers.

In Aval, during 2022, things have progressively gone back to normal. Among the most important changes to our customary way of working, we have migrated to a hybrid work scheme, presential / remote, which will remain our standard going forward. We're now much more mindful of the benefits of such working standard, which we believe when applied wisely results both in employee satisfaction and operating efficiencies. 2022 will also result in a material change to our ownership structure as we execute the spinoff of 75% of BAC Holding International core, BHI, the holding company which owns our Central American banking group. More on that later in the call.

And now, before we jump into the detail of our financial results, I will refer to the economic performances of the countries in which we operate, I will provide a brief update of the status of our clients' pandemic-driven loan reliefs, of our digital initiatives, of our ESG efforts and, as I said before, I will also update you on our progress regarding the spin-off of BHI.

Around the world, 2021 was a year of economic transition, with countries experiencing a rebound in their business activity, domestic consumption, and a marked acceleration in their inflation indicators. According to the IMF, global GDP in 2021 would have grown 5.9% in 2021, after the 3.1% contraction evidenced in 2020. For 2022, the IMF forecasts a GDP growth of 4.4% despite the Ukraine-Russia conflict that has already adversely affected growth prospects in Europe and developed countries.

Specifically, during 2021, the Colombian economy recovered and surpassed in most instances the production levels lost during the sanitary crisis, with one notable exception: unemployment. Additionally, as in most economies around the world, the recovery has not been devoid of inflationary pressures. In fact, Colombia's economy grew 10.6%, the highest rate in Colombia's history. During the last quarter, GDP expanded at 4.3%, above the market consensus of 2.6%. This result is mainly explained by a rebound in private consumption that grew 14.6% versus 2020 and 8.9% versus 2019. The recovery in domestic demand reflects the use of excess savings by households, a significant increase in remittances from abroad, the fiscal stimulus put in place during the pandemic, and a partial recovery in the labor market.

From the supply side, growth in the last quarter was driven by commercial activities and manufacturing that grew 4.6% and 2% respectively and represent 30.3% of GDP. Construction and government services, representing 19.7% of GDP, grew 4.3% and 1%, respectively.

Regarding COVID vaccination, at year-end 2021, 55.7% of Colombia's population had a complete vaccination schedule. In Central America, approximately 50% of the population has a complete vaccination schedule. Costa Rica leads with 75%, and Guatemala lags at 32%. This has allowed Colombia and Central America to reestablish pre-pandemic production at a relatively good pace.

However, 2022 is not free of other challenges. As you know, this is an election year in Colombia, and the contractionary monetary policy currently in effect will no doubt affect the growth momentum. It remains to be seen how profound the impacts of these challenges are. Despite these challenges, 2022 also brings the opportunity to normalize cost of risk, to strongly grow the loan portfolios and in theory, to expand interest margins, at least initially, in our majority commercial loan portfolio banks. In addition, the unexpectedly higher oil prices boost export revenues can provide some relief to Colombia's twin deficits.

All in all, we currently expect 2022 Colombia's GDP growth to be in the 4% to 4.5% range. This is in the lower side of market consensus and lower than the government forecast of 5%.

The exchange rate registered material volatility during 2021, ranging between COP 3,421 per dollar and COP 4,024 per dollar, closing at COP 3,981 per dollar, on average, a devaluation of 15.98%, mainly as a result of the global strengthening of the US dollar due to the expectation of an early reduction of monetary stimulus by the Federal Reserve, and the increase in the country's risk premium due to the partial loss of investment grade. However, during the last few days, the peso has strengthened below COP 3,800 per dollar in response to the surge in oil prices due to the expected shortage of supply in the upcoming months. I must note that the Ukraine-Russia conflict implies an increase in the value of cereal and fertilizer imports, which will no doubt pass a toll on the Colombian trade balance. We currently expect some volatility of the exchange rate around the COP 3,850 per dollar level during the remainder of the year.

Inflation closed the year at 5.62%, up from 1.61% in 2020. On a 12-month basis, at the end of February inflation reached a six-year high of 8.01%, mainly driven by supply factors affecting particularly the agricultural sector. In fact, food prices increased a record high of 23.3% in annual terms. As monetary policy starts to anchor inflation expectations, we expect 12-month inflation to slowly come down to 5.5% by the end of the year, above the Central Bank's target of between 2% and 4%. We will remain observant, however, of additional inflationary pressures derived from the Ukraine-Russia conflict and its effects on commodity prices in the international markets.

After keeping the repo rate stable during the first nine months of the year, the Central Bank, once it became evident that inflation was accelerating, increased the repo rate 125 basis points between September and December 2021, from 1.75% to 3%. The repo rate is currently at 4%, after a 100 basis points hike during the last meeting in January. As the inflationary pressures linger throughout 2022, an accelerated cycle of increases in the repo rate is foreseeable. In fact, we now anticipate that the repo rate could reach 6% by the first half of 2022 and 7% by the end of the year.

Although the labor market has lagged, it has also continued to improve. After an average national unemployment rate of 13.7% at the end of 2021, down from 16.1% in 2020, it still did not reach the pre-pandemic level of 10.5% achieved in 2019. As the recovery process continues, we expect a further decline in the unemployment rate to an average of 12% in 2022.

The current account deficit widened to 5.7% of GDP in 2021, mainly driven by a greater imbalance in the trade balance that reached a deficit of USD 20.5 billion in 2021 due to a much faster growth in imports, reflecting stronger domestic demand, and a more modest growth in exports. The widening of the current account was financed 53% by foreign direct investment and by portfolio inflows, as the appetite by foreigners for domestic public bonds in the local market resumed during the second half of last year.

Going forward, external accounts should improve mainly because of oil prices and better crude and coal production levels. However, rising prices of imported goods affected by the Ukraine-Russia conflict could dampen this improvement. Despite the expected surge in oil and coal exports, the current account deficit is expected to hover around 4.8% in 2022.

On the fiscal front, the fiscal deficit for 2021 was 7.1% of GDP, lower than the 8.6 expected by the government. This was the result of higher economic growth, better tax collection, and lower execution of the government's spending budget. Even though the government managed to push through a tax reform amid a complex political environment, Colombia's credit rating was downgraded by the rating agencies, which had an adverse effect on the country's risk premium and on the ratings and yields of Colombian issuers. For 2022, the government expects a further decline of the fiscal deficit to 6.2% based on the ongoing economic recovery and additional revenues from the oil sector.

Moving on to Central America, during 2021 the region benefited mainly from the economic recovery of the United States and the positive implications in trade and remittances, and favorable external conditions.

As a result, after a contraction of 7% in 2020, the IMF projects real GDP growth of 6.8% for the region in 2021, with the highest growth in Panama, 12%, and El Salvador, 9%, followed by Guatemala, 5.5%; Nicaragua, 5%; Honduras, 4.9%, and Costa Rica, 3.9%. For 2022, GDP growth for the region is expected to be 4.2%, slightly above the annual average of 4% registered between 2010 and 2019.

