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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the fiscal year ended December 31, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________________ to ________________

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report

Commission file number: 001-36631

GRUPO AVAL ACCIONES Y VALORES S.A.
(Exact name of Registrant as specified in its charter)

Republic of Colombia
(Jurisdiction of incorporation)

Carrera 13 No. 26A - 47
Bogotá D.C., Colombia
(Address of principal executive offices)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:
None

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Title of each class	**Name of each exchange on which registered**
American Depositary Shares, each representing 20 preferred shares, par value Ps 1.00 per preferred share	New York Stock Exchange
Preferred Shares, par value Ps 1.00 per preferred share	New York Stock Exchange*

* Grupo Aval Acciones y Valores S.A.'s preferred shares are not listed for trading, but are only listed in connection with the registration of the American Depositary Shares, pursuant to the requirements of the New York Stock Exchange under the trading symbol(s): AVAL.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None

Indicate the number of outstanding shares of each of the issuer's classes of capital stock or common stock as of the close of business covered by the annual report.
Preferred shares: 7,143,227,185

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☒ Yes ☐ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP ☐ International Financial Reporting Standards as issued by the International Accounting Standards Board ☒ Other ☐

If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow.

☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references herein to “peso”, “pesos”, or “Ps” refer to the lawful currency of Colombia. All references to “U.S. dollars”, “dollars” or “U.S.$” are to United States dollars. This annual report translates certain Colombian peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. The conversion of amounts expressed in pesos as of a specified date at the then prevailing exchange rate may result in the presentation of U.S. dollar amounts that differ from U.S. dollar amounts that would have been obtained by converting Colombian pesos as of another specified date. Unless otherwise noted in this annual report, all such peso amounts have been translated at the rate of Ps 3,277.14 per U.S.$1.00, which was the representative market rate published on December 31, 2019. The representative market rate is computed and certified by the Superintendency of Finance on a daily basis and represents the weighted average of the buy/sell foreign exchange rates negotiated on the previous day by certain financial institutions authorized to engage in foreign exchange transactions. Such conversion should not be construed as a representation that the peso amounts correspond to, or have been or could be converted into, U.S. dollars at that rate or any other rate. On April 24, 2020 the representative market rate was Ps 4,020.94 per U.S. $1.00.

Definitions

In this annual report, unless otherwise indicated or the context otherwise requires, the terms:

- “Grupo Aval”, “we”, “us”, “our” and “our company” mean Grupo Aval Acciones y Valores S.A. and its consolidated subsidiaries;
- “banks” and “our banking subsidiaries” mean Banco de Bogotá S.A., Banco de Occidente S.A., Banco Popular S.A. and Banco Comercial AV Villas S.A., and their respective consolidated subsidiaries;
- “Banco de Bogotá” means Banco de Bogotá S.A. and its consolidated subsidiaries;
- “Banco de Occidente” means Banco de Occidente S.A. and its consolidated subsidiaries;
- “Banco Popular” means Banco Popular S.A. and its consolidated subsidiaries;
- “Banco AV Villas” means Banco Comercial AV Villas S.A. and its consolidated subsidiary;
- “BAC Credomatic” or “BAC” means BAC Credomatic Inc. and its consolidated subsidiaries;
- “Corficolombiana” means Corporación Financiera Colombiana S.A. and its consolidated subsidiaries;
- “LB Panamá” means Leasing Bogotá S.A., Panamá and its consolidated subsidiaries;
- “Multi Financial Group” or “MFG” means Multi Financial Group Inc. and its consolidated subsidiaries.
- “Porvenir” means Sociedad Administradora de Fondos de Pensiones y Cesantías Porvenir S.A. and its consolidated subsidiary; and
- “Superintendency of Finance” means the Colombian Superintendency of Finance (*Superintendencia Financiera de Colombia*), a supervisory authority ascribed to the Colombian Ministry of Finance and Public Credit (*Ministerio de Hacienda y Crédito Público*), or the “Ministry of Finance”, holding the inspection, supervision and control authority over the individuals or entities involved in financial activities, securities markets, insurance and any other operations related to the management, use or investment of resources collected from the public, as well as inspection and supervision authority over the holding companies of financial conglomerates in Colombia.

In this annual report, references to "beneficial ownership" are calculated pursuant to the definition ascribed by the U.S. Securities and Exchange Commission, or the "SEC", of beneficial ownership for foreign private issuers contained in Form 20-F. Form 20-F defines the term "beneficial owner" of securities as referring to any person who, even if not the record owner of the securities, has or shares the underlying benefits of ownership, including the power to direct the voting or the disposition of the securities or to receive the economic benefit of ownership of the securities. A person is also considered to be the "beneficial owner" of securities when such person has the right to acquire within 60 days pursuant to an option or other agreement. Beneficial owners include persons who hold their securities through one or more trustees, brokers, agents, legal representatives or other intermediaries, or through companies in which they have a "controlling interest", which means the direct or indirect power to direct the management and policies of the entity.

Financial statements

We are a financial holding company and an issuer in Colombia of securities registered with the National Registry of Shares and Issuers (*Registro Nacional de Emisores y Valores*), and in this capacity, we are subject to inspection and surveillance by the Superintendency of Finance and required to comply with corporate governance and periodic reporting requirements to which all financial holdings and issuers are subject. We are not a financial institution in Colombia and we are not supervised or regulated as a financial institution. Since February 6, 2019, we are subject to the inspection and surveillance of the Superintendency of Finance as the financial holding company of the Aval Financial Conglomerate and we are required to comply with capital adequacy and additional regulations applicable to financial conglomerates. See "Item 4. Information on the Company—B. Business overview—Supervision and regulation". All of our Colombian financial subsidiaries, including Banco de Bogotá, Banco de Occidente, Banco Popular, Banco AV Villas, Corficolombiana, Porvenir, and their respective financial subsidiaries, are entities under the direct comprehensive supervision of, and subject to inspection and surveillance as financial institutions by, the Superintendency of Finance and, in the case of BAC Credomatic, subject to inspection and surveillance as a financial institution by the relevant regulatory authorities in each country where BAC Credomatic operates.

Our consolidated financial statements at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018, and 2017 are included in this annual report and referred to as our audited consolidated financial statements. Our historical results are not necessarily indicative of results to be expected for future periods. We have prepared the audited consolidated financial statements included herein in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Grupo Aval adopted IFRS 16 using the modified retrospective approach with the cumulative effect of initial adoption being recognized on January 1, 2019. Grupo Aval has not restated comparatives for prior reporting periods, 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 Consolidated Statement of Financial Position on January 1, 2019. For more information on the effects of the adoption on Grupo Aval, please refer to "Note 2.4 Changes in Accounting Policies—A. IFRS 16 Leases" of our audited consolidated financial statements.

For comparative purposes, following the adoption of IFRS 9 on January 1, 2018, Grupo Aval adjusted the presentation of financial instruments in the consolidated statement of financial position for prior reporting periods. In addition, following the adoption of IFRS 15 on January 1, 2018, Grupo Aval adjusted the presentation of revenue from contracts with customers within the consolidated statements of income for prior reporting periods.

We and our Colombian subsidiaries prepare consolidated financial statements for publication in Colombia under IFRS as adopted by the Superintendency of Finance in accordance with Decree 1851 of 2013 and 3023 of 2013, as modified by Decrees 2420 and 2496 of 2015, 2131 of 2016, 2170 of 2017, 2483 of 2018 and 2270 of 2019 (which we refer to as "Colombian IFRS"). Prior to January 1, 2018, Colombian IFRS differed from IFRS as issued by the IASB in certain material respects. Starting on January 1, 2018, Grupo Aval's consolidated financial statements for publication in Colombia do not differ from the consolidated financial statements prepared under IFRS as issued by the IASB.

Separate financial statements under Colombian IFRS are based on IFRS issued by the IASB in Spanish as of December 31, 2018, and requirements pursuant to certain Colombian regulations. As a result, rules subsequently issued by the IASB are not applicable under Colombian IFRS. Our separate financial statements for local purposes, differed from IFRS as issued by the IASB in the following principal aspects:

- *Wealth tax, created by the Colombian congress in 2014 and to be paid by companies during 2015, 2016 and 2017, calculated based on the value of their shareholder's equity can be recorded against equity reserves. However, under IFRS, according to IFRIC 21, wealth tax liabilities must be recorded in the statement of income.*

- *Loss allowances are calculated based on specific rules of the Financial and Accounting Basic Circular (Circular Básica Contable y Financiera) issued by the Superintendency of Finance (which is applied in the local separate financial statements), whereas under IFRS, loss allowances were calculated according to the criteria set forth in IAS 39 and recorded in the statement of income until December 31, 2017 and under IFRS 9 beginning on January 1, 2018.*

- *Financial instruments under Colombian IFRS are classified and measured under specific rules of the Financial and Accounting Basic Circular, whereas under IFRS, financial instruments were classified and measured according to the criteria set forth in IAS 39 until December 31, 2017 and under IFRS 9 beginning on January 1, 2018 (with the exception of hedge accounting which is still treated under guidelines set forth in IAS 39).*

Ratios and Measures of Financial Performance

We have included in this annual report ratios and measures of financial performance such as return on average assets, or "ROAA", and return on average equity, or "ROAE".

These measures should not be construed as an alternative to IFRS measures and should not be compared to similarly titled measures reported by other companies, which may evaluate such measures differently from how we do. For ratios and measures of financial performance, see "Item 3. Key Information—A. Selected financial data— Ratios and Measures of Financial Performance".

Market share and other information

We obtained the market and competitive position data, including market forecasts, used throughout this annual report from market research, publicly available information and industry publications. We have presented this data on the basis of information from third-party sources that we believe are reliable, including, among others, the International Monetary Fund, or "IMF", the Superintendency of Finance, the Colombian Banking Association (*Asociación Bancaria y de Entidades Financieras de Colombia*) or "Asobancaria", the Colombian Stock Exchange, the Colombian National Bureau of Statistics (*Departamento Administrativo Nacional de Estadística*), or "DANE", the World Bank, the Superintendency of Banks in Panama (*Superintendencia de Bancos de Panamá*), the Superintendency of Financial Institutions in Costa Rica (*Superintendencia General de Entidades Financieras*), the Superintendency of Banks in Guatemala (*Superintendencia de Bancos de Guatemala*), the National Commission of Banks and Insurances in Honduras (*Comisión Nacional de Bancos y Seguros*), the Financial System Superintendency in El Salvador (*Superintendencia del Sistema Financiero*) and the Superintendency of Banks and Other Financial Institutions in Nicaragua (*Superintendencia de Bancos y Otras Instituciones Financieras*). Industry and government publications, including those referenced herein, generally state that the information presented has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Unless otherwise indicated, gross domestic product, or "GDP", figures with respect to Colombia in this annual report are based on the 2015 base year data series published by DANE. Although we have no reason to believe that any of this information or these reports is inaccurate in any material respect, we have not independently verified the competitive position, market share, market size, market growth or other data provided by third parties or by industry or other publications. We do not make any representation or warranty as to the accuracy of such information.

IMF's April 2020 World Economic Outlook (WEO) database does not contain all the usual analytical groups and countries and contains only these indicators: real GDP growth, consumer price index, current account balance, unemployment, per capita GDP growth, and fiscal balance. Projections for these indicators are provided only through 2021 due to the high level of uncertainty in current global economic conditions. Therefore, some information used herein refers expressly to the October 2019 WEO as the last information available.

Our consolidated statement of financial position and statement of income reflect information prepared under IFRS, while comparative disclosures of our financial and operating performance and that of our competitors are based on separate information prepared under Colombian IFRS as reported to the Superintendency of Finance. We, our banking subsidiaries, Corficolombiana and Porvenir also report separate financial data to the Superintendency of Finance under Colombian IFRS. Unless otherwise indicated or the context otherwise requires, market share and other data comparing our performance to that of our competitors reflects the separate results of our banking subsidiaries, Corficolombiana, Porvenir and BAC Credomatic. "Grupo Aval aggregate" data throughout this annual report reflects the sum of the separate financial statements of our four Colombian banking subsidiaries (Banco de Bogotá, Banco de Occidente, Banco Popular and Banco AV Villas) as reported to the Superintendency of Finance under Colombian IFRS, and it is used for purposes of comparing our performance against that of our peer banks. These separate financial statements under Colombian IFRS do not reflect the consolidation of subsidiaries such as Corficolombiana, Porvenir or LB Panamá, are not intended to reflect the consolidated financial results of Grupo Aval and are not necessarily indicative of the results for any other future period. Except where otherwise indicated, financial and market share data pertaining to BAC Credomatic and its competitors has been presented in accordance with IFRS and is based on publicly available information filed with regulators. All information regarding our market share and other comparative ratios and measures of financial performance to those of our competitors is presented on a separate basis under Colombian IFRS, in the case of our Colombian banking subsidiaries, Corficolombiana and Porvenir, and it is based on publicly available information filed with the Superintendency of Finance.

Throughout this document, unless otherwise noted, references to average consolidated statement of financial position for 2019, 2018, 2017, 2016 and 2015 have been calculated as follows: the average of balances at December 31, at September 30, at June 30, and at March 31 of the corresponding year, and the balance at December 31, of the previous year.

Banks, merchant banks (*corporaciones financieras*) and financing companies (*compañías de financiamiento comercial)* are deemed credit institutions by the Superintendency of Finance and are the principal institutions authorized to accept deposits and make loans in Colombia. Banks undertake traditional deposit-taking and lending activities. Financing companies place funds in circulation by means of active credit operations, with the purpose of fostering the sale of goods and services, including the development of leasing operations. Merchant banks invest directly in the real economy and thus are the only credit institutions that may invest in non-financial sectors. Banks are permitted to invest in merchant banks. See "Item 4. Information on the Company—B. Business overview—Supervision and regulation". In Colombia, we operate four banks, one merchant bank and one financing company (under voluntary liquidation), and our market share is determined by comparing our banks to other banks reporting their results to the Superintendency of Finance.

We consider our principal competitors in Colombia to be Bancolombia S.A., or "Bancolombia", Banco Davivienda S.A., or "Davivienda", and Banco Bilbao Vizcaya Argentaria Colombia S.A., or "BBVA Colombia", which are the three leading banking groups in Colombia after Grupo Aval.

The principal competitors of Porvenir, our pension and severance fund administrator, include Administradora de Fondos de Pensiones y Cesantías Protección S.A., or "Protección", Colfondos S.A. Pensiones y Cesantías, or "Colfondos", and Skandia Administradora de Fondos de Pensiones y Cesantías S.A., or "Skandia". Corficolombiana, our merchant bank, is a merchant bank (*corporación financiera*), and its competitors include Banca de Inversión Bancolombia S.A., J.P. Morgan Corporación Financiera S.A., BNP Paribas Colombia Corporación Financiera S.A. and Corporación Financiera GNB Sudameris S.A.

Our principal competitors in Central America include Bancolombia, Banco General, Banco Industrial, Banco Promerica, Davivienda and Banrural.

We include certain ratios in this annual report which we believe provide investors with important information regarding our operations, such as return on average equity, or "ROAE", return on average assets, or "ROAA", net interest margin, or "NIM", and operational efficiency and asset quality indicators, among others. Some of these ratios are also used in this annual report to compare us to our principal competitors.

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Other conventions

Certain figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic summation of the figures that precede them. As such, percentage calculations presented may differ from those of rounded numbers. References to "billions" in this annual report are to 1,000,000,000s and to "trillions" are to 1,000,000,000,000s.

"Non-controlling interest" refers to the participation of minority shareholders in a subsidiary's equity or net income, as applicable.

FORWARD-LOOKING STATEMENTS

Some of the matters discussed in this annual report concerning our operations and financial performance include estimates and forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 "Reform Act" including such statements contained in "Item 3. Key Information—D. Risk factors", "Item 5. Operating and Financial Review and Prospects" and "Item 4. Information on the Company—B. Business overview".

Our estimates and forward-looking statements are mainly based on our current expectations and estimates on projections of future events and trends, which affect or may affect our businesses and results of operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to several risks and uncertainties and are made in light of information currently available to us. Our estimates and forward-looking statements may be influenced by the following factors, among others:

- changes in Colombian, Central American, regional and international business and economic, political or other conditions;
- developments affecting Colombian, Central American and international capital and financial markets;
- government regulation and tax matters and developments affecting our company and industry;
- declines in the oil and affiliated services sector in the Colombian and global economies;
- increases in defaults by our customers;
- increases in goodwill impairment losses, or other impairments;
- decreases in deposits, customer loss or revenue loss;
- increases in allowances for contingent liabilities;
- our ability to sustain or improve our financial performance;
- increases in inflation rates, particularly in Colombia and in jurisdictions in which we operate in Central America;
- the level of penetration of financial products and credit in Colombia and Central America;
- changes in interest rates which may, among other effects, adversely affect margins and the valuation of our treasury portfolio;
- decreases in the spread between investment yields and implied interest rates in annuities;
- movements in exchange rates;

- competition in the banking and financial services, credit card services, insurance, asset management, pension fund administration and related industries;
- adequacy of risk management procedures and credit, market and other risks of lending and investment activities;
- decreases in the level of capitalization of our subsidiaries;
- changes in market values of Colombian and Central American securities, particularly Colombian government securities;
- adverse legal or regulatory disputes or proceedings;
- successful integration and future performance of acquired businesses or assets;
- natural disasters, public health crises or internal security issues affecting countries where we operate;
- loss of any key member of our senior management; and
- other risk factors as set forth under "Item 3. Key Information—D. Risk factors" or "Item 5. Operating and Financial Review and Prospects—D. Trend information".

The words "believe", "may", "will", "estimate", "continue", "anticipate", "intend", "expect", "should", "could", "would", "plan", "predict", "potential" and similar words are intended to identify estimates and forward-looking statements. All statements addressing our future operating performance, and statements addressing events and developments that we expect or anticipate will occur in the future, are forward-looking statements within the meaning of the Reform Act. Estimates and forward-looking statements are intended to be valid only at the date they were made, and we undertake no obligation to update or to review any estimate and/or forward-looking statement because of new information, future events or other factors. Estimates and forward-looking statements involve risks and uncertainties and are not guarantees of future performance. Our future results may differ materially from those expressed in these estimates and forward-looking statements. In light of the risks and uncertainties described above, the estimates and forward-looking statements discussed in this annual report might not occur and our future results and our performance may differ materially from those expressed in these forward-looking statements due to the factors mentioned above, among others. Because of these uncertainties, you should not make any investment decision based on these estimates and forward-looking statements.

These cautionary statements should be considered in connection with any written or oral forward-looking statements that we may issue in the future.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

A. Directors and senior management

Not applicable.

B. Advisers

Not applicable.

C. Auditors

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

A. Offer statistics

Not applicable.

B. Method and expected timetable

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected financial data

The following financial data of Grupo Aval at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017 have been derived from our audited consolidated financial statements prepared in accordance with IFRS, included in this report. We have derived our selected statement of financial position data as of December 31, 2017, 2016, and 2015 and our consolidated statement of income data prepared in accordance with IFRS for the years ended December 31, 2016 and 2015 from our consolidated financial statements not included in this annual report. For comparative purposes, following the adoption of IFRS 9 on January 1, 2018, Grupo Aval adjusted the presentation of financial instruments in the consolidated statement of financial position for prior reporting periods. In addition, Grupo Aval adjusted the presentation of revenue from contracts with customers within the consolidated statements of income for prior reporting periods. Our historical results are not necessarily indicative of results to be expected for future periods.

This financial data should be read in conjunction with our audited consolidated financial statements and the related notes, "Presentation of financial and other information" and "Item 5. Operating and Financial Review and Prospects" included in this annual report.

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Statement of income

IFRS

	Grupo Aval				
	For the years ended December 31,				
	2019	2018	2017	2016	2015
	(in Ps billions, except share and per share data)				
Total interest income	19,552.7	18,356.6	18,741.8	17,547.0	14,075.6
Total interest expense	(8,267.2)	(7,484.8)	(8,227.7)	(8,392.4)	(5,751.5)
Net interest income	**11,285.5**	**10,871.8**	**10,514.1**	**9,154.6**	**8,324.1**
Impairment loss on loans and other accounts receivable	(4,194.0)	(4,150.0)	(4,119.3)	(3,004.2)	(2,127.7)
Impairment (loss) recovery on other financial assets	60.0	32.5	(0.1)	(70.4)	(6.2)
Recovery of charged-off financial assets	378.9	320.1	264.6	290.4	219.7
Net impairment loss on financial assets	**(3,755.1)**	**(3,797.3)**	**(3,854.9)**	**(2,784.2)**	**(1,914.3)**
Net income from commissions and fees	5,455.3	4,839.6	4,579.0	4,259.7	3,662.3
Gross profit from sales of goods and services	2,374.8	2,643.9	757.0	929.3	838.6
Net trading income	761.9	582.7	561.4	724.7	245.2
Net income from other financial instruments mandatorily at fair value through profit or loss	217.6	205.8	209.9	181.0	153.1
Other income	1,283.0	1,358.7	1,151.7	1,676.1	1,550.7
Other expenses	(10,171.3)	(9,371.0)	(9,003.1)	(8,567.3)	(7,635.1)
Income before income tax expense	**7,451.7**	**7,334.1**	**4,915.2**	**5,573.8**	**5,224.7**
Income tax expense	(2,086.3)	(2,149.6)	(1,752.8)	(2,056.9)	(1,879.0)
Net income for the year	**5,365.5**	**5,184.6**	**3,162.4**	**3,516.9**	**3,345.7**
Net income for the year attributable to:					
Owners of the parent	**3,034.4**	**2,912.7**	**1,962.4**	**2,139.9**	**2,041.4**
Non-controlling interest	**2,331.0**	**2,271.9**	**1,200.0**	**1,377.1**	**1,304.3**
Earnings per 1,000 shares (basic and diluted earnings): Common shares (in pesos)	136,188.1	130,725.4	88,075.6	96,039.9	91,619.0
Earnings per 1,000 shares (basic and diluted earnings): Preferred shares (in pesos)	136,188.1	130,725.4	88,075.6	96,039.9	91,619.0
Dividends per 1,000 shares(1): Common and preferred shares (in pesos)	60,000.0	60,000.0	48,000.0	88,200.0	58,800.0
Weighted average number of shares:					
Outstanding common shares in thousands	15,158,004.8	15,169,502.8	15,216,468.6	15,262,660.1	15,309,380.7
Outstanding preferred shares in thousands	7,123,012.3	7,111,514.4	7,064,548.6	7,018,357.0	6,971,636.5
Outstanding common and preferred shares in thousands	22,281,017.2	22,281,017.2	22,281,017.2	22,281,017.2	22,281,017.2

(1) Until 2016, Grupo Aval declared dividends semi-annually in March (from the net income generated in the six-month period between July 1 and December 31 of the previous year) and in September (from the net income generated in the six-month period between January 1 and June 30 of the ongoing year) of each year. Since March 2017, the Company declares dividends on an annual basis (from the net income generated in the twelve-month period between January 1 and December 31 of the previous year). Dividends per 1,000 shares figures for 2016 include dividends declared in September 2016 from the net income generated in the six-month period ended June 30, 2016 and dividends declared in March 2017 from the net income generated in the six-month period ended December 31, 2016, which was paid in twelve equal installments between April 2017 and March 2018.

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Statement of financial position

	Grupo Aval				
	At December 31,				
	2019	2018	2017	2016	2015
	(in Ps billions)				
Assets:					
Cash and cash equivalents	30,117.2	28,401.3	22,336.8	22,193.0	22,285.0
Trading assets	9,113.7	7,204.3	5,128.1	4,593.7	5,608.2
Investment securities	26,000.3	23,030.2	21,513.2	20,963.0	22,080.2
Hedging derivative assets	166.6	30.1	55.3	128.5	33.7
Total loans, net	173,942.3	168,685.7	160,754.3	150,898.7	141,827.7
Other accounts receivables, net	11,702.3	9,300.6	6,521.9	5,597.3	5,093.9
Non-current assets held for sale	206.2	186.7	101.4	259.5	199.5
Investments in associates and joint ventures	988.0	982.7	1,043.0	1,146.6	927.6
Tangible assets	8,950.4	6,588.5	6,654.0	6,559.5	6,514.0
Concession arrangement rights	7,521.5	5,514.5	3,114.2	2,805.3	2,390.7
Goodwill	7,348.6	7,318.6	6,901.1	6,824.9	7,056.0
Other intangible assets	1,206.5	1,033.9	848.7	735.0	612.9
Income tax assets	1,141.8	935.2	1,046.9	779.1	1,485.2
Other assets	427.2	462.9	519.8	589.4	564.7
Total assets	**278,832.6**	**259,675.2**	**236,538.5**	**224,073.7**	**216,679.3**
Liabilities:					
Trading liabilities	962.4	811.3	298.7	640.7	1,143.2
Hedging derivatives liabilities	94.3	195.5	13.5	43.4	337.7
Customer deposits	175,491.4	164,359.5	154,885.2	143,887.1	135,954.6
Interbank borrowings and overnight funds	9,240.5	6,814.1	4,970.4	6,315.7	9,474.9
Borrowings from banks and others	19,803.3	20,610.8	18,205.3	17,906.6	18,750.6
Bonds issued	21,918.3	20,140.3	19,102.2	18,568.2	16,567.1
Borrowings from development entities	3,882.5	3,646.8	2,998.1	2,725.7	2,506.6
Provisions	868.6	695.3	692.6	620.4	600.2
Income tax liabilities	3,258.6	2,574.4	2,027.7	1,651.9	1,892.1
Employee benefits	1,235.0	1,264.9	1,238.2	1,097.6	1,022.3
Other liabilities	8,729.4	9,008.0	6,235.5	5,957.2	5,523.5
Total liabilities	**245,484.3**	**230,120.8**	**210,667.3**	**199,414.5**	**193,773.0**
Equity:					
Attributable to the owners of the parent					
Subscribed and paid-in capital	22.3	22.3	22.3	22.3	22.3
Additional paid-in capital	8,445.8	8,472.3	8,303.4	8,307.5	8,307.8
Retained earnings	10,289.1	8,598.3	7,174.4	6,522.1	5,699.4
Other comprehensive income	1,093.4	696.8	786.9	749.6	538.1
Equity attributable to owners of the parent	**19,850.6**	**17,789.7**	**16,287.0**	**15,601.6**	**14,567.6**
Non-controlling interest	**13,497.7**	**11,764.6**	**9,584.2**	**9,057.7**	**8,338.7**
Total equity	**33,348.3**	**29,554.3**	**25,871.2**	**24,659.2**	**22,906.3**
Total liabilities and equity	**278,832.6**	**259,675.2**	**236,538.5**	**224,073.7**	**216,679.3**

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Other financial and operating data

	Grupo Aval				
	At and for the years ended December 31,				
	2019	2018	2017	2016	2015
	(in percentages, unless otherwise indicated)				
Profitability ratios:					
Net interest margin(1)	5.6%	5.7%	5.8%	5.4%	5.4%
ROAA(2)	2.0%	2.2%	1.4%	1.6%	1.7%
ROAE(3)	16.4%	17.8%	12.6%	14.3%	14.6%
Efficiency ratio(4):	47.6%	45.7%	50.1%	49.0%	49.6%
Capital ratios:					
Period-end equity as a percentage of period-end total assets	12.0%	11.4%	10.9%	11.0%	10.6%
Tangible equity ratio(5)	9.2%	8.4%	7.9%	7.9%	7.3%
Credit quality data:					
Cost of risk: Impairment loss on loans and other accounts receivable / average gross loans(6)	2.4%	2.6%	2.7%	2.1%	1.7%
Cost of risk, net: Impairment loss on loans and other accounts receivable, net / average gross loans(6)(7)	2.2%	2.4%	2.5%	1.9%	1.5%
Charge-offs as a percentage of average gross loans(6)	2.7%	2.0%	1.7%	1.6%	1.3%
Loans past due more than 30 days / gross loans(6)	4.4%	4.3%	3.9%	3.0%	2.7%
Loans past due more than 90 days / gross loans(6)	3.3%	3.1%	2.8%	2.0%	1.7%
Loans classified as Stage 2 / gross loans(6)	4.5%	4.6%	N.A.	N.A.	N.A.
Loans classified as Stage 3 / gross loans(6)	5.5%	6.0%	N.A.	N.A.	N.A.
Loans classified as Stage 2 and Stage 3 / gross loans(6)	10.0%	10.6%	N.A.	N.A.	N.A.
Loss allowance as a percentage of loans past due more than 30 days(8)	104.6%	113.9%	90.7%	95.0%	98.9%
Loss allowance as a percentage of loans past due more than 90 days(8)	140.1%	158.0%	128.2%	143.9%	157.9%
Loss allowance for Stage 2 loans as a percentage of Stage 2 loans(6)(8)	14.4%	15.5%	N.A.	N.A.	N.A.
Loss allowance for Stage 3 loans as a percentage of Stage 3 loans(6)(8)	52.4%	50.8%	N.A.	N.A.	N.A.
Loss allowance for Stage 2 and Stage 3 loans as a percentage of Stage 2 and Stage 3 loans(6)(8)	35.3%	35.6%	N.A.	N.A.	N.A.
Loss allowance as a percentage of gross loans(6)(8)	4.6%	4.8%	3.5%	2.8%	2.6%
Operational data (in units):					
Number of customers of the banks(9)	16,103,141	15,654,858	14,700,386	13,883,370	13,678,194
Number of employees(10)	111,192	91,191	80,565	77,050	76,095
Number of branches(11)	1,692	1,734	1,771	1,789	1,785
Number of ATMs(11)	5,671	5,570	5,774	5,739	5,623

(1) Net interest margin is calculated as net interest income divided by total average interest-earning assets. Average interest-earning assets for 2019, 2018, 2017, 2016 and 2015 are calculated as the sum of interest-earning assets at each quarter-end during the applicable year and the prior year end divided by five. See "Item 3. Key Information—A. Selected financial data—Ratios and Measures of Financial Performance".

(2) For the years ended December 31, 2019, 2018, 2017, 2016 and 2015, ROAA is calculated as net income divided by average assets. Average assets for 2019, 2018, 2017, 2016 and 2015 are calculated as the sum of assets at each quarter-end during the applicable year and the prior year end divided by five. See "Item 3. Key Information—A. Selected financial data— Ratios and Measures of Financial Performance".

(3) For the years ended December 31, 2019, 2018, 2017, 2016 and 2015, ROAE is calculated as net income attributable to owners of the parent divided by average equity attributable to owners of the parent. Average equity attributable to owners of the parent for 2019, 2018, 2017, 2016 and 2015 is calculated as the sum of equity attributable to owners of the parent at each quarter-end during the applicable year end and the prior year end divided by five.

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(4) Efficiency ratio is calculated as Other expenses (see Note 30 of our audited consolidated financial statements) excluding wealth tax for 2017, 2016 and 2015, divided by total income before net impairment losses on financial assets (defined as the sum of net interest income, net income from commissions and fees, gross profit (loss) from sales of goods and services, net trading income, net income from other financial instruments mandatorily at fair value through profit or loss "FVTPL" and other income). Prior to the adoption of IFRS 16 on January 1, 2019 we reported this measure as Personnel expenses plus Administrative and other expenses (excluding wealth tax for 2017, 2016 and 2015), both contained in the Other expenses line in our audited consolidated financial statements, divided by the sum of net interest income, net income from commissions and fees, net income (expense) from sales of goods and services, net trading income and other income (excluding other). However, given the decrease in Administrative expenses that was offset by an increase in Depreciation and Amortization derived from this accounting principle, we decided all expenses (except for impairment loss on financial assets) and all income reflect efficiency in a more comprehensive manner. For the year ended December 31, 2019, efficiency measured under the previous methodology was materially the same as in 2018 at 43.1%.

(5) Tangible equity ratio is calculated as total equity minus intangible assets (calculated as goodwill plus other intangible assets, excluding those related to concession arrangements rights, Ps 7,521.5 billion in 2019, Ps 5,514.5 billion in 2018, Ps 3,114.2 billion in 2017, Ps 2,805.3 billion in 2016 and Ps 2,390.7 billion in 2015) divided by total assets minus intangible assets (as defined before). See "Item 3. Key Information—A. Selected financial data— Ratios and Measures of Financial Performance".

(6) Gross loans exclude Interbank and overnight funds (Ps 2,719.0 billion in 2019, Ps 7,635.2 billion in 2018, Ps 7,279.0 billion in 2017, Ps 3,569.6 billion in 2016 and Ps 4,085.0 billion in 2015) as these are short-term liquidity operations not subject to deterioration. Total gross loan portfolio includes Interbank and overnight funds. Throughout this document charge-offs and write-offs refer to the same concept.

(7) Impairment (loss) on loans and other accounts receivable, net refers to Impairment (loss) on loans and other accounts receivable minus Recovery of charged-off financial assets.

(8) Includes the impact of IFRS 9 adoption on January 1, 2018 of Ps 1,163.0 billion.

(9) Reflects aggregated customers of our banking subsidiaries. Customers of more than one of our banking subsidiaries and BAC Credomatic are counted separately for each banking subsidiary.

(10) Number of employees is defined as the sum of direct, temporary and outsourced personnel in financial entities (71,269 in 2019, 71,851 in 2018, 73,834 in 2017, 73,041 in 2016 and 71,638 in 2015) and call-centers (8,538 in 2019, 8,081 in 2018, 6,731 in 2017, 4,009 in 2016 and 4,457 in 2015) for 2015 through 2019. Additionally, 2019 and 2018 figures include the number of employees of non-financial entities of Corficolombiana (31,385 and 11,259).

(11) Reflects aggregated number of full-service branches or ATMs of our banking subsidiaries and BAC Credomatic, as applicable, located throughout Colombia and Central America.

Ratios and Measures of Financial Performance

The tables in this section, and elsewhere in this annual report, provide the calculation of certain ratios and measures of financial performance, which are used by our management to analyze the evolution and results of our company. Some of the ratios and measures of financial performance presented by us are either non-IFRS or use non-IFRS inputs. This non-IFRS information should not be construed as an alternative to IFRS measures. The ratios and measures of financial performance as determined and measured by us should not be compared to similarly titled measures reported by other companies as other companies may calculate and report such measures differently.