As Central American countries are predominantly oil importers, the increase in oil prices and the disruption in global supply chains have pressured inflation and will most likely continue to pressure inflation in the region. During 2021, Nicaragua, Honduras and El Salvador were the most affected, with inflations of 7.2%, 5.3% and 6.1%, respectively. Costa Rica and Guatemala registered inflations of 3.3% and 3.1%, respectively, while

Panama registered 2.6% inflation up from deflation of 1.6% in 2020.

As of December, we had COP 21.6 trillion in active reliefs or under structural agreements, representing approximately 9.5% of our total consolidated loan portfolio. In Colombia, active reliefs amounted to COP 7.4 trillion or 5.3% of the Colombian loan portfolio and in Central America, reliefs amounted to COP 14.3 trillion, representing 16.1% of the region's portfolio. Panama accounted for approximately 49% of the region's active reliefs.

Of all loans that have concluded the relief periods, those currently past due 90 days or more represent approximately 1% of our total consolidated loan portfolio, while those currently past due 30 days or more represent 1.6% of our total consolidated loan portfolio.

Moving on, these are some numbers that back up the execution of our digital strategy during 2021.

In Colombia, active digital clients totaled 3.8 million, approximately 44% more than 12 months ago.

Our banks sold 1.5 million digital products during 2021, an increase of 59% versus 2020. 60% of all sales of retail products for which a digitalized solution has been developed were conducted digitally.

Our recently improved mobile banking apps reached 1 million downloads in both Android and iOS.

Transactions conducted through Aval's payment gateway, AvalPay Center, increased 122% versus 2020.

Campaigns using advanced analytics developed based on our unified database platform Augusta have been able to increase effective disbursements by 40%.

Mathilde, our programmatic ad platform, has allowed us to reduce by 41% our cost per thousand impressions.

In Central America, digital clients increased 20% during the year, reaching almost 2 million clients at year end.

Digital sales increased 41% versus 2020 through 37 digital products.

PFM of Personal Finance Management, a personal finance solutions app that helps our customers understand their finances and make better decisions, was successfully launched.

Kash, our transactional app, despite being relatively recent, was one of the most downloaded apps in the region.

Let's move on to ESG. In the past decade, ESG has become an integral part of our strategy. Alongside our subsidiaries, we're firmly committed to becoming better at it every year that passes by continually raising our standards of environmental protection, by striving to improve our interactions with all our stakeholders, and by pushing for strong corporate governance.

These are a few of our ESG milestones during 2021.

On corporate governance and risk management, after having implemented ESRA - Environmental and Social Risk Analysis systems on Banco de Bogotá, BAC and Multibank, we began to roll-out to our other Colombian banks.

On the economic performance front, Corficolombiana issued a COP 500 billion social bond. In addition, our banks launched green products and sustainable development credit lines. Among the most important, the Amazonia card in Banco de Bogotá, the Unicef card in Banco de Occidente, sustainable housing and electric vehicle lines, and others.

Regarding corporate efficiencies, we adhered to the United Nations Global Compact, reaffirming our commitment to the Sustainable Development Goals. Through Ecobot machines we carried on recycling initiatives, recycling approximately half a million plastic bottles.

On talent management, we developed our corporate diversity and inclusion policy. Banco de Bogotá, Occidente, Popular and Porvenir received the Great Place to Work certifications. We migrated to a hybrid presential / remote work scheme that will be our standard going forward, maintaining an exclusively remote work scheme for some positions.

Finally, regarding the social and environmental initiatives, Banco de Bogotá and Corficolombiana became part of the Dow Jones Sustainability Index. Banco de Bogotá is among the top eight most sustainable banks. We implemented through our subsidiaries environmental initiatives, including the reforestation of the Amazon and the use of renewable energies in some of our branches and headquarters.

Finally, our subsidiaries, jointly with our controlling shareholder, fully funded the construction of a USD 500 million state-of-the-art cancer treatment and research center in Colombia, which is currently being staffed and equipped and is scheduled to open its doors to patients in the second quarter of this year.

As you recall, during September of 2021, Banco de Bogotá informed the market of its intention to spinoff to its shareholders, including Grupo Aval, 75% of the shares the bank currently owns at BAC Holding International Corporation - BHI, the holding company that ultimately owns 100% of the shares of our Central American banking group BAC Credomatic. Concurrently, Grupo Aval informed the market of its intention to spinoff to its shareholders the shares of BHI received as a result of the mentioned Banco de Bogotá spin-off.

There are several reasons behind these transactions. On the one hand, as a consequence of BAC's excellent financial performance since we acquired it in 2010, accentuated in most years by the Colombian peso natural devaluation against the US dollar, BAC is currently almost the same size as its owner, Banco de Bogotá. In this regard, we do not consider convenient that Banco de Bogotá owns another bank of equal size.

Additionally, that transaction will strengthen Aval's and Banco de Bogotá's strategic focus on Colombia because as a result of the spin-off and the deconsolidation of this investment in our numbers, we will simplify our corporate structure, eliminate multi-jurisdictional complexities, and increase our agility and flexibility to respond to the dynamics of the local markets in which we operate.

We also expect to gain flexibility in the administration of regulatory capital as we continue to move towards full Basel III principles. This, in turn, should allow us to improve our strategic position to capture future growth.

Lastly, we hope, although obviously cannot guarantee to unlock some value for our shareholders. As anybody that follows our shares knows, the multiples at which our shares trade with respect to the company's earnings are comparatively depressed and have been so for a while when compared to those of our peers. In fact, an independent valuation determined that Aval's share value after the spinoff would have a price similar to the price at which it trades today. Under that scenario, Aval's price multiples to earnings would be fairly comparable to those of our peers. BHI shares will trade in the Colombian stock exchange, along with the shares of Banco de Bogotá and Grupo Aval. BHI will also trade in the Panamanian stock exchange. Therefore, we expect that the stock will be marketable and liquid.

As of yesterday, this transaction has received all the required regulatory approvals and therefore we will now proceed with the execution stage. Our intention is to close the spinoffs and deliver the BHI shares to the eligible shareholders by the end of March. If that is the case, our financial statements at the end of this quarter will cease to consolidate BHI and any income derived from the 25% investment at Banco de Bogotá we retain in BHI will be accounted for via the equity method.

Finally, we also expect to book extraordinary net income from the realization of certain OCI accounts at Banco de Bogotá as a byproduct of deconsolidation. We will have a better idea of that extraordinary net income amount the day of the spin-off.

As Diego will explain, the spin-off should boost Banco de Bogotá's regulatory capital by approximately 130 basis points. However, to further boost this ratio and to absorb other changes to regulatory capital derived from the progressive adoption of Basel III principles, Banco de Bogotá's board will propose to its shareholders to not declare a cash dividend in the upcoming shareholders meeting. Aval will follow suit as it is the company's unwritten custom to declare dividends in the same amount as it receives from its subsidiaries.

Regarding our financial results, Diego will refer next in detail to our financial performance during 2021. However, I would highlight the following.

Our banking subsidiaries successfully rode the wave of the country's economic rebounds that improved the credit profile of our customers, presented growth opportunities, lowered the cost of risk, and increased recoveries of written-off loans. As a result, we achieved net income of COP 3.3 billion, 40.4% higher than in 2020 and 9% higher than in 2019. This marks 2021 as the year with the highest net income in our history. Return on average equity was 15.3% and return on average assets was 1.65%.