ROAA and ROAE

ROAA, which is calculated as net income divided by average assets, provides a measure of return on assets. ROAE, which is calculated as net income attributable to owners of the parent, divided by average equity attributable to owners of the

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parent, provides a measure of the total return generated from our company and our subsidiaries for shareholders. Net income attributable to non-controlling interest divided by net income, provides an indication of non-controlling interest ownership of Grupo Aval's consolidated subsidiaries net income; where a higher ratio typically implies that higher net income was generated in subsidiaries in which Grupo Aval has lower ownerships and vice versa.

The following table sets forth ROAA, ROAE and Net income attributable to non-controlling interest divided by net income for Grupo Aval for the indicated years.

	Year ended December 31,		
	2019	2018	2017
	(in Ps billions, except percentages)		
Grupo Aval (consolidated):			
Average assets(1)	267,058.8	240,905.4	229,315.3
Average equity attributable to owners of the parent(2)	18,521.1	16,349.5	15,635.9
Net income	5,365.5	5,184.6	3,162.4
Net income attributable to owners of the parent	3,034.4	2,912.7	1,962.4
Net income attributable to non-controlling interest	2,331.0	2,271.9	1,200.0
ROAA(1)	**2.0%**	**2.2%**	**1.4%**
ROAE(2)	**16.4%**	**17.8%**	**12.6%**
Net income attributable to non-controlling interest divided by net income	43.4%	43.8%	37.9%

(1) For methodology used to calculate Average assets and ROAA, see note (2) to the table under "Item 3. Key Information—A. Selected financial data—Other financial and operating data".

(2) For methodology used to calculate Average equity attributable to owners of the parent and ROAE, see note (3) to the table under "Item 3. Key Information—A. Selected financial data—Other financial and operating data".

The following table sets forth ROAA and ROAE of our main consolidated subsidiaries for the year ended December 31, 2019.

	Year ended December 31, 2019				
	Banco de Bogotá	Banco de Occidente	Banco Popular	Banco AV Villas	Corficolombiana
	(in Ps billions, except percentages)				
Average assets(1)	167,078.3	40,557.2	25,027.2	14,790.7	28,830.7
Average equity attributable to owners of the parent(2)(3)	19,270.9	4,610.1	2,937.3	1,670.2	6,923.3
Net income	3,073.7	568.1	302.1	236.6	2,004.2
Net income attributable to owners of the parent(3)	2,766.4	563.4	301.3	236.0	1,531.3
Net income attributable to non-controlling interest	307.2	4.7	0.9	0.6	472.9
ROAA(1)	**1.8%**	**1.4%**	**1.2%**	**1.6%**	**7.0%**
ROAE(2)	**14.4%**	**12.2%**	**10.3%**	**14.1%**	**22.1%**
Net income attributable to non-controlling interest divided by net income	10.0%	0.8%	0.3%	0.3%	23.6%

(1) For methodology used to calculate Average assets and ROAA, see note (2) to the table under "Item 3. Key Information—A. Selected financial data—Other financial and operating data".

(2) For methodology used to calculate Average equity attributable to owners of the parent and ROAE, see note (3) to the table under "Item 3. Key Information—A. Selected financial data—Other financial and operating data".

(3) Attributable to the owners of each of the subsidiaries presented in this table. Grupo Aval's ownership in each subsidiary is described in "Item 4. Information on the company—B. Business overview—Our operations".

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Tangible equity ratio

The following table sets forth the tangible equity ratio of Grupo Aval and each of its business segments at December 31, 2019.

		Grupo Aval entities				
	Grupo Aval Consolidated	Banco de Bogotá	Banco de Occidente	Banco Popular	Banco AV Villas	Corficolombiana
	(in Ps billions, except percentages)					
Total equity	33,348.3	21,860.0	4,869.1	3,070.0	1,795.1	9,968.1
Total assets	278,832.6	175,019.6	42,577.7	25,117.6	15,207.5	31,809.6
Total equity / Total assets	**12.0%**	**12.5%**	**11.4%**	**12.2%**	**11.8%**	**31.3%**
Intangible assets(1)	**8,555.1**	**6,630.4**	**293.9**	**166.0**	**74.0**	**498.8**
Total equity less intangible assets	24,793.2	15,229.6	4,575.2	2,903.9	1,721.2	9,469.3
Total assets less intangible assets	270,277.5	168,389.2	42,283.8	24,951.5	15,133.6	31,310.8
Tangible equity ratio(2)	**9.2%**	**9.0%**	**10.8%**	**11.6%**	**11.4%**	**30.2%**

(1) Intangible assets for this measure are defined as goodwill and other intangible assets (excluding intangible assets related to concession arrangements rights of Ps 7,521.5 billion for both Grupo Aval and Corficolombiana as of December 31, 2019).

(2) Tangible equity ratio is calculated as total equity minus intangible assets divided by total assets minus intangible assets.

B. Capitalization and indebtedness

Not applicable.

C. Reasons for the offer and use of proceeds

Not applicable.

D. Risk factors

Our business, financial condition and results of operations could be materially and adversely affected if any of the risks described below occur. In such an event, the market price of our preferred shares or our American Depositary Shares, or ADSs, could decline, and you could lose all or part of your investment. We may face additional risks and uncertainties that are not presently known to us, or that we currently deem immaterial, which may also impair our business.

Risks relating to Colombia and other countries in which we operate

Adverse economic and political conditions in Colombia and other countries in which we operate, including variations in the exchange rates or downgrades in credit ratings of sovereign debt securities, may have an adverse effect on our results of operations and financial condition.

Our principal subsidiaries in Colombia are financial institutions (four commercial banks, a pension and severance fund administrator and a merchant bank), and the majority of our operations, properties and customers are located in Colombia. As a consequence, our results of operations and financial condition are materially affected by economic and political conditions in Colombia.

Colombia is subject to economic, political and other uncertainties, including changes in monetary, exchange control and trade policies that could affect the overall business environment in Colombia, which would, in turn, affect our results of operations and financial condition. For example, the Central Bank of Colombia (the "Colombian Central Bank" or "Central

Bank”), could sharply raise or lower interest rates, which could negatively affect our net interest income and asset quality, and also restrict our growth. Extreme variations in exchange rates could also negatively affect the foreign currency positions of our borrowers. Any of these events could have an adverse effect on our results of operations and financial condition.

Decreases in the growth rate of the Colombian economy, periods of negative growth, material increases in inflation or interest rates, or high fluctuations in the exchange rate could result in lower demand for, or affect the cost of risk and the pricing of, our services and products. Due to the fact that a large percentage of the costs and expenses of our subsidiaries is fixed, we may not be able to reduce costs and expenses upon the occurrence of any of these events, in which case our profitability could be affected.

In the case of our pension and severance fund management business, economic conditions may affect the businesses and financial capacity of employers, which may result in a reduction in employee-contributor head counts or decrease the ability of employers to create new jobs or increase employee incomes and could reduce returns on “stabilization reserves” and/or performance-based fees.

BAC Credomatic’s results of operations and financial condition depend on economic, political and social conditions in the countries where it operates, primarily in Central America. The political, economic and social environments in such countries are affected by many different factors, including significant governmental influence over local economies, substantial fluctuations in economic growth, high levels of inflation, exchange rate movements, exchange controls or restrictions on expatriation of earnings, high domestic interest rates, drug trafficking and other forms of organized crime, wage and price controls, changes in tax policies, imposition of trade barriers, changes in the prices of commodities and unexpected changes in regulation. The results of operations and financial condition of our Central American operations could be affected by changes in economic and other policies of each country’s government, which have exercised and continue to exercise substantial influence over many aspects of the private sector, and by other social and political developments in each country. During the past several decades, El Salvador, Guatemala, Honduras, Nicaragua and Panamá have experienced civil strife and political instability that have included a succession of regimes with differing economic policies and programs. Previous governments have imposed, among other measures, controls on prices, exchange rates, local and foreign investment, and international trade. They have also restricted the ability of companies to dismiss employees, expropriated private sector assets and prohibited the remittance of profits to foreign investors.

Adverse economic, political and social developments, including allegations of corruption against the Colombian government and governments of other countries in which we operate in Central America, may adversely affect demand for banking services and create uncertainty regarding our operating environment, which could have a material adverse effect on our subsidiaries and, consequently, on our company. In addition, changes in political administrations may result in changes in governmental policy, which could affect our subsidiaries and, consequently, our business. Downgrades in credit ratings of debt securities, issued or guaranteed by governments in countries in which we operate, may increase our and our subsidiaries’ cost of funding or limit the ability of borrowing funds from customary sources of capital.

The Colombian and Central American economies remain vulnerable to external shocks.

A significant decline in economic growth of any of Colombia’s or Central America’s major trading partners could have a material adverse effect on each country’s trade balance and economic growth. In addition, a “contagion” effect, where an entire region or class of investments becomes less attractive to, or subject to outflows of funds by, international investors could negatively affect Colombia or Central American countries in which we operate. Lower than expected economic growth may result in asset quality deterioration and could negatively affect our business.

Pension funds, such as those managed by Porvenir, invest globally and thus are affected by regional and global economic factors. Lower economic growth of Colombia’s major trading partners or a contagion effect in the region or globally may lead to lower pension funds returns, which may in turn result in decreases in assets under management and affect our business, results of operations or financial condition. In recent years, pension fund returns have been subject to increased volatility in international financial markets. Foreign investments represented 31.5% of Porvenir’s total assets under management at December 31, 2019.

Fluctuations in commodity prices and volatility in exchange rates in the past have led to a deceleration in growth. In particular, the oil industry remains an important determinant of Colombia's economic growth. Substantial or extended declines in international oil prices or national oil production may have an adverse effect on the overall performance of the Colombian economy and could have an adverse impact on the results of operations and financial condition of oil industry companies, which could have an adverse impact on our loans to oil industry companies. Our banking subsidiaries do not maintain a significant overall exposure to oil industry clients and have not been materially impacted by the decrease in international oil prices, however, continuing falling market prices, such as the one experienced during 2014 and 2015, pose significant challenges to Colombia's near-term outlook and may impair the ability of some of the clients of our banking subsidiaries to repay their debt obligations. As of December 31, 2019, our combined gross exposure to the oil sector is 1.2% of the consolidated total gross loan portfolio, with the principal exposure being to companies which own or run oil pipelines (0.63%) in which Empresa Colombiana de Petróleos S.A. "Ecopetrol" is a majority shareholder. Ecopetrol is Colombia's largest oil producer, with a majority ownership by the Colombian Government, and has a BBB- (S&P), BBB (Fitch Ratings), and Baa3 (Moody's) long-term foreign currency issuer ratings. As of December 31, 2019, our gross exposure to oil service companies and suppliers to the oil sector (0.25% and 0.29% of the consolidated total gross loan portfolio, respectively) was immaterial. We do not believe this exposure will materially affect our results. Although the growth of the Colombian economy is expected to be steady in the future, there is no guarantee that the past decade's average growth will be maintained.

A low rate of growth of the Colombian economy, a slowdown in the growth of customer demand, an increase in market competition, or changes in governmental regulations, could adversely affect the rate of growth of our loan portfolio and our cost of risk and, accordingly, increase our required loss allowances for loans. All of these conditions could lead to a general decrease in demand for borrowings. In addition, the effect on consumer confidence of any actual or perceived deterioration of household incomes in the Colombian or Central American economies may have a material adverse effect on our results of operations and financial condition.

Colombia has experienced and continues to experience internal security issues that have had or could have a negative effect on the Colombian economy.

Colombia has experienced internal security issues, primarily due to the activities of guerrilla groups, such as the National Liberation Army (*Ejército de Liberación Nacional*), or "ELN", urban militias, paramilitary groups, former members of the Revolutionary Armed Forces of Colombia (*Fuerzas Armadas Revolucionarias de Colombia*), or "FARC", and drug cartels. These groups have exerted influence over the local population and funded their activities by protecting, and rendering services to drug traffickers. The Colombian government reached a peace deal with the FARC in November 2016. Under Juan Manuel Santos' administration, the Colombian government also began negotiations with ELN in October 2016, which had continued under a slower pace during the government of President Duque until January 17, 2019. As a result of an attack made by ELN to a police academy in Bogotá, the Colombian President cancelled peace talks. Any breakdown in peace, renewed or continuing drug-related crime and guerilla and paramilitary activities may have a negative impact on the Colombian economy in the future. Our business or financial condition could be adversely affected by rapidly changing economic or social conditions, including the Colombian government's response to the peace deal with the FARC, or any peace negotiation with ELN or other group, which may result in legislation that increases our tax burden, or that of other Colombian companies, which could, in turn, impact the overall economy, or legislation that could directly impact our business, such as those requiring more flexible credit conditions for, or the employment of, former FARC members.

Political and economic instability in the region may affect the Colombian economy and, consequently, our results of operations and financial condition.

Some of Colombia's neighboring countries, particularly Venezuela, have experienced and continue to experience periods of political and economic instability. According to figures from the United Nations, more than two million Venezuelans have emigrated amid food and medicine shortages and profound political divisions in their country. Approximately half of those migrants have opted to live in Colombia, and many have arrived with only what they could carry. Providing migrants with access to healthcare, utilities and education may have a negative impact on Colombia's economy if the Government is not able to respond adequately to legalize migrants, generate programs to help them find formal jobs, and increase tax revenue and consumption.

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Moreover, diplomatic relations with Venezuela and Ecuador have from time to time been tense and affected by events surrounding the Colombian military forces' confrontations with guerilla groups, particularly on Colombia's borders with each of Venezuela and Ecuador. More recently, the Colombian government joined an international campaign against Nicolás Maduro, recognizing Juan Guaido, chief of Venezuela's opposition, as the country's leader, which has further increased diplomatic tensions with Venezuela.

On November 19, 2012, the International Court of Justice placed a sizeable area of the Caribbean Sea within Nicaragua's exclusive economic zone, which until then had been deemed by Colombia as part of its own exclusive economic zone. Currently, the Colombian Government is waiting for additional claims to be filed by Nicaragua as part of the first stage process with the International Court of Justice. A worsening of diplomatic relations between Colombia and Nicaragua involving the disputed waters could result in the Nicaraguan government taking measures, or a reaction among the Nicaraguan public, which would be detrimental to Colombian-owned interests in that country, including those owned by us through BAC Credomatic.

Further economic and political instability in Colombia's neighboring countries or any future deterioration in relations with Venezuela, Ecuador, Nicaragua and other countries in the region may result in the closing of borders, the imposition of trade barriers and a breakdown of diplomatic ties, or a negative effect on Colombia's trade balance, economy and general security situation, which may adversely affect our results of operations and financial condition.

Finally, political conditions such as changes in the United States policies related to immigration and remittances, could affect the regions in which we operate. Economic conditions in the United States and the region generally may be impacted by the United States-Mexico-Canada Agreement. This could have an indirect effect on the Colombian economy and the countries in which we operate.

Changes in government policies and actions, as well as judicial decisions in Colombia and other countries in which we operate, could significantly affect the local economy and, as a result, our results of operations and financial condition.

Our results of operations and financial condition may be adversely affected by changes in Colombian and Central American governmental policies and actions, and judicial decisions, involving a broad range of matters, including interest rates, fees, exchange rates, exchange controls, inflation rates, taxation, banking and pension fund regulations and other political or economic developments affecting Colombia and other countries in which we operate.

Colombian and Central American governments have historically exercised substantial influence over their economies, and their policies are likely to continue to have a significant effect on companies, including us.

In 2018, presidential elections were held in Colombia, and Mr. Iván Duque Márquez was elected for the presidential period 2018-2022 with 54% of the votes in the second round. President Duque is a former Senator from the Democratic Center party, and his agenda includes (i) tackling corruption, (ii) fighting against the increase of cocaine production, (iii) increasing focus on rule of law, (iv) entrepreneurship and (v) social equity. However, Mr. Duque's government has experienced social dissatisfaction and generating social tensions within the principal cities of Colombia. The president of Colombia has considerable power to determine governmental policies and actions relating to the economy, and may adopt policies that negatively affect us.

Moreover, regulatory uncertainty, public dialogue on reforms during Mr. Duque's presidential period and other countries where we operate, or the approval of reforms, may be disruptive to our business or the economy and may result in a material and adverse effect on our financial condition and results of operations.

We and our subsidiaries are subject to anti-corruption laws and other laws in the jurisdictions in which we operate and violation of these regulations could harm our business.

We and our subsidiaries are subject to numerous, and sometimes conflicting, legal regimes on matters as diverse as anti-corruption, taxation, internal and disclosure control obligations, securities and derivatives regulation, anti-competition regulations, data privacy and labor relations. Compliance with diverse legal requirements is costly, time-consuming and requires significant resources. Violations of one or more of these regulations in the conduct of our business or the business of our subsidiaries could result in significant fines, criminal sanctions against us or our officers, prohibitions on doing business and damage to our reputation. Violations of these laws or regulations in connection with the performance of our obligations to our customers, as well as in connection with the performance of our subsidiaries' obligations, could also result in liability for significant monetary damages, fines or criminal prosecution, unfavorable publicity and other reputational damage, restrictions on our ability to process information and allegations by our customers that we have not performed our contractual obligations. Because of the varying degrees of development of the legal systems of the countries in which we operate, local laws might be insufficient to protect our rights due in part to a lack of multiple recourses and/or deficiencies in the access to justice.

In particular, practices in the local business community may not conform to international business standards and could violate anti-corruption laws or regulations, including the U.S. Foreign Corrupt Practices Act. Our employees, and joint venture partners, or other third parties with which we associate, could take actions that violate policies or procedures designed to promote legal and regulatory compliance or applicable anti-corruption laws or regulations. Violations of these laws or regulations by us or our subsidiaries, our employees or any of these third parties could subject us to criminal or civil enforcement actions (whether or not we participated or knew about the actions leading to the violations), including fines or penalties, disgorgement of profits and suspension or disqualification from work, including governmental contracting, any of which could materially adversely affect our business, including our results of operations and our reputation.

Grupo Aval and certain of its subsidiaries and officers are defendants in government enforcement actions and/or subject to ongoing governmental investigations relating to the Ruta del Sol Project Sector 2 that could cause us to incur penalties and other sanctions, impact our ability to conduct our business, harm our reputation and negatively impact our financial results.

On December 21, 2016, the United States Department of Justice ("DOJ") announced that Odebrecht S.A. ("*Odebrecht*"), a global construction conglomerate based in Brazil, pled guilty and agreed to pay a monetary penalty to resolve charges with authorities in the United States, Brazil and Switzerland, arising out of their schemes to pay approximately U.S.$800 million in bribes to government officials in twelve countries around the world, including U.S.$11.5 million in Colombia, where Odebrecht admitted to offering bribes in order to obtain and extend infrastructure contracts. Odebrecht further admitted to effecting these payments directly from its Brazilian headquarters through its division of structured operations.

Soon after Odebrecht's guilty plea, Colombia's Attorney General's Office (the *"Fiscalía General de la Nación"* or *"Fiscalía"*) initiated several lines of investigations that have identified and incarcerated Colombian recipients of the Odebrecht bribes; the Fiscalía also established that Odebrecht effected payments through its "division of structured operations", directly from its Brazilian headquarters, to obtain the contract for the construction of "Ruta del Sol Project Sector 2" toll road concession awarded to Concesionaria Ruta del Sol S.A.S. ("CRDS") in 2009 and also to obtain the amendment to the contract in connection with the Ocaña-Gamarra addition to the Ruta del Sol II toll road in 2014. The Concession Contract No. 001 of 2010, for the construction of Ruta del Sol Sector 2 (the "Concession Contract"), was entered into on January 14, 2010 and the amendment in connection with the Ocaña-Gamarra addition was entered into on March 14, 2014. Episol S.A.S. ("Episol"), a wholly-owned subsidiary of Corficolombiana and an indirect subsidiary of Grupo Aval, is a minority (33%) non-controlling shareholder in CRDS and Odebrecht is the majority controlling and operating shareholder with a participation of 62%. A third shareholder, CSS Constructores S.A., has a 5% participation in CRDS.

Episol, and the former president of Corficolombiana are among the defendants in a class action lawsuit brought by the *Procuraduría General de la Nación* before the Administrative Tribunal of Cundinamarca ("TAC") relating to the alleged payment of bribes in connection with the Ruta del Sol Project Sector 2. The TAC ruled in December 2018 that Episol, along with Odebrecht, and other defendants, including the former president of Corficolombiana, were jointly liable for the damages to the Nation caused by the payment of bribes confessed by Odebrecht related to the Ruta del Sol Project Sector 2, ordered the defendants to jointly and severally pay the Ministry of Transportation Ps 715.6 billion, and debarred them from contracting with Colombian state entities and from assuming government positions for a period of 10 years. Episol and the other defendants filed an appeal of this ruling before Colombia's Supreme Court for administrative law matters (*Consejo de Estado*).

Grupo Aval, Corficolombiana, Episol, Grupo Aval's president and Grupo Aval's chief financial officer, Corficolombiana's Vice President of Investments and Corficolombiana's Vice President of Investment Banking, the former president of Corficolombiana and other defendants have been charged by the Colombian Superintendency of Industry and Commerce ("SIC") with alleged violations of Colombian antitrust regulations in connection with the Ruta del Sol Project Sector 2. The proceeding is ongoing.

Grupo Aval is also subject to investigations by the DOJ and by the SEC concerning the Ruta del Sol Project Sector 2. Grupo Aval is cooperating with the DOJ's and SEC's investigations, as it has done with all prior government inquiries into this matter.

On April 1, 2019, Jose Elias Melo, the former president of Corficolombiana, was found guilty in a court of first instance of bribery and undue interest in connection with the 2009 bid for the Ruta del Sol Project Sector 2. Mr. Melo appealed the court's decision.

For further information about the foregoing proceedings and investigations, see "Item 8. Financial Information—A. Consolidated statements and other financial information—Legal proceedings".

We have not recorded any accrual for the SIC proceeding and the TAC class action, however, there can be no assurance as to the terms of the final resolution and the timing of these matters. At this time it is not possible to predict the scope, duration or likely outcome of the DOJ and SEC investigations. Similarly, it is not possible to predict at this time whether additional investigations or proceedings relating to Ruta del Sol Project Sector 2 may arise.

We and our subsidiaries are exposed to a variety of potential material negative consequences as a result of the proceedings and investigations noted above, which could result in judgments, settlements, admissions of wrongdoing, criminal convictions, fines, penalties, injunctions, cease and desist orders, debarment or other relief and we and our subsidiaries could be exposed to other litigation as a result of these proceedings and investigations, including actions initiated by shareholders.

Such investigations and proceedings, which are the subject of extensive media coverage and political interest in Colombia, could also have significant collateral consequences for our company and our subsidiaries, including damage to reputation, loss of customers and business, the inability to offer certain products and services, disqualification or losing permission to operate certain businesses for a period, the dissemination of potentially damaging information that may come to light in the course of the investigations and proceedings and other direct and indirect adverse effects. Management will need to continue to direct substantial time and attention to resolving such matters, which could prevent them from focusing on our core businesses. We can provide no assurance that the outcome of any such investigations and proceedings will not be material to our business, financial position, results of operations or our financial position.

New or higher taxes resulting from changes in tax regulations or the interpretation thereof in Colombia and other countries in which we operate could adversely affect our results of operations and financial condition.

New tax laws and regulations, and uncertainties with respect to future tax policies, pose risks to us. In recent years, Colombian tax authorities have imposed additional taxes in a variety of areas, such as taxes on financial transactions, to fund Colombia's war against terrorism and taxes created in order to fund post-conflict programs related to the peace negotiations with guerrilla forces. The Colombian government is also obliged by Law 1473 of 2011, also known as *Law of Fiscal Rule,* to significantly reduce its fiscal deficit and address issues regarding public policy, oil price volatility, migrations, public health events or other events that could require further tax reforms over the following years. This, in addition to pressure from rating agencies, could lead to higher taxation rates on our business and that of our borrowers. Changes in tax-related laws and regulations, and interpretations thereof, can impact tax burdens by increasing tax rates and fees, creating new taxes, limiting tax deductions, and eliminating tax-based incentives and non-taxed income. In addition, tax authorities or courts may interpret tax regulations differently than we do, which could result in tax litigation and associated costs and penalties.

Between 2012 and 2019, the Colombian Congress passed five tax reforms submitted by the Colombian government. The Colombian government may implement new changes in the tax rules applicable to our securities, which could have a

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material adverse effect on our results of operations and financial condition or that may adversely affect our shareholders or holders of ADSs. ADSs do not have the same tax benefits as equity investments in Colombia. Although ADSs represent our preferred shares, they are subject to a different tax regulatory regime. Accordingly, the tax benefits applicable in Colombia to equity investments, in particular those relating to dividends and profits from sale, may not apply or apply differently in the case of our ADSs.

Until December 31, 2016, in order to avoid double taxation, our Colombian subsidiaries usually distributed dividends from profits that had already been subject to income tax at the corporate level. These dividends were usually not taxable for Grupo Aval in Colombia, and dividends paid by Grupo Aval to its shareholders in Colombia from these sources of income also were usually not taxable, in each case provided that such profits had been taxed at the subsidiary level. However, on December 29, 2016, the Colombian government enacted a new tax reform (Law 1819) introducing substantial changes to the then current tax legal framework, including, pursuant to certain rules, (i) taxation on dividends distributed to residents and non-residents from profits taxed and non-taxed at the level of the distributing company generated from 2017 onwards, (ii) a modified corporate income tax regime, and (iii) an increase in the Value Added Tax rate, among others. Law 1819 of 2016 also repealed Article 36-1 of the Colombian Tax Code, which established that capital gains obtained in a sale of shares listed on the Colombian Stock Exchange were not subject to income tax in Colombia, provided that the shares sold by the same beneficial owner during each fiscal year did not represent more than 10% of the issued and outstanding shares of the listed company. See “Item 10. Additional Information—E. Taxation”.

In addition to the tax reform approved in December 2016, the Colombian Congress enacted Law 1943 on December 28, 2018, also known as the Financing Law, introducing changes to the then current tax legal framework, including, pursuant to certain rules, a reduction of the corporate income tax rate from 37% in 2018 to 33% in 2019, to 32% for 2020, 31% for 2021 and 30% for 2022 and onwards. Among others, the Financing Law also introduced an increase in the dividend tax on distributions to foreign nonresident entities and individuals from 5% to 7.5%, as well as a surtax for financial institutions of 4% in 2019 and 3% in years 2020 and 2021.

However, on October 16, 2019, the Constitutional Court declared Law 1943 of 2018 unconstitutional due to procedural faults and the declaration takes effect as of January 1, 2020. As a result of this decision the Colombian Government filed a new bill including the majority of the provisions that were initially included in Law 1943 of 2018, and on December 27, 2019 Law 2010 also known as the Economic Growth Law, was enacted.

Law 2010 of 2019, adopts standards for the promotion of economic growth, employment, investment, strengthening of public finances and the progressivity, equity and efficiency of the tax system, in accordance with the objectives set by Law 1943 of 2018. In general terms, Law 2010 of 2019 replicates most of the tax changes included by Law 1943 of 2018 such as:

(i) the progressive reduction of the corporate income tax rate form 32% applicable for the year 2020 to 30% applicable as of the year 2022;

(ii) in the case of financial institutions, a surtax on the corporate income tax rate of 4% for the year 2020 and of 3% for the years 2021 and 2022. This surcharge should apply to financial institutions that obtain a taxable income exceeding approximately Ps 4.3 billion; and

(iii) an increase in the dividend tax on distributions made to foreign non-resident entities from 7.5% to 10%. Dividend tax for individuals is reduced from 15% to 10%.

Colombian tax haven regulations could adversely affect our results of operations and financial condition.

Decree 1966 of 2014, as amended by National Decree 2095 of 2014, put into effect article 260-7 of Colombia’s Tax Code, which regulates applicable rules for tax havens. Accordingly, a number of jurisdictions, including countries in which our banking subsidiaries operate, were either declared tax havens for Colombian tax purposes or temporarily excluded from such list subject to the completion of tax information exchange treaties within a short timeframe.

Article 260-7 of the Colombian Tax Code was reformed by Law 1819 of 2016. This reform establishes a new legal framework and provides criteria pursuant to which certain jurisdictions may be classified as non-cooperative jurisdictions with low or no taxation or as jurisdictions with preferential tax regimes. This legal framework established a higher tax-withholding rate on Colombian source payments to those jurisdictions and entities considered part of such a jurisdiction.

In October 2016, Panamá ratified to the Convention on Mutual Administrative Assistance in Tax Matters developed by the OECD as a multilateral instrument of tax cooperation to tackle tax evasion and avoidance. The convention facilitates bilateral agreements for the automatic exchange of information by participating jurisdictions.

Panamá also agreed to enter into a Double Taxation Agreement (DTA) with Colombia, however, such treaty has not been signed yet. The treaty is expected to include provisions regarding the automatic exchange of financial information. On March 9, 2020 the Panamanian Minister of Finance announced that this automatic exchange of financial information with the Colombian Government will begin in September 2020. Failure to execute this treaty or the designation of Panamá as a tax haven could have a negative impact on our customer base and on our business, financial condition and results of operations.

As a result, some of our clients with financial products offered by our banking subsidiaries in such jurisdictions may experience, among other effects, an increase in their withholding tax rates, transfer pricing regulation, increased likelihood of being found in violation of tax regulations by the Colombian authorities and elevated information disclosure requirements which could have a negative impact on our business, financial condition and results of operations.

Natural disasters, acts of war or terrorism, rioting or other external events could disrupt our businesses and affect our results of operations and financial condition.

We are exposed to natural disasters, such as earthquakes, volcanic eruptions, tornadoes, tropical storms and hurricanes. Heavy rains or abnormally low rainfall in Colombia and other countries in which we operate, attributable in part to the La Niña and El Niño weather patterns, have resulted in severe flooding, mudslides and prolonged droughts in the past. These are recurring weather phenomena that may occur on an equal or greater scale in the future. In addition to severe weather and natural disasters, acts of war or terrorism, rioting and other adverse external events could have a significant impact on our ability to conduct business and may, among other things, affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral of secured loans, cause significant property damage, cause us to incur additional expenses and/or result in loss of revenue. In the event of such circumstances, our disaster recovery plans may prove to be ineffective, which could have a material adverse effect on our ability to conduct our businesses, particularly if such an occurrence affects computer-based data processing, transmission, storage and retrieval systems or destroys customer or other data. In addition, if a significant number of our employees and senior managers were unavailable because of a natural disaster, our ability to conduct our businesses could be compromised. Natural disasters, acts of war or similar events could also result in substantial volatility in our results of operations for any fiscal quarter or year.

Our operations and results may be negatively impacted by public health threats such as the coronavirus outbreak or other pandemic diseases

Global and local health concerns, including the outbreak of pandemic or contagious disease, such as the recent coronavirus (COVID-19) outbreak, may disrupt economic activity and adversely affect us.

Since December 2019, novel COVID-19 began to spread in China and promptly expanded to Europe, the United States and more than 200 countries, including Colombia and other countries in which we operate. Such events are causing disruption of regional and global economic activity, which could affect our operations, financial results and the quality of our loan portfolio due to long periods of quarantines, unemployment, reduced household and corporate income, aggregate demand and limitations in the production and commerce of goods and services. The extent to which COVID-19 might affect our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 and the actions to contain it, among others.

To address the COVID-19 crisis and prevent its spread, the Colombian Government issued Decree 417 of 2020 by means of which the President of Colombia declared a State of Emergency for 30 calendar days. With the declaration of the State of Emergency the President was invested with the necessary powers to issue decrees with the force of law, in order to deal with the unforeseen circumstances generated by COVID-19.

Under the effects of Decree 417 of 2020, the Colombian President adopted several measures such as a 19-day nationwide quarantine, which was recently extended for 2 additional weeks and could be further extended, relief for certain annual corporate obligations, extension of tax-return due dates, suspension of international and local travel, guaranteed access to public utilities and loosened customs requirements for the import of medical supplies, among others.

In Central America, Governments have issued sanitary restrictions designed to reduce COVID-19 infections, such as preventive quarantines, suspension of on-site lectures, border restrictions, as well as the suspension of public events and the installment of mandatory social distancing regulations; with the exception of the Nicaraguan government, which has not taken more strict precautions and instead maintains basic epidemiological surveillance and basic hygiene controls. In the case of Costa Rica, Honduras, Panama and Guatemala, partial curfews have been established, to further restrict citizens' exposure to the virus, along with public and private vehicle circulation restriction policies.

Furthermore, Central American Governments (excluding Nicaragua) have adopted economic measures aimed at mitigating the negative effects of coronavirus in their local economy, including extension of the filing deadline for tax returns and payments, temporary suspension of bank loan payments, reduction and/or freezing of interest rates, without negative consequences on credit scores or payment records. Panama, Costa Rica and Guatemala have adopted additional measures such as providing economic aid to individuals directly affected by the economic crisis resulting from the spread of coronavirus in their countries. In addition, the Costa Rican Government (i) allowed private companies directly affected by COVID-19 to temporarily adjust their working hours schedule and reduce workers' salaries to avoid layoffs, and (ii) permitted, under certain circumstances, the early withdrawal from the Labor Capitalization Fund (part of unemployment benefits in Costa Rica) for workers who suffered job dismissals or a reduction to their working hours.

Prior to the quarantines, we adopted social distancing measures including flexible office schedules and shifts, cancellation of non-essential travel, limitation to the number of participants in meetings held at our offices and facilitation of virtual meetings. Additionally, we implemented communication strategies to keep our employees informed about COVID-19 and the importance of increasing cleaning and disinfection practices. Following the announcement of the quarantines, we implemented a work from home policy for all our employees, which included compliance with business continuity policies and specific information technology protocols. For this purpose, we designed protocols to ensure capacity, availability and security of VPN services, expanded bandwidth in our employees' homes, strengthened security of email services and remote access to data stored in the internal network, among others. Controls on data encryption of communications, critical files and devices, dual factor authentication, application virtualization, security operations center (SOC) detection reporting, and data loss prevention (DLP) monitoring were also reinforced. Additionally, we strengthened awareness campaigns intended to prevent smishing, phishing and vishing attacks on our employees and customers. We also introduced internal measures to guarantee the safety of our employees, customers and suppliers. Furthermore, we have adopted additional measures including virtual meetings of the Boards of Directors, the establishment of High-level Crisis Committees, and the reinforcement of cleaning and disinfection protocols in corporate buildings and branches, among others. Although we have implemented controls to address remote functioning of our operations, security and other operational risks may arise and consequently may have adverse effects on our results of operations. There is no guarantee that the measures enacted by us or the government restrictions described above will lessen the potential impact of Covid-19 on our business, financial condition or results of operations.