At year-end versus 2020, consolidated assets grew by 13.6%, consolidated gross loans grew by 13.2%, 30- and 90-day PDL indicators improved by 86 and 66 basis points, respectively, versus 2020. Cost of risk improved by 110 basis points.

Net fee income for the year increased by approximately 10%. Our cost to assets improved by 10 basis points and our funding and liquidity positions remained strong.

I thank you for your attention and now I'll pass on the presentation to Diego, who will explain in detail our business results and provide guidance for 2022.

I will add that the guidance that Diego provides for 2022 will not include the extraordinary net income that results as a consequence of the spinoff.

I thank you for your attention once again and Diego, please continue.

Diego Fernando Solano Saravia: Thank you, Luis Carlos. I will now move to the consolidated results of Grupo Aval under IFRS.

Starting on page 11, assets grew 13.6% during 2021 and 4.3% during the quarter. Excluding the FX movements of our Central American operation, total assets grew 7.6% during the year and 2.7% during the quarter. Our assets grew 9.3% during the year in Colombia and 4.8% in dollar terms in Central America. The 16% depreciation over the last 12 months resulted in a 21.8% annual growth in COP of Central America. Quarterly growth was 2.1% in Colombia and 3.5% in dollar terms in Central America. A 4.9% depreciation during the quarter resulted in an 8.3% growth of Central America in COP. The weight of Central America reached 37% of our book, with BHI and MFG accounting for 32% and 5%, respectively.

Moving to page 12, loans grew 13.2% over the year and 4.3% during the quarter. Our Colombian gross loan portfolio grew 6.6% over the year and 2.2% during the quarter. Our quarterly performance in Colombia reflected a strong dynamic in retail lending and still soft one in commercial lending, similar to the trends of the banking system.

Demand for consumer loans in Colombia continued to be strong, resulting in a 3.2% growth during the quarter and 11.5% for the full year. 12-month growth remained driven by payroll loans, with a 15.7% increase, while our quarterly growth included a strong performance of unsecured products. During the year, automobile loans grew 9.8%, personal loans 6.1%, and credit cards 2.2%.

Payroll lending and auto financing, our main consumer secured products, grew 2.3% and 5.2%, respectively, during the quarter. These products account for 61% and 7% of our Colombian consumer portfolio. Both personal loans and credit cards, which account for 20% and 12% of our Colombian consumer portfolio, grew at 4.3% during the quarter. As other secured retail products, mortgages remain dynamic, expanding 4.7% over the quarter and 15% year on year.

On the other hand, corporate lending growth in Colombia continued to be weak. Our commercial loan portfolio, excluding repos, grew 1.3% over the quarter, taking annual growth to 2.9%.In addition to market trends, our growth is affected by a disciplined pricing approach that focuses on profitable growth.

Moving forward, business confidence in Colombia and the positive trends in economic activity support a strong commercial loan growth rate. In addition, we expect that retail lending momentum will persist as employment continues its recovery and household demand consolidates, allowing banks to extend further into higher risk products.

We have a positive view on 2022 growth, despite temporary headwinds in confidence during the first half of this year derived from the election cycle and the uncertainty associated with the global geopolitical events.

Moving to Central America, our gross loans portfolio increased 8.3% in dollar terms year on year and 3.2% over the quarter. Quarterly performance in Central America evidenced a recovery in economic activity that resulted in 3.9% and 3.7% growths in consumer and commercial loans, respectively. Mortgages increased by 1.1% over the quarter.

On pages 13 and 14, we present several loan portfolio quality ratios. Cost of risk has returned to our recurring pre-pandemic levels. COR receded earlier than expected due to a favorable evolution of the behavior of relieved customers returning to regular payment schedules and a faster and stronger rebound of the economy. This improvement reflects in a better composition of our loan portfolio measured by loans classified by stages.

Relief programs were successful in allowing us to manage the COVID-19 shock with lower impact on our consumers and thus impairment losses than what was expected at the beginning of the pandemic. As of December, 0.8% of our total gross loans remained under payment holidays and 8.7% under structural payment programs. Together, accounting for 9.5% of our loan portfolio.

In Colombia, 5.3% of our loans have some type of relief. Only 0.04% of our Colombian gross loans are still under payment holidays. Most reliefs are structural payment programs under the PAD, the government-sponsored borrower support program.

In Central America. 16.1% of our loans still have some type of relief. This is broken down into 14.1% of gross loans under structural payment programs and 2% under payment holidays. The payment holidays that remain are concentrated in Panama. That accounts for 88% of those. The outstanding balance of payment holidays in the region contracted 41% over the quarter, down to USD 443 million.

At the end of period, 4.3% of our total loans that in the past had benefited either from payment holidays or were restructured and that had returned to active payment schedules were past due more than 90 days. These past due loans continue representing 1% of our total gross loans and these numbers are 6.9% and 1.6% for loans past due more than 30 days.

In Colombia, 6.7% of loans previously relieved that had resumed active payment schedules were 90 days past due, representing 1% of gross loans. For 30-days PDLs, these numbers were 9.3% and 1.4%.

In Central America, 2.7% of loans previously relieved that had returned to active payment schedules were 90 days past due, representing 0.9% of gross loans. For 30-days PDLs, these numbers were 5.3% and 1.8%, respectively.

As a significant development evidencing the recovery after the pandemic, PDL formation has returned to pre-pandemic levels. As reported in our last call, third quarter PDL formation benefited from over COP 580 billion of the Avianca-Taca group loans returning to current.

Regarding delinquencies, metrics for 30-days and 90-days PDLs continued improving during the quarter. Our allowance coverage of 30-day PDLs and 90-day PDLs also improved over the quarter.

The quality of our loan portfolio improved relative to a quarter and a year ago. 30-day fell to 4.04%, a 36-basis points improvement over three months and 86-basis points improvement over 12 months. 90-day PDLs fell to 2.9%, a 20-basis points improvement over three months and 66 basis-points improvement over 12 months.

Even though not yet to pre-pandemic levels, the breakdown of our loan portfolio by stages continues to improve, with stage one loans gaining 91 basis points in the mix, compensated by a 72 basis points and 19 basis points decrease in stage two and stage three loans. This improvement was mainly driven by our consumer loan portfolio in both geographies, which recorded a 138 basis points increase in share of stage one loans to 83% and 102 basis points decrease in stage 2 to 12.8%.

The higher than normal level of stage two loans will linger for several quarters, but is expected to improve as previously relieved customers maintain a healthy payment behavior throughout this year or fully pay their outstanding balances. We expect this behavior to materialize and support our positive view on the evolution of cost of risk during 2022.

2021 cost of risk net of recoveries was 1.9%, in line with our previous guidance. This result incorporates a 28 basis points increase in cost of risk of our total portfolio over the quarter, with a 64 basis points increase in commercial and a 15-basis points improvement in retail. Quarterly cost of risk increased 45 basis points in Colombia, driven by commercial loans, and remained flat in Central America.

Finally, the ratio of charge-offs to average 90-day PDLs was 0.7 times for 2021 and for the quarter.

On page 15, we present funding and deposit evolution. Funding growth during the quarter reflects a still high liquidity environment. As a result, our deposit to net loans ratio remained high at 106%, while our cash to deposits ended the quarter at 15.6%.

Our funding structure remained relatively stable, with deposits accounting for most of our funding, at 76%. Deposits increased 10.7% year on year and 4.1% during the quarter. Colombia grew 1.5% during the quarter while Central America grew 3.3% in dollar terms. Over the 12-month period, Colombia grew 2.6% and Central America 7% in dollar terms.

On page 16, we present the evolution of our total capitalization, our attributable shareholders equity, and the capital adequacy ratio of our banks.

Both our total equity and attributable equity grew 11.4% over the year, mainly driven by our earnings. Total equity increased 2.8% during the quarter, while attributable equity increased 3%.

As of fourth quarter 2021, our bank showed appropriate tier one and total solvency ratios.

Moving forward, we estimate that the spinoff described by Luis Carlos will have a positive impact of close to 130 basis points in Banco de Bogotá's capitalization ratios.

Two forces will improve the capitalization of Banco de Bogotá. First, the deconsolidation of USD 20 billion or 46% of Banco de Bogotá's risk weighted assets, and second, Banco de Bogotá will cease to deduct USD 1.6 billion in goodwill and intangibles from its core equity tier one.

On the other hand, some negative elements result from the spinoff. First, USD 2.6 billion or 36% of Banco de Bogotá's equity will be spun off. Second, the bank will deduct USD 0.5 billion from its core equity tier one associated with its remaining 25% minority interest in BHI. And third, Banco de Bogotá will no longer benefit from the USD 520 million AT1 issued by BAC International Bank in 2020.

However, despite this positive effect, we expect Banco de Bogotá's first quarter 2022 capitalization ratios to be similar to those reported for yearend 2021.

The depreciation of fixed income markets has led to unrealized losses to our OCI, reducing core equity tier one. In addition, the adoption of Basel III, including changes in operational risk during this quarter, is expected to increase risk weighted assets.

To further strengthen Banco de Bogotá's and Grupo Aval's capital basis, the Board of Directors will recommend through the respective shareholders meetings to be held in the upcoming weeks, that neither Banco de Bogotá nor Grupo Aval distributes cash dividends related to 2021's net income. These recommendations seek to, on the one hand, prime Banco de Bogotá's capital base to capture growth potential during the upcoming years. And as far as Grupo Aval is concerned, the recommendation falls largely in line with Aval's custom to not distribute dividends unless it is paid dividends by its affiliates. In recent years, Aval and Banco de Bogotá have distributed an average close to 50% of their annual net income.

On page 17, we present our yield on loans, cost of funds, spreads, and NIM. 2021 interest rate behavior was driven by falling average reference rates. Growth focused on lower risk, lower return products and segments during most of the year and by the increase in price competition of those.

The annual average Central Bank rate in Colombia contracted 95 basis points to 1.92% in 2021, while the average three-month Libor contracted 49 basis points to 0.16%. These changes negatively impacted yields in both regions during the year.

In this environment, 2021 yield on loans fell 98 basis points, down to 8.37%. The spread between average yield on gross loans and the average cost of funds contracted 28 basis points to 5.98%, despite a 71-basis points reduction in cost of funds down to 2.39%.

Despite an increase in rates during the quarter, the average yield on loans of 8.46% and the average cost of funds of 2.51% for the fourth quarter still were 20 basis points and 5 basis points lower than a year earlier.

As a result of these trends, our annual net interest margin contracted 36 basis points to 4.8%, driven by a 17-basis points decrease in net interest margin on loans to 5.8% and a 64-basis points decrease in net interest margin on investments to 0.9%. Quarterly NIM fell 12 basis points quarter on quarter, driven by a 37-basis points contraction of NIM on investments and of 7 basis points in NIM on loans.

NIM on loans remained stable in Colombia during 2021 at 5.6% and fell 53 basis points to 6.1% in Central America. The variation in Central America resulted from a slight contraction in BHI and the effect of a full year versus seven months in 2020 of MFG. MFG has tighter net interest margins given that it operates in Panama only.

We expect that the rising interest rate cycle can provide an upside for higher NIM on loans with an initial temporary downward pressure, given the accelerated pace at which it is happening and in repricing timing differences between assets and liabilities. Price competition, given the positive macro outlook, could also delay such improvement. Net interest margin on investments will be under pressure in this environment and could be affected by global monetary policies and geopolitical events.

On page 18 we present net fees and other income. Gross fee income for the year reflects a pickup in banking services and debit and credit card fees as lockdowns receded and transactional activity recovered to pre-pandemic levels. 2021 consolidated gross fees increased 10.6%, resulting from an 8.7% growth in Colombia and a 10.9% growth in dollar terms in Central America.

Gross fees increased 4.4% quarter on quarter in Colombia and 13.1% in dollar terms in Central America. The recovery of consumer activity added to the high seasonal behavior of fourth quarter, yielding this strong result.

Income from the non-financial sector was strong in 2021.

Our infrastructure sector that is the largest contributor to our non-financial income, grew 15.7% in 2021. Energy and gas companies decreased their contribution from the non-financial sector by 6.9%, given a high comparison base in 2020 from Promigas' companies in Peru. Finally, although historically a low contributor to our non-financial sector, our hospitality business had a positive result during the second half of the year as occupancy rates rose. Despite this improvement, its annual result was COP 14 billion loss.

Finally, on the bottom of the page, other income was lower than a year earlier. Other income included optimization strategies executed in fourth quarter of 2020 and income from non-consolidated investments increased due to the recovery in equity method from Promigas' associates and a COP 45 billion extraordinary dividend from Grupo de Energía de Bogotá in the third quarter of 2021.

On page 19, we present some efficiency ratios. All our business units continued implementing cost contention initiatives during 2021. Cost to assets for 2021 was 3.3%, down from 3.4% in 2020. Cost to income was 47.6%, up from 46% a year earlier and stable relative to 2019. Cost to income was affected by a 36-basis points contraction in NIM and a 10.5% decrease in other income from operations, given the high comparison base in 2020.

Other expenses increased 7% year on year, with Colombia growing 5.6%, in line with inflation, and Central America 6.9% in dollar terms. The latter was impacted by five additional months of consolidation of MFG. Without the effect of MFG, other expenses would have increased 6% for Aval and 4.8% in dollar terms in Central America.

Personnel expenses grew 2.6% in 2021, with Colombia growing 3.9% and Central America 1% in dollar terms.

General and administrative expenses increased 10.1% in 2021. General and administrative expenses increased 4.7% in Colombia and 15.6% in dollar terms in Central America. The increase in Central America is tied to expenses associated with the recovery in fee income and to increased marketing expenses. Depreciation and amortization grew 1.5% year on year. Depreciation and amortization increased 0.2% in Colombia and 1% in dollar terms in Central America.

Finally, on page 20, we present our net income and profitability ratios. Attributable net income for 2021 was COP 3,298 billion or COP 148 per share, 44.4% higher than the result for 2020. Attributable net income for the quarter was COP 777 billion or COP 34.9 per share.