With respect to banking customers, our banking subsidiaries implemented relief policies which included payment extensions and the temporary elimination of charges for all digital transfers and call center transactions. Loan and deposits growth, 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 adversely affected by these relief policies and the relief measures, quarantines and restrictions implemented by governments in response to COVID-19, and consequently may have adverse effects on our overall business, financial condition and results of operations. COVID-19 developments remain unpredictable in the countries in which we operate, and future developments, including a prolonged slowdown of the economy in such countries, could heighten the impact of the other risks identified in "Item 3. Key Information—D. Risk factors".

See “Item 4. Information on the Company—B. Business overview—Supervision and regulation”, “Item 5. Operating and Financial Review and Prospects—D. Trend information”, “Item 11. Quantitative and Qualitative Disclosures About Risk” and “Note 35—Subsequent Events” of our audited consolidated financial statements for further information on credit risk management, relief measures available for customers, additional measures taken by Governments and central banks, and an overall analysis of the possible negative impacts of coronavirus on our business, financial condition and results of operations including the line items referenced above.

Risks related to global climate change and environmental requirements

Climate change initiatives, laws or regulations, seeking to protect and adapt the companies to the environment, could be applicable to us in a non-material way. However, even if the impacts of such dispositions are not related specifically to the core business of Grupo Aval, it could have an effect on some of our affiliates’ financing products. The occurrence of environmental changes in dry seasons, floods, droughts, and others climate variations or changes in the local environmental legislation, could result in decreases of business operations for some of our banking customers due to lower revenues and slower business production. Clients whose productivity and financial conditions could be affected by climate change policies could experience delays on repayment obligations to our banking subsidiaries or lower credit profiles susceptible to downturns in the economy. Moreover, some of our investments related to energy and gas, infrastructure, agribusiness and hotel industries are vulnerable to the environmental changes mentioned above.

Risks relating to our businesses and industry

Risks relating to our banking business

A deterioration in asset quality, including the loan portfolios of our banking subsidiaries, may have an adverse effect on our results of operations and financial condition.

Changes in the financial condition or credit profiles of customers of our banking subsidiaries and increases in inflation or interest rates and foreign exchange volatility could have a negative effect on the quality of our banks’ loan portfolios, potentially requiring them to increase impairment losses on loans and accounts receivable or resulting in reduced profitability. In particular, the percentage of past due or impaired loans may increase in the future as a result of factors beyond our control, such as economic conditions and political events affecting Colombia generally or specific sectors of the economy.

A substantial number of our banks’ customers are individuals and small and medium sized enterprises, or “SMEs”, and these customers are potentially more susceptible to downturns in the economy than large corporations and high-income individuals. For example, unemployment directly affects the ability of individuals to obtain and repay consumer and residential mortgage loans. Consequently, our banking subsidiaries may experience higher levels of past due or impaired loans, which could result in increased impairment losses on loans and other accounts receivable due to defaults by, or deterioration in the credit profiles of, individual borrowers. Past due or impaired loans and resulting impairment losses may increase materially in the future and adversely affect our results of operations and financial condition.

Existing loan loss allowances may not be adequate to cover any increases in past due or impaired loans or a deterioration in the credit quality of loan portfolios. As a result, our banking subsidiaries may be required to increase impairment losses on loans and accounts receivables, which may adversely affect our results of operations and financial condition. Our exposure is concentrated in certain economic sectors and large corporations that could also increase our impairment losses.

In addition, there is no precise method for predicting loan and credit losses, such that loss allowances may not be sufficient to cover actual losses. If we and our banking subsidiaries are unable to manage the level of past due or impaired loans, our results of operations and financial condition might be materially and adversely affected.

Default rates generally increase with the age of loans, the level of past due or impaired loans may lag behind the rate of growth in loans but may increase when growth slows or the loan portfolios become more mature. As a result, historic loan loss experience may not necessarily be indicative of future loan loss experience.

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Our banking subsidiaries may be unable to realize on collateral or guarantees of secured loans, which may adversely affect their results of operations and financial condition.

Our banking subsidiaries originate loans that are secured by collateral, including real estate and other assets that are generally located in Colombia and the countries where we operate. The value of collateral may significantly fluctuate or decline due to factors beyond the control of our subsidiaries, including, for example, prevailing economic and political conditions in the relevant jurisdiction. At December 31, 2019, 46.3% of consolidated loans past due more than 30 days were secured. An economic slowdown may lead to a downturn in the Colombian or Central American real estate markets, which may, in turn, result in declines in the value of real estate securing loans to levels below the principal balances of these loans. Any decline in the value of the collateral securing these loans or any other collateral securing these loans may result in reduced recoveries from collateral realization and have an adverse effect on our results of operations and financial condition. We may also not have sufficiently recent information on the value of collateral, which may result in an inaccurate assessment for loss allowance of our loans secured by such collateral. If this were to occur, we may need to incur additional impairments to cover actual losses of our loans, which may materially and adversely affect our results of operations and financial condition.

Our banking subsidiaries also make loans on the basis of guarantees from relatives, affiliates or associated persons of their principal borrowers. To the extent that guarantors encounter financial difficulties due to economic conditions, personal or business circumstances, or otherwise, the ability of our banks to enforce such guarantees may be impaired.

In addition, our banking subsidiaries may face difficulties in enforcing their rights as secured creditors against borrowers, collateral or guarantees. In particular, timing delays, documentary and procedural problems in realizing against collateral, as well as debtor-protective judicial interpretations of the law, may make it difficult to foreclose on collateral, realize against guarantees or enforce judgments in our favor, which could materially and adversely affect our results of operations and financial condition.

Colombian and Central American insolvency laws may limit the ability of our banking subsidiaries to collect on monetary obligations and enforce rights against collateral or under guarantees.

Insolvency laws in certain countries in which we operate provide that creditors of an insolvent debtor are prohibited from initiating collection proceedings outside the bankruptcy or reorganization process of such debtor. In addition, all collection proceedings outstanding at the beginning of the bankruptcy or reorganization process must be suspended and such creditors are prevented from enforcing their rights against the collateral and other assets of the insolvent debtor.

In some countries in which we operate once a non-merchant individual has ceased paying his or her debts, such individual can initiate a voluntary insolvency proceeding before a notary public or mediator to reach an out-of-court agreement with creditors. The terms of any agreement reached in accordance with the respective law and with a group (two or more) of creditors that represent the majority of the total amount of the claims will be mandatorily applicable to all relevant creditors. The insolvency law also provides other protections to debtors. A perception that loans to individuals may be difficult or impossible to recover could cause our banking subsidiaries to enhance credit requirements and result in decreased lending to individuals by making access to credit more expensive. In addition, increased difficulties in enforcing debt and other monetary obligations due to insolvency laws in countries in which we operate, could have an adverse effect on our results of operations and financial condition.

Any failure of risk management processes, including credit and market risk, could materially and adversely affect our banking businesses, results of operations and financial condition.

Credit risk is the principal risk inherent in the business of our banks. Although we have group-wide risk management guidelines, each bank is responsible for managing its own risk. Each bank's policies and procedures, which are designed to identify, monitor and manage risk, may prove to be insufficient. Furthermore, our banks may not be able to upgrade risk management systems on a timely basis. For example, our banks' risk management systems utilize an internal credit rating system to assess the risk profile of each customer. As this process involves detailed analyses of the customer's credit risk, taking into account quantitative and qualitative factors, it is necessarily subject to human error. Due to limitations in the availability of information, our assessment of credit risk associated with a particular customer may not be based on complete, accurate or reliable information. Personnel of our banking subsidiaries may fail to detect risks before they occur, or may not effectively implement their risk management systems, which may increase exposure to credit risk. As a result, any failure by our banking subsidiaries to effectively implement or consistently follow or refine risk management systems may result in higher risk exposures for our banking subsidiaries, which could materially and adversely affect our results of operations and financial condition.

Declines in the value of our banks' sovereign debt portfolios could have an adverse effect on our results of operations.

Our Colombian banks' securities portfolio primarily consists of debt securities issued or guaranteed by the Colombian government. LB Panamá's securities portfolios primarily consist of debt securities issued by corporate and sovereign issuers. We are exposed to significant credit, market and liquidity risks associated with debt securities. At December 31, 2019 and 2018, debt securities represented 10.5% and 9.9% of our consolidated total assets, respectively; 47.9% and 49.8% of gross debt securities were issued by the Colombian Central government, and 16.9% and 10.5% were issued or backed by Central American governments at the end of each period. A significant decline in the value of these government securities could materially and adversely affect our debt securities portfolio and, consequently, our financial condition and results of operations. See "Item 4. Information on the Company—B. Business overview—Supervision and regulation—Mandatory Investments".

We are subject to market risk in our banking business.

Our banking subsidiaries are directly and indirectly affected by changes in market conditions. Market risk, or the risk that the value of assets and liabilities or revenues will be adversely affected by variation in market conditions, is inherent in the products and instruments associated with our operations, including loans, deposits, securities, bonds, long-term debt, short-term borrowings, proprietary trading in assets and liabilities and derivatives. Changes in market conditions that may affect our financial situation and results of operations, including but not limited to fluctuations in interest and currency exchange rates, securities prices, changes in the implied volatility of interest rates and foreign exchange rates, among others.

We are subject to counterparty risk in our banking business.

Our banks and, to a lesser extent, Corficolombiana, Porvenir and our international banking operations, are exposed to counterparty risks in addition to credit risks associated with lending activities. Counterparty risk may arise from, for example, investing in securities of third parties, entering into derivative contracts under which counterparties have obligations to make payments to us, or executing securities, futures, currency or commodity trades from proprietary trading activities that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. These risks could materially and adversely affect our results of operations and financial condition.

Our banks are subject to market and operational risks associated with derivatives transactions.

Our banks and, to a lesser extent, Corficolombiana, Porvenir and our international banking operations, enter into derivatives transactions primarily for hedging purposes and, on a limited basis, on behalf of customers. Those transactions subject us to market and operational risks, including basis risk (the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost) and credit or default risk (the risk of insolvency or other inability of a counterparty to perform its obligations to us).

Market practices and documentation for derivatives transactions in Colombia and the countries where we operate may differ from those in other countries. For example, documentation may not incorporate terms and conditions of derivatives transactions as commonly understood in other countries. In addition, the execution and performance of these transactions depend on our banks' ability to develop adequate control and administration systems, and to hire and retain qualified personnel. Moreover, our banks' ability to monitor and analyze these transactions depends on their information technology (IT) systems. These factors may further increase risks associated with derivatives transactions and could materially and adversely affect our results of operations and financial condition.

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Our banking subsidiaries are subject to liquidity risk, which may result in increases in funding costs.

The principal sources of funding for our banking subsidiaries are savings deposits, time deposits and checking accounts, which together represented 71.3% and 71.2% of consolidated total liabilities at December 31, 2019 and 2018, respectively. Because our banking subsidiaries rely primarily on deposits for funding, a sudden or unexpected shortage of funds in the banking systems in which we operate and overnight money markets may prevent our banking subsidiaries from meeting their obligations or obtaining necessary funding without incurring higher costs or selling certain assets at prices below prevailing market values, which could materially and adversely affect our results of operations and financial condition. The liquidity of our financial entities could also be impacted by reputational events affecting our entities.

Default by one or more of our largest borrowers could adversely affect our results of operations and financial condition.

Our exposure is concentrated in certain economic sectors and large corporations that could increase our impairment losses. The aggregate gross balance of outstanding loans to our banks' ten largest single borrowers represented 3.1% of our consolidated total gross loan portfolio at December 31, 2019. Default on loans by one or more of these borrowers may adversely affect our results of operations and financial condition.

Among our largest impaired exposures, as of December 31, 2019, Concesionaria Ruta del Sol (Ps 762.0 billion) was provisioned at 100.0% and the *Sistema Integrado de Transporte Público (SITP)* companies, with a combined exposure representing Ps 414.6 billion, was provisioned at 25.4%. While we have undertaken negotiations with these SITP companies, there can be no assurance as to the timing or the terms of the final resolution of these matters, given the inherent uncertainties in such situations, we can provide no assurance that these matters will not be material to our business, financial position, results of operations or cash flows in the future. During the last quarter of 2019 we charged-off Electricaribe and one of the SITP companies (Tranzit S.A.) that were outstanding for Ps 804.3 billion and Ps 103.5 billion, respectively; both exposures were already impaired, since there were no expectations of recovery.

Downgrades in our long-term credit ratings or in the credit ratings of our banking subsidiaries would increase the cost of, or impair access to, funding and may impact our ability to maintain regulatory capital ratios.

Our credit ratings and those of our banking subsidiaries are an important component of our and their ability to obtain funding. Rating agencies regularly evaluate us, and their ratings of our debt are based on numerous dynamic, complex and inter-related factors and assumptions, including our financial strength, conditions affecting the overall financial services industry and the sovereign credit rating of Colombia and the jurisdictions we operate in.

Our banking subsidiaries may be required to raise additional capital in the future to maintain regulatory capital ratios and provide liquidity to meet commitments and business needs, particularly if asset quality or earnings were to deteriorate. For example, if regulatory capital ratios of a banking subsidiary decline as a result of decreases in the value of the loan portfolio or otherwise, such banking subsidiary will be required to improve its capital ratios by either raising additional capital or disposing of assets. Since February 6, 2019, we are subject to the inspection and surveillance of the Superintendency of Finance as the financial holding of the Aval Financial Conglomerate and we might be required in the future to raise additional capital to comply with new regulatory adequacy rules applicable to us at the conglomerate level. Furthermore, Decree 1477 of 2018 modified the capital adequacy requirements applicable to financing entities in Colombia. As a result, our banking subsidiaries will migrate to Basel III capital requirements in 2021. See "Item 4. Information on the Company—B. Business overview—Supervision and regulation". For a summary of our and our banking subsidiaries current credit ratings and outlook, see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and capital resources—Funding".

Adverse changes in credit ratings or outlooks could increase the cost of funding in the capital markets or borrowings, or reduce the feasibility of refinancing existing debt or issue new debt required to finance our future projects. In addition, lenders and counterparties in derivatives transactions are sensitive to the risk of a ratings or outlook downgrade. Our ability to raise deposits may also be impacted by a change in credit ratings or outlooks, which could make us less successful when competing for deposits.

Any occurrence that may limit our and our banking subsidiaries' access to funding, such as a downgrade in credit ratings or outlook, or a decline in the confidence of debt purchasers, depositors, or counterparties in the capital markets may adversely affect capital costs, ability to raise capital, and liquidity. Moreover, we and our banking subsidiaries may need to raise capital when many other financial institutions are also seeking to raise capital which, in turn, would require us to compete with numerous other institutions for investors. An inability to raise additional capital on acceptable terms, when needed, or a downgrade in our or our banking subsidiaries' credit ratings or outlook could have a materially adverse effect on our and our banking subsidiaries' financial conditions and results of operations.

Our banking subsidiaries' loan portfolios are subject to risk of prepayment, which may result in reinvestment of assets on less profitable terms.

The loan portfolios of our banking subsidiaries are subject to prepayment risk, which results from the ability of a borrower to pay a loan prior to maturity. Generally, in a declining interest rate environment, prepayment activity increases with the effect of reducing weighted average lives of interest-earning assets and adversely affecting results. Prepayment risk also has an adverse effect on credit card and collateralized mortgage obligations, since prepayments could shorten the weighted average life of these portfolios, which may result in a mismatch in funding or in reinvestment at lower yields.

The credit card industry is highly competitive and entails significant risks, including the possibility of over indebtedness of customers, which could have a material adverse effect on us.

The credit card business is subject to a number of risks and uncertainties, including the possibility of over indebtedness of our customers, despite our focus on low-risk, middle- and high-income customers.

The credit card industry is characterized by higher consumer default than other segments of the credit markets, and defaults are highly related to macroeconomic indicators that are beyond our control. Part of our current growth strategy is to increase volume and number of cards in the credit card portfolio, at the same or a higher rate than the market, which may increase our exposure to risk in our loan portfolio. If Colombian and Central American economic growth rate slows or turns negative, or if we fail to effectively analyze the creditworthiness of our customers (including the targeting of certain sectors), we may be faced with unexpected losses that could have an adverse effect on our results of operations and financial condition.

Changes in banking and financial services laws and regulations in Colombia and the other countries in which we operate could adversely affect our consolidated results.

Banking and financial services laws and regulations are subject to ongoing review and revision, including changes in response to global regulatory trends. As a result, governments have been actively considering new banking laws, regulations, reviewing and revising existing laws and regulations, particularly in relation to capital adequacy and accounting standards that may change the perceived strength on our banks, our credit ratings or our ability to grow or pay dividends. In addition, various international developments, such as the adoption of risk-based capital, leverage and liquidity standards by the Basel Committee on Banking Supervision in December 2010, known as "Basel III", will continue to impact us in the coming years. To prepare for the implementation of the Basel III accords in Colombia, the Ministry of Finance, in consultation with the Superintendency of Finance, effected an internal review of regulations applicable to financial institutions. Decree 2555 of 2010 was amended in 2012, 2015 and 2018, modifying certain capital adequacy requirements for Colombian credit institutions. See "Item 4. Information on the Company—B. Business overview—Supervision and regulation".