Our return on average assets and return on average equity for the year were 1.6% and 15.3%, respectively. These ratios were 1.4% and 13.7% for fourth quarter.

Before moving on to questions and answers, I will now summarize our general guidance for 2022. Given that we expect to complete the spinoff of 75% of BHI shortly and cease to consolidate BHI starting this call, our guidance will refer to our continued operations.

We expect loan growth from our continued operations to be in the 14% area, with commercial loans growing in the 12% area and retail loans in the 16% area.

We expect our cost of risk net of recoveries to be in the 1.6% area.

We expect full year NIM to be in the 4.3% to 4.5% range with NIM on loans between 5.4% and 5.6%, benefiting from a slight positive effect from the rising interest rate scenario.

We expect cost to assets to be close to the 2.6% area or a 20-basis points improvement versus the comparable metric in 2021.

We expect our fee income ratio to be in the 15% to 17% range.

We expect our non-financial sector to contract 25% relative to 2021.

Finally, we expect our return on average equity of our continued operations to be in the 15% area.

Regarding BHI that will no longer be consolidated by Aval after the spinoff, we provide the following guidance in dollar terms.

We expect loan growth to be in the 7% area, with commercial loans growing in the 10% area and retail in the 6% area.

We expect cost of risk net of recoveries to be in the 1.9% area.

We expect full year NIM to be in the 5.8 to 6% range with NIM on loans between 6.7% and 6.9%.

We expect costs to assets to be in the 4.3% area.

We expect fee income ratio to be in the 30% to 32% range.

Finally, we expect the return on average equity of BHI to be in the 13% area.

With this, we are now available to address your questions.

Operator: Thank you. We will now begin the question and answer session. If you have a question, please press star (*) and then one (1) on your touchtone phone. If you wish to be removed from the queue, please press the pound sign or the hash key (#). If you are using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again, if you have a question, please press star (*) and then one (1) on your touchtone phone.

We have a question from Juan Recalde, from Scotiabank. Please go ahead.

Juan Recalde: Hi. Good morning. Thank you for taking my question. My question is related to the potential capital rise. In a previous call, you had mentioned that it was an option to raise capital at Banco de Bogotá, and now you have mentioned that there is not going to be a dividend payment. Would that be enough or is a capital raise still an option? Thank you.

Luis Carlos Sarmiento Gutiérrez: Thank you, Juan, for your question. Well, yeah, as you mentioned yourself, a proxy for raising capital is obviously not distributing dividends, and that's what we're doing. What we've noticed so far, as we mentioned in the call, is that the spinoff by itself will raise Banco de Bogotá's capital ratios by about 130 basis points. And obviously, that will be further positive by not distributing dividends. With all that in mind, there really should not be a need for any capital raises but that does not mean that if we see the bank growing the way we expect it to, we might later on in the year consider an additional capitalization. But for now, as I said, with the actions that we've taken, there's absolutely no need for capital at the bank or at Grupo Aval.

Operator: Thank you. The next question comes from Yuri Fernandes, from JP Morgan.

Yuri Fernandes: Thank you, Luis Carlos, Diego. I have a first question regarding the reliefs on your asset quality. And asset quality for me was a good highlight on the consolidated entity, the improvement we saw on 30 days and the 90 days. So, asset quality was good in the quarter. But when you were explaining the reliefs during the presentation, I got that 9.5% of your total loans, they are still under relief. I guess in the previous quarter this number was 9.8. So, when you put this on your nominal balance, we see the reliefs book mostly stable quarter over quarter. So, my question is, is this really the case, like the amortization, it's kind of decelerating on the reliefs? I don't know if that's true and maybe this is driven by Central America, but I want to check this information and also the asset quality for the reliefs. I got here 1% of your total loans they are on reliefs. They are past due and this is about maybe 10% on the total loans under relief. If you take 1% of your total loans are past due, we are getting about 10% 90-days

NPL ratio for the reliefs and if you plot this for the 30 days, this is something around 15%, 16%.

So, all in all, I just want to check the reliefs, if you can provide more color or explain a little bit better what is happening with amortization, with the asset quality. I guess that would be interesting.

And if I may, a second question regarding growth. I get here on your guidance for Colombia a 14% loan growth. This for me seems to be ahead of the market. And you mentioned many times on your presentation a compression on the spread, some more competition. So, my question is, is Aval or maybe Aval banks getting more aggressive in regaining market share and maybe this is a reason for this? Or do you see this competition speech more other players and not Aval banks? I'm just trying to understand what is your strategy for price, your strategy for spreads and rates and if you are planning to regain market share and to regain market share you will be more aggressive on price. Thank you.

Diego Fernando Solano Saravia: Well, very good questions you have. I wrote down three different questions. The first one regarding the mechanics of the reliefs and how the numbers should evolve. The reason why you should expect to continue seeing the number for reliefs to be relatively stable though falling in time is that anything that was relieved, regardless that it is paying or not, we have marks on, particularly for the part of the portfolio that was under the PAD, the government sponsored support program, we continue to market in this category. So, to try to bring the numbers down, out of that 9.5, around 0.8% of our gross loans is what remains under payment holidays and that includes mainly what comes from Panama, in Central America. In the case of Colombia, the number is 0.04. So, you're talking a very, very slim number. So, in that sense, you could say reliefs are over, except for the Panamanian ones that are falling very fast. Around half of those reliefs went away during the quarter. But part of those goes to something structural, and that's what we continue reporting and continue tracking.

As a matter of fact, part of what we did at the end of the year was we included some overlays on part of these loans that had been relieved at some point in time and that yet needed to prove that they would return to normal.

So, trying to give you an idea of what to expect into the future, we should see that number trending down. However, until these loans go back to fully normal, fully normal means over a year of experiencing the proper payment performance or being paid out, will you start to see those numbers falling. So that is something that should be happening later on during the year. And it was not your question, but to give you some additional color, that's the reason why our guidance on cost of risk for the full year is lower than what we already gave for the last quarter of last year. And it is that we expect to see a positive evolution as those loans actually demonstrate that they are back to normal. So that was question number one regarding what to expect from reliefs and to try to match that to the rest of the behavior.

Then, regarding loan growth, we've picked up the number on loan growth, bringing into consideration two things. The first one is we've seen inflation picking up. So, part of what brings this number higher is also our view on a higher inflation that Luis Carlos mentioned before. So, in real terms, this is not as large as a change to what our view was previously. Then the second piece is, you're absolutely on the spot. We have an aspiration and that ties to the Banco de Bogotá or the BHI spinoff to see recovery in market share that our banks gave away and that's built into our numbers and built into our strategy.

What we are thinking regarding that it's a combination of two things. One, what the bank has to do internally, and it ties into a stronger commercial activity and other changes in the way they approach the market. And then part of what has slowed us down in the latter part of last year was aggressive pricing in the market that in our pricing models was not profitable growth. To say it in other words, those were businesses that in our numbers might be losing money in the long term. However, with the behavior that we're seeing from the economy this year and the dynamics in the market, we expect to see pricing to return to more reasonable levels. So, it's a combination of things that we're doing internally with how we see the market evolving.

Then, spread wise, that's perhaps the toughest question of all because we are seeing the Central Bank raising rates very fast. Under a normal scenario where this would be a progressive process where rates were going up slowly, we would have a chance to catch up between assets and liabilities and get a benefit on that NIM in the short term. That's what we expect to see in the longer term and it is to see our spreads on loans to expand due to a higher interest rate environment. However, the speed does determine what happens in the short term. The repricing differences between assets and liabilities might put some pressure initially.

And finally, you mentioned competition around a stronger Colombian economy. You know, pricing also includes cost of risk. It's implicit in how we price our loans. So, a better view on provisions also builds into NIM. Perhaps the way we look at these numbers is NIM after cost of risk is a good way to think about how these numbers will be evolving. And in that sense, the combination of those two should have a positive effect, regardless the sort of growth that we've pointed to.

Operator: Thank you. Our next question comes from Nicolas Riva, from Bank of America. Please go ahead.

Nicolas Riva: Thanks very much, Luis Carlos and Diego, for taking my questions.

I have three questions. The first one on the 2022 bond. If you can discuss how you plan to finance the USD 1 billion maturity in September.

Second question on the spinoff. You said you see no need to raise capital at this moment at the level of Banco de Bogotá or Aval level. You're not going to pay a dividend at this point. And when you talked about the guidance for the capital ratio, you said a 130 basis points positive impact on Banco de Bogotá because of the spinoff. Does this include all of the impacts from the spinoff? So, the deconsolidation of the risk weighted assets, the fact that you no longer will have to deduct any goodwill. All of that is already factored into that assumption or projection?

And then third question on the election, so this year, Colombia has presidential elections, and we know that Gustavo Petro is ahead in the polls. If you can talk about what Petro has said specifically that he would try to do regarding the banking sector. My concern basically would be higher taxes. And we know that the banks already pay higher taxes than the corporates and also taxes on wealth, the tax on shareholders equity that I know that Colombia has implemented in the past. But also, if you can discuss your thoughts regarding the risk of nationalizing pension funds, which I'm sure would have a negative impact on Porvenir and what's the likelihood that he would be able to do such a thing? Thanks.

Luis Carlos Sarmiento Gutiérrez: Let me start with the first one, which is the 2022 bond, Nicolas. We have the funds in place basically to pay that bond already. Remember that our strategy when we have taken debt internationally has always been to take the money that we receive from the issuances of the bonds and we invest those in turn into our own subsidiaries, those that either do not have access to the international markets or they do, but they would have to borrow at a higher cost than Aval itself. So, what we do is that we lend that money to those of our affiliates that are in those positions, and we match the maturities of the loans that we make to them to the maturities of our own bonds. In this case, we have the money for the 2022 bonds are either in short-term deposits that we have already liquidated the loans that we made to our subs and have received the money and put it into liquidity. And then we have the other part of the money is still out with our affiliates and they will repay it to us before the maturity in September of the 2022 bond. So that's why the September 2022 bond, as we announced when we were marketing the 2030 bond, the 2022 bond will be paid.

Diego Fernando Solano Saravia: So, regarding your question on does this include all the effects? The answer is yes, it does. And I'm going to try to give you another logic on why the numbers are favorable. The reason why they are is when you think of the spinoff, you're spinning off 100% of the risk weighted assets. You are spinning off a 75% of total equity. However, you're also spinning off goodwill that is a substantial portion of what is being spun off. So, when you think of how much of the equity is being spun off, I mentioned USD 2.6 billion. That's 36%. But out of those USD 2.6 billion, USD 1.6 billion is intangibles. Therefore, what you're actually spinning off is USD 1 billion intangible equity from Banco de Bogotá. That is around 14% of Banco de Bogotá's equity or regulatory equity after you deduct this intangible. So, in fact, you're taking away 46% of risk weighted assets, but you're taking away 14% of tangible equity. That's the main driver.

There's the other elements that I mentioned, particularly the 25% of the investment gets deducted as a minority investment in financial companies. Then there's something that is replaceable later on that does have an impact and it is the AT1 that we issued at BAC International Bank gets also spun off. Therefore, Banco de Bogotá will not benefit from that. So that's the reason why we end up with numbers that are positive and it is mainly that a big portion of what we're spinning off is intangible equity with risk weighted assets. So, back to your question. Does this include all the effects? Yes, it does.

Luis Carlos Sarmiento Gutiérrez: And on your third question regarding Mr. Petro, yes, as you mentioned, he is ahead in the polls. But this past Sunday was a very, very interesting exercise. On the one hand, Petro obtained about 5 million votes on his own primary, if you will. But the interesting thing to contrast with that is that his party only got 2.5 million votes for Congress. So, there is a substantial difference in the votes that he got himself in comparison to the votes he got for his own party. And that leads us to understanding that the composition of Congress is going to be, as always, very, very important in his ability to pass laws, as always, and as it works anywhere else.

Regarding the points that you mentioned, higher taxes, taxes on wealth, taxes on the banking system, and we'll talk in a second about his mentioning of the nationalization or, as he calls it, the democratization of pension funds.

So, yes, he's still ahead. And we have to see whether the 5 million votes that he got, one, will repeat in the first round of the presidential elections. They might. But secondly, remember that we expect between 20 and 21 million votes for president in the presidential election. So, there's still a large territory to be covered and we have to see where the other 16 million votes go.

Even if he got all the votes that his coalition got in the primaries last weekend, there's still about 10 million votes that we would have to see where they go in the presidential elections. Now, even if he wins, Congress has already been voted on and it's already been composed. And even though his party got more seats elected than the other party, he definitely didn't get the majority of Congress, not even close, and not even if you add up those other parties that you think would probably be in coalition with him when they vote in Congress.

So, we're still away of suffering, if you will, the consequences of what he said regarding higher taxes, taxes on wealth and taxes to the financial system. We'll see. We'll see what Congress votes on that. So, we're still away from that.

You also mentioned the democratization or the nationalization of the pension funds and obviously, as you said, if that happened, that would have a very large impact on Porvenir and Protección and all the other pension funds in the country. But there was a national outcry. I don't know if you followed the news in the last couple of days, but since he came out in a debate and talked about that for the first time, he was very straightforward with his intentions.

There has been really a national outcry from affiliated people to the pension funds coming out and saying, "Hey, no, what you said is wrong." He basically said in that debate that the pension funds belong to the owners of the pension fund administrators. And as we all know, that's just absolutely not true. So, again. Yeah, is this uncomfortable? Yes, absolutely. I mean, there's no doubt about it. Do I think that's a done deal? No, I don't think by a stretch of imagination it's a done deal. I think there's still a lot more that has to happen before those elections, those campaign promises, quote unquote, become reality.

Operator: Thank you. Our next question comes from Sebastián Gallego, from Ashmore. Please go ahead.

Sebastián Gallego: Hi. Good morning. Thank you for the presentation. I have several questions. The first one is just a follow-up on capital and the positive effect that you mentioned on 130 basis points on Bogotá. I'm wondering if you could clarify the OCI effect that Diego mentioned in the presentation, because it seemed that the OCI unrealized losses may mitigate the positive effects from the 130 basis points. So that clarification would be nice for the first question.