Moreover, Congress, through the enactment of Law No. 1735 of 2014, created a new type of financial institution with the sole purpose of offering electronic deposits and payments (*Sociedades Especializadas en Depósitos y Pagos Electrónicos* or "SEDPEs") in order to promote financial inclusion. Regulation of the operations of the SEDPEs as well as know-your-customer requirements, were included by the Colombian government in Decrees 1491 of 2015 and 2076 of 2017. SEDPEs' activities may create a new competitive environment that could adversely affect our consolidated results of operations.

On September 21, 2017, the Colombian Congress passed Law 1870 to strengthen the regulation and supervision of financial conglomerates, also known as Law of Financial Conglomerates (*Ley de Conglomerados Financieros*). This law sets out the principles for supervising and regulating financial conglomerates. The regulation establishes criteria for identifying members of the financial conglomerates, as well as their controlling financial holding companies, and provides the Colombian government and Superintendency of Finance with tools to regulate and supervise financial conglomerates with respect to capital adequacy, corporate governance standards, risk management, internal control and criteria for identifying, administering, monitoring and revealing conflicts of interest. Law 1870 also enables the Superintendency of Finance to require changes in the structure of a financial conglomerate when the existing structure does not allow sufficient disclosure of information or a comprehensive and consolidated supervision, to conduct on-site visits and withdrawal of operating licenses.

Law 1870 of 2017 came into effect on February 6, 2019. As a result, the Superintendency of Finance now exerts supervision over Grupo Aval as the financial holding company of the Aval Financial Conglomerate. The Ministry of Finance also enacted Decree 246 of February 2018, setting the criteria under which the superintendency may exclude from the scope of its supervision certain entities of investment vehicles of a financial conglomerate. Additionally, the Ministry of Finance enacted Decree 774 of May 2018, regarding capital adequacy of financial conglomerates allowing for an 18 month transition period, coming into effect on November 8, 2019 and Decree 1486 of August 2018 regarding the criteria for the identification of related companies, policies on conflicts of interest and limits of exposure and concentration of risks applicable to financial conglomerates, allowing for an 18 month transition period, coming into effect on February 6, 2020. We cannot assure that such Law and its regulatory decrees will not have a material adverse impact on us. See “Item 4. Information on the Company—B. Business overview—Supervision and regulation—Regulatory framework for Colombian Financial Conglomerates”.

On December 27, 2019, the Colombian Congress passed Law 2009 pursuant to which deposit taking entities, such as our banking subsidiaries, that charge management fees for savings accounts, debit cards and credit cards, must grant their clients access to a minimum package of services at no cost. We expect that the financial impact on our results driven by the implementation of this law will not be significant as some of the fees that will not be charged were already offered for free by our banks as part of their customer service and retention strategy.

Central America has also been impacted by regulatory changes regarding banking laws and regulations. In Honduras, although the National Commission of Banks and Insurances (NCBI) did not make any material regulatory change during 2019, it followed up on the reforms taken in 2017 and 2018 with respect to capital adequacy, capital conservation buffer and leverage ratio requirements applicable to Honduran financial institutions. The 2017 regulation required, among others, that in a given period (originally in a three-year-period but now extended to December 2022) financial institutions maintain a capital conservation buffer ratio (originally equivalent to 3.0% but now of 2.5%) above the minimum capital adequacy ratio of 10% or above the minimum capital adequacy ratio defined by the NCBI for a financial institution in an individual basis. Financial institutions are also required to maintain a minimum leverage ratio of 4%. Minimum leverage ratio is calculated by dividing the primary capital (as defined in those regulations) by the sum of the total assets and the unweighted contingent assets (net of impairment, depreciation, and amortization estimates). Financial institutions with a minimum leverage ratio below such limit are required to gradually adjust it within the timeframe stated in the regulation. Furthermore, the NCBI enacted Resolution No. 11-2019 in September 2019, which establishes certain guidelines to be observed by the Pension Funds in the management of its investments; in general, more secure processes and controls should be applied when managing these funds.

Costa Rica has also experienced changes regarding capital requirements. On May 8, 2019, the Central Bank of Costa Rica increased the minimum capital requirement for commercial private banks to 16,348 million Colones (Ps 93.8 billion or U.S.$28.6 million). The Superintendency of Securities also increased such requirement on May 5, 2019 for securities brokers and investment fund management companies to 203 million Colones (Ps 1,164 million or U.S.$355,318) and 139 million Colones (Ps 797 million or U.S.$243,296), respectively. Even though our subsidiaries were already in compliance, these recent changes evidence the growing focus of the Costa Rican authorities to regulate capital requirements. Furthermore, there is an initiative in Costa Rica to strengthen the regulation and supervision of financial groups. Among other changes, this initiative aims to give wider powers to the local regulator in order to broaden the supervision not only to Costa Rican financial entities but also to any company (regardless of its location) related to the local financial group. This may extend supervision to other group entities in Central America. In addition, as part of a legislative effort to narrow the current fiscal deficit the Costa Rican Congress passed in December 2018 Law No. 9635, which (among other things) created a value added tax (VAT) with the general rate remaining at 13%. This new tax, which has been effective since December 2018, has had adverse effects on the results of our operations in Costa Rica.

In Nicaragua, Presidential Decree No. 06-2019 was enacted in January, 2019 regarding some reforms to the Social Security Law. Through this decree, social security contributions of welfare programs were modified, contributions by each party (employee/employer) were revised and the amount of the maximum salary on which the contributions are calculated was eliminated, amongst other important changes. The Nicaraguan Congress also enacted Law 987 in February 2019, which is a tax reform in Nicaragua. This reform contains revisions to the definitive withholding tax on resident and non-resident taxpayers, tax exemptions, definitive minimum payment calculation, tax base and capital gains tax rate, along with other changes to specific industries. As a result of the ongoing sociopolitical situation in Nicaragua since April 2018, laws and regulations could quickly and adversely change. Nicaragua's assets represented 1.7% of our consolidated total assets as of December 31, 2019.

In El Salvador, in April 2019 an amendment to the Customer Protection Law was enacted by the Salvadorian Congress and, therefore, new rules for collection were established in order to avoid harassment by debt collectors; basically, there is a new schedule that financial entities must comply under penalty of being considered abusive and subject to liability. Our operations in El Salvador adjusted their collection policy in order to fit this new regulation, reducing the intensity and, therefore, the capacity and current levels of collection. In addition, the Government has presented through ABANSA (Salvadorian Bank Association) an initiative to modify the Bank Law; specifically, to regulate certain loan products, such as "Advance of Salary" or "ADS", which is a sort of quick loan secured by wages. Currently, this initiative is being discussed by the financial entities in ABANSA.

Except for the 2017 amendment to the Credit Card Act in Honduras, during recent years, legislators in Central America have attempted to enact regulation to impose maximum interest rates for certain types of loans or for the acquiring business. Although the scope of these legislative initiatives has varied, these initiatives have primarily focused on personal loans and, particularly, on credit card loans. In Costa Rica, for example, during 2018 and 2019 Congress has been discussing an initiative against usury (legislative bill number 20,172) that, if approved, will regulate the maximum rates that may be charged on loans.

In relation to credit card regulation in Central American countries, such as in Costa Rica, it continues to be a matter of discussion with ongoing initiatives intended to regulate the interest rate and other conditions related to the issuance of credit cards or the acquiring business. In Guatemala, although in March 2016 the Guatemalan Constitutional Court declared the unconstitutionality of Decree No. 7 passed by the Guatemalan Congress in 2015; a new proposal of the Credit Card Law has been raised during 2019. Even though this initiative (No. 5544) does not set a cap interest rate, such rate will be divided in two components: one is the fixed component, which would be freely agreed and cannot be modified unless in the benefit of the cardholder, and the variable component which may also be freely agreed but may be revised every six months. If the current proposal is approved, it will prohibit the capitalization of interest, and it will not be possible to calculate interests on commissions and other charges. Furthermore, a new proposal has been submitted in Panama in relation to credit cards. One of the objectives of such regulation is to reduce the debt level that Panamanian citizens currently have, by suppressing the collection of interest in relation to operations that are more than 90 days past due and authorizing Panamanian banks to enter into payment arrangements with such debtors. Nevertheless, the discussion has turned towards the imposition of a maximum interest rate. The enactment of any of these bills or similar regulations in the countries where we operate could have an adverse effect on the results of operations and financial condition in such jurisdictions.

The adoption of new laws or regulations, or changes in the interpretations or enforcement of existing laws or regulations may have an adverse effect on our results of operations and financial condition.

Our financial results may be negatively affected by changes to accounting standards.

We report our results and financial position in accordance with IFRS as issued by the IASB. Changes to IFRS or interpretations thereof may cause our future reported results and financial position to differ from current expectations, or historical results to differ from those previously reported due to the adoption of accounting standards on a retrospective basis. Such changes may also affect our regulatory capital and ratios. We monitor potential accounting changes and when

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possible, we determine their potential impact and disclose significant future changes in our audited consolidated financial statements that we expect as a result of those changes. Currently, there are a number of issued but not yet effective IFRS standards, as well as potential IFRS changes. For further information about developments in financial accounting and reporting standards, see Note 2 to our audited consolidated financial statements, "Note 2—Basis of Preparation of the audited consolidated financial statements and Summary of Significant Accounting Policies".

Regulatory actions may result in fines, penalties or restrictions that could materially and adversely affect our businesses and financial performance.

Our Colombian banks, as well as Corficolombiana, Porvenir and our international banking operations, are subject to regulation and supervision by financial authorities. These regulatory authorities have broad powers to adopt regulations and other requirements affecting or restricting virtually all aspects of our subsidiaries' organization and operations, including, for example, the imposition of anti-money laundering measures and the authority to regulate the terms and conditions of credit that can be applied by Colombian banks. Failure to comply with applicable regulations could subject our banking subsidiaries to fines or sanctions or even revocation of licenses or permits to operate. In the event that any of these subsidiaries encounter significant financial problems, is in danger of insolvency or becomes insolvent, or is otherwise deemed as non-viable, the financial authorities would have broad powers to intervene in our management and operations, including suspending or removing management and, in extreme circumstances, putting our banks, Corficolombiana, Porvenir and our international banking operations, into conservatorship or receivership or taking control of our banks, Corficolombiana, Porvenir and our other subsidiaries. Since February 6, 2019, Grupo Aval is subject to the inspection and supervision of the Superintendency of Finance as the financial holding of the Aval Financial Conglomerate and is required to comply with capital adequacy and additional regulations applicable to financial conglomerates that became effective on November 2019 and February 2020. As a result, we may become subject to more stringent regulation. See "Item 4. Information on the Company—B. Business overview—Supervision and regulation".

We may face legal and other challenges to maximizing revenue from credit card fees and other fees from customers.

As part of their credit card business, our banking subsidiaries face pressures related to the fees and commissions charged to merchants (merchant discounts) and the pricing of bank interchange fees charged by issuer banks to acquiring banks. Banks and card processors in Colombia have been subject to administrative investigations regarding the fees and commissions that are charged to the merchants by the acquiring banks and in respect to the banking interchange fees.

In the past, the Superintendency of Industry and Commerce (*Superintendencia de Industria y Comercio*) has conducted investigations on the practices of the *Asociación Gremial de Instituciones Financieras Credibanco* (the Visa franchisee in Colombia) and *Redeban Multicolor S.A.* (the MasterCard franchisee in Colombia), the entities used by most Colombian banks to manage the credit card system in Colombia, relating to alleged price fixing schemes among Colombian banks relating to fees and commissions charged to merchants. The Superintendency of Industry and Commerce has also conducted investigations into certain Colombian banks in the past, including our Colombian banking subsidiaries, for alleged price fixing of bank interchange fees charged during the period from May 2007 to October 2008.

Similar investigations may be carried out by the relevant authorities in the future, which may result in penalties, lower fees charged to merchants and bank interchange fees, lead to changes in commercial strategies that may adversely affect our results of operations and financial condition. In addition, fees charged for other banking services may continue to be reduced in the future as a result of regulatory measures and/or pressure from retailers and interest groups.

Failure to protect personal information could adversely affect our reputation and our business.

Our banks manage and hold confidential personal information of customers in the normal course of their banking operations. Although our banks have procedures and controls to safeguard personal information in our possession, unauthorized disclosures or unauthorized access to privileged information, fraud or events that interfere with regular banking and other services could subject our banks and us to legal actions, administrative sanctions and damages.

For example, although we work to develop secure data and information processing, storage and transmission capabilities to enhance information security, we face risks related to security breaches in connection with debit and credit card transactions that typically involve the transmission of personal information of our customers through various third parties, including retailers and payment processors. We and some of these parties have in the past been the target of security breaches and because the transactions involve third parties and environments, such as the point of sale that we do not control or secure, where we do not control the processing, storage or transmission of such information or the security protocols enacted by such third parties or in such environments, security breaches affecting any of these third parties could affect us through no fault of our own, and in some cases we may have exposure and suffer losses for breaches relating to them, including costs to replace compromised debit and credit cards and address fraudulent transactions.

Although we employ a variety of physical, procedural and technological safeguards to protect personal information from mishandling, misuse or loss, these safeguards do not provide absolute assurance that mishandling, misuse or loss of the information will not occur, and that if mishandling, misuse or loss of information does occur, those events will be promptly detected and addressed. It is not always possible to deter or prevent employee misconduct, and the precautions we take to detect and prevent this activity may not always be effective. Similarly, when personal information is collected, compiled, processed, transmitted or stored by third parties on our behalf, our policies and procedures require that the third party agrees to maintain the confidentiality of the information, establish and maintain policies and procedures designed to preserve the confidentiality of the information, and permit us to confirm the third party's compliance with the terms of the agreement. Any failure to protect personal information could result in reputational damage and have a material adverse effect on our results of operations and financial condition.

Risks relating to our merchant banking business

Difficult market conditions can adversely affect Corficolombiana's business.

Corficolombiana may be adversely affected by lower than expected returns on investments, reduced opportunities to realize value from investments, and failure to find suitable investments to deploy capital effectively. During periods of difficult market conditions (which may span across one or more industries, sectors or geographies), portfolio companies may experience adverse operating performance, decreased revenues, financial losses, difficulty in obtaining access to financing or increased funding costs. Negative financial performance of portfolio companies may materially and adversely affect Corficolombiana's results of operations and cash flow. If the operating performance of those portfolio companies (as well as valuation multiples) does not improve following any such downturn or other portfolio companies experience adverse operating performance, Corficolombiana may be forced to sell those assets at values that are less than projected or even at a loss. Portfolio companies may also have difficulties expanding their businesses and operations or meeting debt service and other obligations as they become due. Furthermore, negative market conditions could potentially result in a portfolio company entering bankruptcy proceedings, thereby potentially resulting in a complete loss of the investment. Even if such conditions improve broadly and significantly over the long term, adverse conditions and/or other events in particular sectors may cause our performance to suffer further.

Corficolombiana's due diligence process for evaluating prospective investments may not identify all risks or ensure investment returns.

Before making investments, Corficolombiana conducts due diligence based on the facts and circumstances applicable to each investment. When conducting due diligence, it may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process to varying degrees depending on the type of investment, but it may be unable to engage these third parties in a timely manner, or at all. Nevertheless, the due diligence investigation carried out by Corficolombiana with respect to any investment may not reveal or highlight all relevant risks of such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

A significant part of Corficolombiana's investments are in relatively illiquid assets, and Corficolombiana may fail to realize any profits from these investments for a considerable period of time or lose some or all of the principal amount of these investments.

As of December 31, 2019, 75.2% of Corficolombiana's investments were held in privately-held companies. There are often no readily ascertainable market prices for such securities or for those investments of Corficolombiana in listed companies with low or medium trading volumes. As a result, there may be limited or no marketability for these investments, and they may decline in value while Corficolombiana might be seeking to dispose of them. Because there is significant uncertainty as to the valuation of illiquid investments, the stated values of such investments may not necessarily reflect the values that could be realized by Corficolombiana. In addition, in some cases, Corficolombiana may be prevented by contract from selling such investments for a period. Corficolombiana's ability to dispose of investments may also be dependent on factors beyond its control. Thus, it is possible that investments in privately-held companies will only be disposed over a substantial length of time, if at all, exposing the investment returns to risks of declines in market prices during the intended disposition period. Accordingly, under certain conditions, Corficolombiana may be forced to either sell securities at lower prices than it had expected to realize or defer—potentially for a considerable period—sales that it had planned to make.

As mentioned above, Episol, a wholly-owned affiliate of Corficolombiana, is a minority (33%) non-controlling shareholder in *Concesionaria Ruta del Sol* and Odebrecht is the majority controlling and operating shareholder with a 62% interest. As of December 31, 2019, the investment of Episol in *Concesionaria Ruta del Sol* was fully impaired and carried at zero value.

Corficolombiana might have minority investments in companies and therefore, it might not control them.

Corficolombiana's investments include non-controlling equity interests, and it may also dispose of a portion of its majority equity securities in portfolio companies over time in a manner that results in Corficolombiana retaining minority investments. Those investments will be subject to the risk that the company in which the investment is made may take business, financial or management decisions with which we do not agree. Similarly, the majority stakeholders or the management of the company may take risks or otherwise act in a manner contrary to our interests. If any of the foregoing were to occur, the values of these investments could decrease or we may not be able to dispose of them, which would adversely affect Corficolombiana's results of operations and financial condition. Any wrongdoing by these companies or their management might result in reputational or legal risks to us.