The second question is also a follow-up on the comments that Mr. Luis Carlos mentioned on capital increase. You mentioned that you probably won't need a capital raise, but it could come later on in this year. We're wondering if excess cash could be an inefficient capital allocation at Banco de Bogotá. And we're wondering if you are thinking about M&A activity in Colombia to foster growth at Banco de Bogotá.

And the third question would be on risk appetite on consumer loans. You provide a guidance of 16% for retail and we're seeing higher growth on unsecured lending. Can you talk about that and what could be the strategy on a sustainable basis? Thank you very much.

Diego Fernando Solano Saravia: Yeah. Going through your three questions, the first one regarding the negatives that are offsetting the positive benefit from the spin-off. You mentioned one of those, and you're absolutely right. OCI is something that is moving and we expect to continue to see moving over the remainder of the year as the global interest rate environment picks up and that affects banks either through OCI in our case, where we are concentrated in fair value to OCI or affects banks directly to P&L if you have those as fair value to P&L. So, either way, it ends up getting capital from banks and that's a global trend that we see happening and it also affects Aval.

However, there is a second piece of what I mentioned that perhaps I need to highlight more and it is part of the transition to Basel III includes changes in operational risk. Starting this year, there's a trigger and this is one of the last triggers on this transition that will be generating this sort of effects and not to get technical, there's some coefficients that are determining what is the translation from operational risk into risk weighted assets.

It's pretty substantial what we expect to see in the Colombian market and that's why the order of magnitude of the combination of these two effects adds to around 130 basis points or 100 basis points or something on that area. So, you're right on the OCI, not only for Aval, but for all the banks in Colombia and around the world. What is particular of Colombia and all the Colombian banks is this next step in operational risk.

Luis Carlos Sarmiento Gutiérrez: Regarding the capital increase that you mentioned again in Banco de Bogotá, as I said, the numbers have proven that there's no capitalization needed just because of the spinoff, as Diego was just saying. But then again, I did mention that if we needed to, we would consider a capitalization in the remaining part of the year.

Obviously, as you also mentioned, we wouldn't capitalize just to sit on cash. That would be, as you said, the most inefficient use for capital. We would consider it for growth and obviously we would consider a capitalization for M&A. At this point, we don't have anything particular in mind but we do have growth in mind. And the mindset of the group right now is around growth, around profitable growth, but around growth. And so, if that was the case, and this is all our banks, we are always very observant of what happens with growth and if growth requires capital, then we think that's a very efficient capital need.

So yeah, that's why I said that for now and just because of the spin-off no capital would be needed, but we will not stop considering a capitalization. We just don't know what amount yet.

Diego Fernando Solano Saravia: And finally, you had a question on risk appetite, and it was, if I understand it right, have you raised your risk appetite? And the answer is yes, we have because we've seen an improvement in performance that we were waiting for to open up to some areas that we had diverted from during the pandemic.

To try to be quantitative here, the kind of things that we have already seen is past due loan formation is back to pre-pandemic levels. And if you look at that broken down by kind of loan, by segment, we are starting to see exactly the same behavior, not only in the aggregate, but also segment by segment. And then if you think around stages, at this point, stage two is still more than what it used to be pre-pandemic. Around 11% - 12% of our loans are in stage two. The pre-pandemic levels are more on the 5% area. However, when you build in all the overlays and those loans that are categorized as stage two because they were relieved at some point but are behaving, we see factual evidence that numbers are going back to normal, to pre-pandemic levels, and that allows us to go back to some of those products that are particularly risky in the environment that we lived over the past couple of years.

That's the reason why when you look at our fourth quarter numbers, you start to see much higher contribution of credit cards, of personal loans, and those loans that we had de-emphasized in the past. The same applies to sectors of the commercial loans. There are sectors that were much riskier before and as the market evolves, they appear to be much better.

And finally, the other number that we look at is unemployment. Unemployment is improving at a rate of around 200 basis points per annum. We see that continuing into this year and that brings numbers back to the kind of environment in which we feel comfortable to be, let's say, not more aggressive, but back to our normal appetite. We had gone into a risk averse mode over the past couple of years, and we're back to something that is an Aval standard.

Operator: Thank you. Our next question comes from Daniel Mora, from Credicorp Capital.

Daniel Mora: Hi. Good morning and thank you for the presentation. I have just a couple of questions. The first one is a follow-up on the capital ratios. I would like to understand with the 130-basis points improvement in capital ratios, that will be reflected in the CET1? With the latest figures that you published in the fourth quarter on the CET1 of Banco de Bogotá, it has stood at 10.2%. With this 120-improvement, we can reach a figure of 11.5? I would like just to confirm this figure and also ask what would be the internal CET1 guidance or targets that you would like to maintain in the coming years to comply with Basel III standards, considering that peers have CET1 ratios around 12%.

And my second question is regarding the spin-off of BAC, considering that you already requested the suspension of both stocks, Aval and Bogotá in the next week, if we could have more information regarding the exact number of shares that BAC Holding International will have and also the exchange terms between those investors that will have shares of Sociedad Beneficiaria Aval and Sociedad Beneficiaria Bogotá to the final shares of BAC Holding International. And those would be my two questions. Thank you so much.

Diego Fernando Solano Saravia: Okay. Starting with your question on capital ratio. As I mentioned, in absence of what is going on in the market and the OCI and the operational risk that we discussed before, what we would be seeing is something in the order of 130 overall improvement, something perhaps in a similar ratio, 120 to 130, which could be happening in core equity tier one. However, the things that I mentioned before do affect the ratio.

The OCI affects directly core equity tier one, as it is a lower number on equity. Therefore, it's a lower number on core equity tier one. And then ratio wise, the increase in risk weighted assets also puts pressure on that number.

What we expect to see is some slighter improvement when you compare to December, still an improvement or something of the same order of magnitude from a combination of the positive effects from the spinoff and the negatives that I mentioned before. The number that you will see falling is the AT1 bucket, because immediately after the spinoff, that number goes away. And when you think of total solvency, total solvency in our numbers should look similar to the number that we are reporting on this call.

You also mentioned comparison to peers. That's actually a moving target. At this point, we said at Banco de Bogotá we are not distributing dividends, but for example, our closest peer is distributing around 70% of equity. So, that's going to be somehow a lever on how the comparison looks like. So, we have to see how the rest of the numbers move on to try to give you further guidance on what our longer-term view on core equity tier one looks like.

Then, moving to your second question, I think it's already public with what we've done yesterday, but the logic that we followed here is when we are going to spinoff BHI from Banco de Bogotá, the company that receives those shares will issue each shareholder of Banco de Bogotá a share for each share that they have at Banco de Bogotá. Then, you repeat the same logic at the level of Aval, where the shareholders of Aval will get a share in the recipient company as they have at Aval. However, you're absolutely right. The numbers of shares of Aval and of Banco de Bogotá and BHI are different.

So, in the process of merger, we have to normalize that and the plan that we have is to normalize it around the number of shares of Aval, building up in proportion to that to come up with the number of shares of BHI. So, if you're a shareholder of Aval currently, what you should expect to see is to receive a share of the new company after the spinoffs and the merger happen.

Luis Carlos Sarmiento Gutiérrez: When you normalize the numbers and you take the largest common denominator to do that, the number of shares in BHI is going to be about 42 billion shares.

Operator: Thank you. Our next question comes from Julián Ausique, from Davivienda Corredores.

Julián Ausique: Hi, everyone, and thank you for having our questions. I have three questions. The first one is if you can repeat the number that you said of the possible number of shares that BHI will have.

The second one is connected to the third one, it's the impact that we saw during the quarter in efficiency and in the provision expenses, because there was a negative effect in the efficiency ratio. I would like to know if there will be another pressure during this year on this ratio?

And in provision expenses, just to understand why the provision expenses change a little bit the dynamic that we were seeing during the previous quarters that was a decrease in provision expenses, but during the first quarter there was an increase. Thank you.

Diego Fernando Solano Saravia: Okay. You had two questions, efficiency and then cost of risk. Cost of risk, as I mentioned during the presentation, we had some additional overlays, basically trying to leave the pandemic behind, where we reviewed again all our portfolio, all the sectors and had some overlays that implied slightly higher provisions within actually the guidance that we had given out throughout the year.

The way those overlays work, to make sure that I'm not being too technical here, is the models, automatically, we're trying to return loans from stage two into stage one, given the improvement in performance. And what we do at that point is we force in certain segments or certain customers, based on a regulated logic that we need to apply there, we force them to stay in stage two. Therefore, those that were due perhaps mechanically, lower provision expense did not do it. What we did was basically go through sectors and customers. It's a review that we've been running on a quarterly basis and we try to have a more stringent one at year-end, as I said, to try to leave the pandemic behind.

Then, efficiency wise, there is a couple extraordinary items in expenses that affected our costs during fourth quarter. And in addition, there is a seasonal effect that if you go back into our numbers, you will find systematically where fourth quarter is higher than first quarter, not only in expenses but also in income, fee income, and other sorts of activity because fourth quarter is always a much stronger quarter. That happens in Colombia and much more visible when you look at Central America.

The impacts that we had in Colombia were mainly two. The first one was we made some provisions that go through expenses, provisions related to customers from the mandatory pension funds trying to move into the public pension system outside of regulatory terms. Those are legal processes and what we've observed historically is they get systematically won by the customers. Therefore, we've provisioned in advance for those legal proceedings. That added to around COP 120 billion in expenses.

And then the other thing that we did in Corficolombiana was, given that we're closer to the end of the Pacífico project, we reassess some of the expenses and included some provisions to cover cost overruns that we signed the project and that added somewhere between COP 60 and 80 billion. Those two were events in Colombia that add to a seasonally high performance that you can go back in time and check.

Luis Carlos Sarmiento Gutiérrez: And Julian, to answer your question, I'll repeat the number that I told Daniel before. The number of shares of BHI is going to be somewhere around 42,000 million shares.

Operator: Thank you. Our next question comes from Nicolas Fabiancic, from Jefferies. Please go ahead.

Nicolas Fabiancic: Hi. Thanks for the call. Congrats on the results. I had the same question about the 2022 bond so thanks for that answer.

Just one follow up, if you can comment on any near-term funding needs in the international market or how you're looking at your bond curve at Aval and any color you can share with us about Banco de Bogotá would be great.

And then regarding the rating agencies, we see that you're below the Colombia sovereign from Moody's, but flat rating from Fitch. So, if you can give us an update there on your conversations with the rating agencies and linkages to the Colombia sovereign, especially considering now that the exposure elsewhere outside of Colombia changes a little bit as a result of the spinoff. Thanks very much.

Luis Carlos Sarmiento Gutiérrez: Alright, Nicolas. On your first question on the 2022 bonds, I think you said you had that question but it's been answered and the answer is yes. As you said, it stays the same. We are going to pay that one. We don't have right now any plans to go out, at least this year, to look for new funds in the international markets in terms of Aval. In terms of Banco de Bogotá, I think that the answer is the same. They would not have to go out in the markets this year.

And regarding the rating agencies, Diego can update you on what conversations we've had with them. But as a custom, what I think Moody's does or one of them is that they always assign Aval a rating one notch below Banco de Bogotá. We've always fought against that but that's what they do. I don't know if Diego...

Diego Fernando Solano Saravia: Yeah. I'm actually sorry not to be able to give you any additional color on the connection between the sovereign and our rating beyond what they've done historically and it is the rating of the country does determine or put a ceiling on the rating that we get in the banks. And perhaps we might see a positive here, because in the past, we were getting double punishment. We were seen based on the Colombian rating but then if something happened with the ratings in Central America, we got negative effects, as we've seen in the past as some of the rating actions have been taken.

Over the past years, we did have an effect of the downgrade of Colombia, but most effects were coming actually from Central America, from what is happening in each one of the countries, and we are hopeful that with this separation, we get affected only by the Colombian side, given the much smaller way that the Central American business will get for us. So, sorry not to be able to give you something on that front but that's the best that we have.

Operator: Thank you. We have a question from José Cuenca, from Citigroup. Please go ahead.

José Cuenca: Thank you. Hi, everyone. Good morning. I just have two questions, one related to the guidance, if you could please repeat a couple of items that I couldn't really hear with regards to the NIM range that you're expecting for Aval and the fee income and non-financial sector figures, please.

And the second question is really just a follow-up with regards to what was talked about related to provisions, just wondering what coverage level would you be comfortable with in 2022, considering the sectors or the drivers of loan growth. Could we expect something to current levels of coverage? Thank you.

Diego Fernando Solano Saravia: Well, I'm going to try not to go again over the whole guidance, for the benefit of the rest of the participants in the call. However, I'm going to go back to what I said on NIM. On NIM, we expect to see something in the 4.3 to 4.5 range with loans in the 5.4 to 5.6 range. Implicit in those numbers is something neutral, perhaps for investments.

You were also asking on cost of risk. What we expect to see in cost of risk is to be in the 1.6 area. Last quarter it was in the 1.9% area. And that ties to our view of improvement or good performance of those loans that had reliefs and have been performing properly.

Regarding coverage, coverage is something that moves depending on different conditions. At this point, part of what we still might have to do into the following quarters is as the loans from the pandemic reliefs either improve or go sour, we should be writing off some of those and that will move our coverage ratio. However, to give you an idea, our coverage ratio has been pretty stable, somewhere around the 1.5 to 1.7 area of 90-day PDLs and that's a reasonable range to look into.

Operator: Thank you. We have no further questions at this time. I will turn the call over to Mr. Sarmiento Gutiérrez for his final remarks.

Luis Carlos Sarmiento Gutiérrez: Hilda, thank you very much and thank you to everybody who's on the call and who's being on the call. We will continue to try to deliver for you guys. And after the spinoff, we'll see what guidance we can continue giving you on BHI. We'll have to see what guidance we can give. But we will definitely continue giving you guidance on the continued operations.

So, with that, I leave you. Thank you again. And as always, our phones are open. And if you need to ask any additional questions that we can share with you, we'll be more than happy to do so. We'll see you in a quarter. Thank you very much again.

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

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