Corficolombiana's new investment projects depend on its ability to access financing.

Corficolombiana may directly, or through its operating subsidiaries, enter into new investment projects such as infrastructure projects (e.g. toll road concessions) that require significant financing. Corficolombiana or its operating subsidiaries may experience difficulties in accessing debt and equity financing resources required to fund such projects and/or may obtain them at higher costs and/or lower tenors than initially expected. As a result, Corficolombiana's investment objectives may attain lower returns due to higher financing costs, delays in the investment schedule or any eventual stoppage of the investment project, which could also result in the payment of penalties to its counterparties, including the government entities in the case of development of new highways and toll roads. If Corficolombiana is unable to obtain adequate financing on terms satisfactory to it, its ability to continue to grow or support its business and respond to business challenges could be significantly limited.

Most of Corficolombiana's investments are concentrated in five industries.

The majority of Corficolombiana's investment portfolio is concentrated in the energy and gas, infrastructure, agribusiness, hotels and financial services. Energy and gas and infrastructure account for 89.1% of Corficolombiana's total investment portfolio as of December 31, 2019. During periods of difficult market conditions or slowdowns in these sectors, Corficolombiana may experience decreased revenues, difficulty in obtaining access to financing and increased funding costs.

A variety of issues outside of Corficolombiana's control could affect the timing and performance of its investments, which may result in additional costs and reputational harm to Corficolombiana, reductions or delays in revenues or the payment of liquidated damages.

Many of Corficolombiana's investments, including in the energy and gas and infrastructure sectors, involve challenging engineering, permitting, procurement and construction phases that may occur over extended periods, sometimes several years. These investments may also encounter difficulties as a result of delays in design, engineering information or materials to be completed or procured by them, the customer or a third party, delays or difficulties in equipment and material delivery, schedule changes, delays due to failure to timely obtain permits or rights of way or meet other regulatory requirements or permitting conditions accidents and catastrophic events, weather-related delays, protests, legal challenges or other political activity, and other factors. In the energy and gas sector, Corficolombiana, through Promigas, is exposed to a variety of inherent hazards and operating risks in gas distribution such as leaks, explosions and mechanical problems which could cause substantial financial losses.

If any of Corficolombiana's investments or projects fail to comply with the applicable professional standards or contractual requirements, Corficolombiana or its subsidiaries could be exposed to significant monetary damages or violations. A catastrophic event at one of the investments could also result in significant professional or product liability, and warranty or other claims as well as reputational harm, especially if public safety is impacted.

Many of these difficulties and delays are beyond Corficolombiana's control and could negatively impact its ability to achieve its anticipated return from its investments. Delays and additional costs may be substantial and not recoverable from third parties or insurance providers, and in some cases, may cause substantial financial losses. Failure to meet any of their schedules or performance obligations could also result in additional costs or penalties, including liquidated damages, and such amounts could exceed profits from these projects. In extreme cases, the abovementioned factors could cause project cancellations, and Corficolombiana may not be able to replace such projects with similar projects or at all. Such delays or cancellations may impact Corficolombiana's investments, its reputation or relationships with customers and could have a material adverse effect on Corficolombiana's business, results of operations or financial condition.

Risks relating to our pension and severance fund management business

Porvenir operates in a highly regulated market, which limits its flexibility to manage its businesses.

Porvenir's operations are regulated by Law 100 of 1993, as amended, the Organic Statute of the Financial System (*Estatuto Orgánico del Sistema Financiero*), or "EOSF", Decree 2555 of 2010 issued by the Ministry of Finance, as amended, and regulations issued by the Superintendency of Finance and, to the extent applicable, Colombian Corporation Law. These regulations limit the range of assets in which pension fund administrators, or "AFPs", can invest and also set investment limits, depending on the type of mandatory pension or severance fund managed by each AFP. AFPs can manage four types of mandatory pension funds (i) Lower Risk Fund ("*Fondo Conservador*"), (ii) Mid-Risk Fund ("*Fondo Moderado*"), (iii) High Risk Fund ("*Fondo de Mayor Riesgo*") and (iv) Planned Retirement Fund ("*Fondo Especial de Retiro Programado*"), and two types of severance portfolios (i) Short Term portfolio ("*Portafolio de Corto Plazo*") and (ii) Long Term portfolio ("*Portafolio de Largo Plazo*"). In addition, each AFP is legally required to provide a minimum return on investment for each mandatory of its pension and severance funds. This minimum return is determined pursuant to specified formulas established in Decree 2555 of 2010, as amended, which vary according to the type of fund. If a fund's return for any month is lower than the minimum return, the AFP must cover the difference within a period of five days. To do so, the AFP must first apply funds from a stabilization reserve (a portion of the AFP's capital invested in the fund equal to 1% of the value of each pension fund under management). If the stabilization reserve is insufficient to cover the difference, the AFP must provide resources from its own capital. If the AFP does not have enough resources to cover the difference, the Superintendency of Finance may order the capitalization of the AFP. If, notwithstanding the above, an AFP fails to observe either the minimum return or the stabilization reserve requirements or fails to comply with the order of capitalization, the Superintendency of Finance may take possession (*tomar posesión*) of the AFP, in which case the Colombian Deposit Insurance Fund (*Fondo de Garantías de Instituciones Financieras*), or "FOGAFIN", must supply funds to cover the shortfall. Although Porvenir has never failed to meet the minimum requirements, failure to do so could require us to increase our investment in Porvenir, seek capital from alternative sources or forfeit our investment, or lead to the dissolution of the AFP and the transfer of the fund to another AFP. If Porvenir is unable to fulfill the minimum return or the stabilization reserve requirements, or if new laws or decrees impose more onerous requirements, Porvenir's business may be materially adversely affected.

In 2009, the regulatory system began to shift the management of mandatory pension funds from a single-fund pension system to a multi-funds system, allowing pension funds to be more specifically tailored to the individual needs of customers according to their risk profiles. The Colombian government has for several years announced that it is considering presenting to the Colombian Congress a bill to amend current pension fund regulation to improve access to

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coverage, reduce inequality, and consolidate the financial sustainability of the system. As a result of the accession process of the Colombian government to become a member country of the Organization for Economic Co-operation and Development (OECD) further regulation amending the current pension fund regulation may be expected. The future regulation may not provide a favorable business environment and may adversely affect our results of operations and the financial condition of our pension and severance fund management business.

Furthermore, Porvenir manages voluntary pension funds (*fondos de pensiones de jubilación e invalidez*) created by Decree 2513 of 1987 as supplementary savings vehicles for pensions, which are independent and different from the mandatory pension funds and benefit from tax incentives. Subject to certain limits, savings in voluntary pension funds are considered as exempt income for purposes of the corporate income tax (*Impuesto de Renta*) under rules defined in article 1261-1 of the Tax Statute. These exemptions have been subject to modifications through tax reforms such as Law 1607 of 2012, Law 1819 of 2016, Law 1943 of 2018, also known as Ley de Financiamiento substantially replaced by Law 2010 of 2019, also known as Economic Growth Law. Changes in the applicable regulation to voluntary pension funds, in particular with respect to its tax benefits, could reduce the interest in this type of savings products and generate an adverse effect on the management fees received by Porvenir for the administration of these funds.

A significant amount of debt securities in pension and severance funds managed by our pension and severance fund businesses are issued or guaranteed by the Colombian government.

Our pension and severance fund management business, like our banks and other participants in the banking industry, is subject to the risk of loss in value of sovereign debt securities. A significant decline in the value of the securities issued or guaranteed by the Colombian government could adversely affect the debt securities portfolio of our pension and severance fund management business and, consequently, our pension and severance fund management business's results of operations and financial condition.

Other risks relating to our businesses

We are subject to fluctuations in interest rates and other market risks, which may materially and adversely affect our results of operations and financial condition.

Market risk refers to the probability of variations in income or in the market value of assets and liabilities due to changes in markets, including variations in market rates of interest and foreign currency exchange rates. Changes in interest rates affect the following areas, among others, of our banks' businesses: net interest income, the volume of loans originated, market value of securities holdings, asset quality, and gains from sales of loans and securities. We do not manage market risk on a group-wide basis and are not subject to regulation or supervision of market risk on a group-wide basis.

Changes in short-term interest rates may affect interest margins quickly and, therefore, net interest income, which is the most important component of our revenue. Increases in interest rates may reduce the volume of loans originated by our banking subsidiaries. Sustained high interest rates may discourage customers from borrowing and may result in increased delinquencies in outstanding loans and deterioration in the quality of assets. Increases in interest rates may reduce the value of our assets, including the financial assets of our banks, the investments of Corficolombiana and the assets managed by Porvenir. Our banking subsidiaries hold a substantial portfolio of loans and debt securities that have both fixed and floating interest rates. In addition, we may incur costs (which, in turn, will affect our results of operations) if our banking subsidiaries implement strategies to reduce future interest rate exposure. Increases in interest rates may reduce gains or require our banking subsidiaries to record losses on sales of their loans or securities.

We have regional exposure to fluctuations in interest rates. If there are significant increases in such rates in any of the countries in which BAC Credomatic operates, our operating margins may be adversely affected and our results of operations may experience significant adverse consequences.

We may not effectively manage risks associated with the replacement of benchmark indices.

Interest rate, equity, foreign exchange rate and other types of indices which are deemed to be "benchmarks," including those in widespread and long-standing use, have been the subject of ongoing international, national and other regulatory scrutiny and initiatives and proposals for reform. Some of these reforms are already effective while others are still to be implemented or are under consideration. These reforms may cause benchmarks to perform differently than in the past, or to disappear entirely, or have other consequences, which cannot be fully anticipated.

Any of the benchmark reforms which have been proposed or implemented, or the general increased regulatory scrutiny of benchmarks, could also increase the costs and risks of administering or otherwise participating in the setting of benchmarks and complying with regulations or requirements relating to benchmarks. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain benchmarks, trigger changes in the rules or methodologies used in certain benchmarks or lead to the disappearance of certain benchmarks.

Any of these developments, and any future initiatives to regulate, reform or change the administration of benchmarks, could result in adverse consequences to the return on, value of and market for loans, mortgages, securities, derivatives and other financial instruments whose returns are linked to any such benchmark, including those issued, funded or held by us or our banking subsidiaries.

Various regulators, industry bodies and other market participants in the U.S. and other countries are engaged in initiatives to develop, introduce and encourage the use of alternative rates to replace certain benchmarks. There is no assurance that these new rates will be accepted or widely used by market participants, or that the characteristics of any of these new rates will be similar to, or produce the economic equivalent of, the benchmarks that they seek to replace. If a particular benchmark were to be discontinued and an alternative rate has not been successfully introduced to replace that benchmark, this could result in widespread dislocation in the financial markets, engender volatility in the pricing of securities, derivatives and other instruments, and suppress capital markets activities, all of which could have adverse effects on our results of operations. In addition, the transition of a particular benchmark to a replacement rate could affect hedge accounting relationships between financial instruments linked to that benchmark and any related derivatives, which could adversely affect our results.

On July 27, 2017, the Chief Executive of the U.K. Financial Conduct Authority (the “FCA”), which regulates the London interbank offered rate (“LIBOR”), announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021. This announcement indicates that the continuation of LIBOR on the current basis cannot be guaranteed after 2021. Therefore, after 2021 LIBOR may cease to be calculated. The Bank of England and the FCA are working with market participants to catalyze a transition to using the Sterling Overnight Index Average (Sonia). In addition, the Alternative Reference Rates Committee, a group of private-market participants and official-sector entities convened by the Federal Reserve Board and the Federal Reserve Bank of New York, has recommended that the Secured Overnight Financing Rate (SOFR) replace U.S. dollar LIBOR. Many unresolved issues remain, such as the timing of the successor benchmarks introduction and the transition of a particular benchmark to a replacement rate, which could result in wide spread dislocation in the financial markets, engender volatility in the pricing of securities, derivatives and other instruments, and suppress capital markets activities. For example, SOFR and other alternate reference rates have compositions and characteristics that differ significantly from the benchmarks they may replace, have limited history, and may demonstrate less predictable performance over time than the benchmarks they replace.

These and other reforms may cause benchmarks to perform differently than in the past, or to disappear entirely, or have other consequences which cannot be fully anticipated which introduces a number of risks for Grupo Aval. These risks include (i) legal risks arising from potential changes required to documentation for new and existing transactions; (ii) risk management, financial and accounting risks arising from market risk models and from valuation, hedging, discontinuation and recognition of financial instruments linked to benchmark rates; (iii) business risk that the revenues of products linked to LIBOR (in particular those indices that will be replaced) decrease; (iv) pricing risks arising from how changes to benchmark indices could impact pricing mechanisms on some instruments; (v) operational risks arising from the potential requirement to adapt IT systems, trade reporting infrastructure and operational processes; (vi) conduct risks arising from the potential impact of communication with customers and engagement during the transition period, and (vii) litigation risks regarding our existing products and services, which could adversely impact our profitability. As of December 31, 2019, Grupo Aval had Ps 20,887.5 billion of assets and Ps 4,650.1 billion of liabilities that used LIBOR as a benchmark, as well as derivatives with such characteristics. While some of these outstanding LIBOR-based loans, borrowings and contracts include fallback provisions to alternative reference rates, most of our outstanding LIBOR-based products and

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contracts do not include fallback provisions or adequate fallback mechanisms and will require amendments to modify their terms. Additionally, most of our outstanding LIBOR-based loans, borrowings and contracts may be challenging to modify due to the requirement that all impacted parties consent to such modification. It is not currently possible to determine whether, or to what extent, any such changes would affect us. However, the implementation of alternative benchmark rates may have a material adverse effect on our business, results of operations, financial condition and prospects.

We may be adversely affected by fluctuations between the value of the Colombian peso or other local currencies where we operate, and the U.S. dollar as a result of U.S. dollar-denominated indebtedness and as a result of our Central American operations.

We face exposure to fluctuations in the rate of exchange between local currencies and the U.S. dollar, particularly given the fact that the currencies in countries where we and BAC Credomatic operate have historically experienced significant devaluations and depreciations. Fluctuations in the exchange rate between the value of the Colombian peso or other local currencies where we operate, and the U.S. dollar, may also negatively affect our leverage ratios as measured by regulators or by rating agencies. The types of instruments exposed to foreign exchange rate risk include, for example, investments in foreign subsidiaries, foreign currency-denominated loans and securities, foreign currency-denominated financial obligations and customer deposits, and various foreign exchange derivative instruments whose values fluctuate with changes in the level or volatility of currency exchange rates or foreign interest rates.

We are subject to impacts on our statement of income and/or statement of financial position derived from fluctuations of the Colombian peso, in particular, against the U.S. dollar, where most of our foreign long-term debt is denominated, and the Colombian peso, and between the U.S. dollar and each of the currencies in our Central American operations, as 40.2% of our average consolidated assets for the year ended December 31, 2019 and 43.9% of our average consolidated liabilities for the year ended December 31, 2019 are foreign currency-denominated.

On a consolidated basis we have U.S.$ 3.9 billion (Ps 12.7 trillion) of long-term debt denominated in U.S. dollars as of December 31, 2019. Our significant dollar-denominated investments in Central America can affect our business. Fluctuations in the exchange rate between the Colombian peso and the U.S. dollar may affect the value of these debt and investments on our statement of financial position and cause us to recognize gains or losses in our statement of income. Any substantial fluctuation in the U.S. dollar relative to the Colombian peso could affect our results of operations and our ability to meet our future payment obligations and increase or decrease the peso value of our risk-weighted assets and goodwill, thereby affecting capital ratios of our banking subsidiaries.

The exchange rate fluctuation between the Colombian peso and U.S. dollar also affects our results as the functional currency of LB Panamá, which consolidates BAC Credomatic, is the U.S. Dollar. See "Item 5. Operating and Financial Review and Prospects—A. Operating results—Results of Operations for the Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018—Banco de Bogotá" for a description of the effect of such fluctuation on LB Panamá's results.

A substantial portion of BAC Credomatic's earnings, assets and liabilities are in Costa Rican Colones, Guatemalan Quetzals, Honduran Lempiras, Nicaraguan Córdobas, Panamanian Balboas (1 Balboa is equivalent to 1 U.S. dollars) and U.S. dollars. As a result, our Central American operations are subject to risks relating to foreign currency exchange rate fluctuations between these currencies and pesos.

We are exposed to changes in the values of current holdings and future cash flows denominated in other currencies. The types of instruments exposed to foreign exchange rate risk include, for example, investments in foreign subsidiaries, foreign currency-denominated loans and securities, foreign currency-denominated debt and various foreign exchange derivative instruments whose values fluctuate with changes in the level or volatility of currency exchange rates or foreign interest rates. Hedging instruments used to mitigate this risk include currency swaps and deposits as of December 31, 2019.

Foreign exchange rate risks associated with U.S. dollar-denominated liabilities are hedged with the net investment that Grupo Aval maintains in BAC Credomatic through Banco de Bogotá. The difference between the U.S. dollar-denominated debt and the net investment in BAC Credomatic (including any goodwill associated with the acquisition) may result in a net U.S. dollar asset position which Grupo Aval, through Banco de Bogotá and LB Panamá may hedge with forward contracts. For more information see Note 9 to our audited consolidated financial statements. This strategy materially hedges our equity against fluctuations in the exchange rate between the value of the Colombian peso and the U.S. dollar, but may generate volatility in our leverage ratios as measured by regulators or by rating agencies.

In accordance with its market risk policies, BAC Credomatic maintains a U.S. dollar net asset position (long U.S. dollar position) which is intended to hedge its shareholders' equity against possible devaluations of each of the local currencies in the countries where it operates against the U.S. dollar.

We are subject to trading risks with respect to our trading activities.

Our banking subsidiaries, Corficolombiana, Porvenir and our other subsidiaries are allowed to engage in proprietary trading, and we might derive a portion of our profits from such trading activities. As a result, any reduction in trading income could adversely affect our results of operations and financial condition. Our trading income is volatile and dependent on numerous factors beyond our control, including, among others, market trading activity, interest rates, exchange rates and general market volatility. A significant decline in our trading income, or large trading losses, could adversely affect our results of operations and financial condition.

Declines in the market price for securities and expected losses could result in impairment losses as well as increased unrealized losses on other securities. Losses in the Colombian equity markets could result in further losses from impairment or sale of these securities as well as increases in unrealized losses. Any significant increases in exposure to any of these non-traditional risks, or a significant increase in credit risk or bankruptcy of any of the counterparties, could materially and adversely affect our results of operations and financial condition.

Colombian law and similar regulations in countries in which we operate, impose or might impose limitations on interest rates, and future additional restrictions on interest rates or banking fees could negatively affect our profitability.

The Colombian Commercial Code ("*Código de Comercio*") limits the amount of interest our Colombian subsidiaries may charge on commercial transactions, including transactions of our banking subsidiaries. In the future, regulations in Colombia or other countries in which we operate, could impose increased limitations regarding interest rates or banking fees. Law 1430 of December 2010, as amended, authorizes the Colombian government to impose or place limits on tariffs and fees charged by banks and other financial institutions where the government has determined that there is insufficient competition in a relevant market. Additionally, the law requires the Superintendency of Finance to implement a monitoring scheme of the tariffs and fees charged by the financial institutions in their relevant markets and to report the results of this evaluation semi-annually to the Colombian government. The Colombian government issued Decree 4809 of 2011 and Decree 1854 of 2015, which (i) require banks to provide each of their clients with statements of all fees charged to such clients on an annual basis, (ii) set a limit on the fees that banks may charge to their clients for withdrawals from automated teller machines of other banks and (iii) establish that transactions through the internet may not cost more than those made through other channels. Accordingly, the Superintendency of Finance has issued External Circular 012 of 2012, setting the rules and principles that must be followed by banking and financial institutions at the time of establishing, publishing and promoting their tariffs and fees. A significant portion of our banks' revenues and operating cash flow is generated by credit services and any such increased limitations would materially and adversely affect our results of operations and financial condition.

The Colombian Central Bank may impose requirements on the ability of Colombian residents, including us, to obtain loans denominated in foreign currency.

Under Colombian exchange control requirements, the Colombian Central Bank may impose certain mandatory deposit requirements in connection with foreign currency-denominated loans obtained by Colombian residents, including us. When the Colombian peso appreciated against foreign currencies in 2008, such mandatory deposit requirement was set at 40% of the amounts to be disbursed under any credit facility denominated in a foreign currency. Future measures or requirements imposed by the Colombian Central Bank, such as mandatory deposit requirements, may adversely affect our and our clients' ability to obtain loans in foreign currency.

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We might face uncertainty regarding consumer protection laws.

Law 1328 of 2009 as amended by Law 1748 of 2014, also referred to as the "Financial Reform Law", created a new customer protection regime with respect to financial institutions. The financial reform law provides a bill of rights for consumers of financial services and products, including the right to receive clear, complete and reliable information about the services and products offered by financial institutions. The law also contains specific obligations for financial institutions, including a duty to maintain a financial ombudsman in charge of consumer protection and procedures regulating the responsibilities and functions of the ombudsman, a duty to create a financial consumer attention center pursuant to terms set by the Superintendency of Finance, an obligation to provide services and products under the same conditions offered to the general public, and a prohibition on the inclusion of predatory or abusive clauses in contracts with consumers. Any violation of this law and its implementing regulations by our banking subsidiaries could result in monetary or administrative sanctions or restrictions on our operations.

Decree 4809 of 2011 regulates certain fees charged by Colombian financial institutions. The most salient of these regulations include a cap of 20 *Unidades de Valor Real* or "UVR" (an inflation indexed unit) for ATM fees charged to clients for transactions conducted through ATMs owned by a third party, the requirement that ATM fees be disclosed to clients with the possibility to opt out of the transaction before it takes place, and the prohibition of charging higher fees for internet transactions than for non-internet transactions as well as charging fees for failed internet transactions. These and similar restrictions could affect the profitability of our business by decreasing our fee income.

Law 1555 of 2012 allows consumers of financial services to prepay obligations denominated in pesos owed to financial institutions, without incurring any penalty. The law also requires that financial institutions disclose the possibility of such prepayment to borrowers prior to the extension of any loan. Although, this law does not apply to loans having a balance that exceeds 880 times the legal monthly minimum wages, nor to financial obligations acquired prior to its effective date (July 9, 2012), its application may substantially affect our banking business profits.

On July 7, 2016, the Colombian Congress enacted Law 1793 regarding costs charged to customers of financial entities and as a result customers are now able to use the total balance in their savings accounts and electronic deposits without having the obligation to preserve a minimum amount of deposits. Moreover, financial entities are prohibited from charging financial costs on savings accounts following 60 days of inactivity and have the obligation to recognize a minimum positive rate return in savings accounts.

On December 27, 2019, the Colombian Congress passed Law 2009 by means of which entities authorized to take deposits from the public and charging management fees for savings accounts, debit cards and credit cards, must grant their clients monthly access to a minimum package of services at no cost. We expect that the financial impact on our results driven by the implementation of this law will not be significant as some of the fees that will not be charged were already offered for free by our banks as part of their customer service and retention strategy.

Additionally, the Colombian Congress often discusses initiatives related to the rights of financial consumers. These initiatives cover various areas, including consumer data protection, financial costs, financial education and information delivered by financial institutions to customers.

Our businesses face constitutional actions, class actions and other legal actions involving claims for significant monetary awards against financial institutions, which may affect our businesses.

Under the Colombian Constitution and similar regulations in other countries in which we operate, individuals may initiate constitutional actions (*acciones populares*), or class actions (*acciones de grupo*), to protect their collective or class rights, respectively. Individuals may also initiate constitutional actions for the protection of their fundamental rights. These actions are known as "Tutelas". Colombian financial institutions, including our banking subsidiaries, Corficolombiana and Porvenir, and other of our businesses have been, and continue to be, subject to these actions with regard to fees, financial services, mortgage lending and interest rates, the outcomes of which are uncertain. In addition, the number of such actions could increase in the future and could significantly affect our businesses.

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Acquisitions and strategic partnerships may not perform in accordance with expectations, may fail to receive required regulatory approvals or may disrupt our operations and adversely affect our credit rating and profitability.

A component of our strategy is to identify and pursue growth-enhancing strategic opportunities. As part of that strategy, we have acquired interests in various financial institutions in recent years. We regularly evaluate strategic acquisitions and alliances, inside and outside of Colombia. Strategic acquisitions and alliances could expose us to risks with which we have limited or no experience, as in the case of any significant acquisition outside of Colombia. In addition, potential acquisitions in Colombia and elsewhere may be subject to regulatory approval. We may be unsuccessful in obtaining any such approval or we may not obtain approvals on terms that are acceptable for us particularly in view of our subsidiaries' and our combined significant market share in the Colombian banking industry.

We must necessarily base any assessment of potential acquisitions and alliances on assumptions with respect to operations, profitability and other matters that may subsequently prove to be incorrect. Future acquisitions and alliances, as well as other investments, may not produce anticipated synergies or perform in accordance with our expectations and could adversely affect our operations and profitability. In addition, new demands on our existing organization and personnel resulting from the integration of new acquisitions could disrupt our operations and adversely affect our operations and profitability.

We may not be able to manage our growth successfully.

We have been expanding the scope of our operations over the past few years and we expect that this expansion will continue. As we continue to grow, we must improve our operational, technical and managerial knowledge and compliance systems in order to effectively manage our operations across the expanded group. Failure to successfully integrate, monitor and manage expanded operations could have a material adverse effect on our reputation and financial results. Our future growth will also depend on our access to internal and external financing sources. We may be unable to access such financing on commercially acceptable terms or at all.

We are subject to operational risks.

Our business depends on the ability of our banking subsidiaries to process large numbers of transactions efficiently and accurately. Operational risks and losses can result from fraud, employee error, failure to properly document transactions or to obtain proper internal authorization, failure to comply with regulatory requirements, breaches of conduct of business rules, equipment failures, natural disasters or the failure of external systems, among others. Our, and our banking subsidiaries' currently adopted procedures may not be effective in controlling each of the operational risks faced by our banking subsidiaries.

Failure of our information systems could materially and adversely affect the effectiveness of our risk management and internal control processes as well as our results of operations and financial condition.

We and our subsidiaries are highly dependent on the ability to collect and process, on a timely basis, a large amount of financial and other information, and services and products, at a time when transaction processes have become more complex with increasing volumes. A partial or complete failure of any of these systems could materially and adversely affect our decision-making process, risk management and internal control systems as well as our ability to respond on a timely basis to changing market conditions.

In addition, Grupo Aval's and our subsidiaries' ability to remain competitive will depend in part on our ability to upgrade our IT infrastructure and implement digitalization of products and services on a timely and cost-effective basis. We and our subsidiaries must continually make significant investments and improvements in our and their IT infrastructure in order to ensure the proper functioning of financial control, accounting and other data collection and processing systems and to remain competitive. In addition, as our banking subsidiaries open new branches and channels, they will need to improve their IT infrastructure, including maintaining and upgrading their software and hardware systems and their back-office operations. If there are technological impediments, unforeseen complications, errors or breakdowns in implementing new systems, our business, financial condition or results of operations may be adversely affected.

We are subject to cybersecurity threats

We and our subsidiaries are highly dependent on information systems to process transactions, respond to customer queries in a timely manner, operate our technological infrastructure and maintain profitable operations across the jurisdictions in which we operate.

We and our subsidiaries dedicate significant resources to maintaining and regularly upgrading our systems to implement technology that protects our networks against cyber-attacks. For example, we have implemented risk analysis processes and controls and have developed specialized teams in care and response to incidents (Computer Security Incident Response Team - CSIRT) to handle incidents and emergencies. These teams work in a coordinated manner in the face of joint threats. Although we have experienced cyber-attacks in the past, such as malware and ransomware infections, which have required immediate attention from CSIRT and resulted in some temporary interruptions to non-operational areas, these attacks have not had a material impact on our business and, depending on their relevance, have been reported to the corresponding committees of Information Security and IT security, and to the executive levels and Board of Directors of Grupo Aval. There can be no assurance that any future cyber-attacks will not occur, or how frequent such attacks could occur and what effect such events or perceived events could have on our business.

Cybersecurity risks for financial institutions, such as ours, have increased significantly due to the proliferation of new technologies, the use of the Internet and automated processes, the diversification of channels to perform financial transactions, hand in hand with the development of new techniques of organized crime, hackers, hacktivists, terrorists and other external parties. In addition, we are introducing new products and services, such as our digital channels, that are changing processes, which may result in new operational risks that we may not fully appreciate or identify. As a result, we and our subsidiaries are susceptible to malware, ransomware, computer hackers, disgruntled employees and other causes that could affect the IT infrastructure that supports our service channels. In particular, specialized and highly coordinated attacks have proliferated in the financial sector, in Latin America particularly, over the last year.

We outsource certain services and, although we require that our service providers adhere to our security standards, we cannot assure you that any of our service providers will not experience cyber-attacks that would affect the provision of our services or interrupt our business. In the event of a breakdown or improper operation of our or a third party's systems or improper or unauthorized action by third parties or our employees, we could suffer financial loss, an impairment to our liquidity, a disruption of our businesses, regulatory sanctions or damage to our reputation. While many of our agreements with third party vendors include indemnification provisions, we may not be able to recover sufficiently, or at all, to adequately offset any losses. Furthermore, although we maintain insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses.

If one or more cyber-threats occur, it could result in a security impact on our systems and jeopardize our or subsidiaries customers', or counterparties' personal, confidential, proprietary or other information processed, stored in, and transmitted through our and our third-party providers' computer systems. Furthermore, such events could cause interruptions or malfunctions in our or our subsidiaries customers', counterparties' or third parties' operations, which could result in reputational damage with our or our subsidiaries customers', reduced demand for our services and products, additional costs to us (such as repairing systems, adding new personnel or technologies), regulatory investigations, litigation or enforcement, or regulatory fines or penalties, all or any of which could adversely affect our business, financial condition or results of operation.

Given the increasing sophistication of cyber-attacks, a cyber-attack could occur and persist for an extended period of time without detection. We expect that any investigation of a cyber-attack would be inherently unpredictable and that it would take time before such investigation is completed. During such time we would not necessarily know the extent of the harm or how best to remediate it, and certain errors or actions could be repeated or compounded before they are discovered and remediated, all or any of which would further increase the costs and consequences of a cyber-attack.

More generally, publicized information concerning security and cyber-related problems could inhibit the use or growth of electronic or web-based applications or solutions as means of conducting commercial transactions. Such publicity may also cause damage to our reputation. As a result of any of the above, our business, financial condition or results of operations, and reputation could be adversely affected.

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Our policies and procedures may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose us to fines and other liabilities.

We and our subsidiaries are required to comply with applicable anti-money laundering laws, anti-terrorism financing laws, anti-bribery and other regulations. These laws and regulations require us, among other things, to adopt and enforce "know your customer" policies and procedures, and to report suspicious or large transactions to the applicable regulatory authorities. While we and our financial institutions have adopted policies and procedures aimed at detecting and preventing the use of banking networks for money laundering activities and by terrorists and terrorist-related organizations and individuals generally, such policies and procedures may not completely eliminate instances where they may be used by other parties to engage in money laundering and other illegal or improper activities. If we or any of our subsidiaries, joint ventures or other affiliates fail to fully comply with applicable laws and regulations, the relevant government authorities to which they report have the power and authority to impose fines and other penalties. In addition, our businesses and reputation could suffer if customers use our financial institutions for money laundering or illegal or improper purposes.

Competition and consolidation in the Colombian and Central American banking and financial industry could adversely affect our market position.

We operate in a competitive market. Since the 1990s, when the Colombian financial system was deregulated, there has been an ongoing process of consolidation that has included foreign bank participants entering the Colombian market. We expect that consolidation will lead to the creation of larger local financial institutions, including additional foreign banks, presenting the risk that we could lose a portion of our market share in the industry, adversely affecting our results of operations.

Various banking institutions, which have recently been incorporated in Colombia, target the microcredit and small and medium enterprises segments. Local subsidiaries of international financial institutions have entered the market targeting corporate clients. The businesses of these new credit institutions may affect our market position in the individual, small and medium enterprises and our merchant banking operation. To a lesser extent, we also face competition from non-bank competitors, such as brokerage companies, department stores (for some credit products), cooperatives, leasing and factoring companies, mutual fund and pension fund management companies and insurance companies.

In addition, the pace of consolidation in the Colombian and Central American financial services industry has increased, which may also increase competition in the markets where we operate. See "Item 4. Information on the Company—B. Business overview—Competition".

Furthermore, our banking subsidiaries may face challenges as new competitors enter the market or existing competitors may adjust their services with unique product or service offerings or approaches to providing banking services. New entrants could take advantage of regulatory arbitrage to compete with substantially lower cost structures. Non-traditional providers of banking services, such as internet based e-commerce providers, mobile telephone companies, internet search engines and crowd-funding websites may offer and/or increase their offerings of financial products and services directly to customers. Several of these competitors may have long operating histories, large customer bases, strong brand recognition and significant financial, marketing and other resources. Technological advances and heightened e-commerce activities have increased consumers' access to products and services, which has in turn intensified competition among banks and nonbanks in offering loans. Existing competitors and market entrants may adopt more aggressive pricing and rates and devote more resources to technology, infrastructure and marketing. If we are unable to successfully compete with current and new competitors, or if we are unable to anticipate and adapt our offerings to changing banking industry trends, including innovation, digitalization and technological changes, our business may be adversely affected.

Our ability to maintain our competitive position depends mainly on our ability to anticipate and fulfill the needs of new and current customers through the development of innovative services and products, and our ability to offer adequate services and strengthen our customer base through cross-selling. Our failure to effectively anticipate or adapt to emerging technologies or changes in customer behavior, including among younger customers, could delay or prevent our access to new digital-based markets which would in turn have an adverse effect on our competitive position and business.

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Our efforts to offer new services and products may not succeed if product or market opportunities develop more slowly than expected or if the profitability of these opportunities is undermined by competitive pressures. As we expand the range of our products and services, some of which may be at an early stage of development in the Colombian and Central American market, we will be exposed to new and potentially increasingly complex risks and development expenses. Our employees and our risk management systems may not be adequate to handle such risks. In addition, the cost of developing products that are not launched is likely to affect our results of operations. Any or all these factors, individually or collectively, could have a material adverse effect on us.

We depend on our senior management and our Board of Directors, and the loss of their services could have an adverse effect on our business.

We are highly dependent on our senior management teams and Board of Directors at both the group and subsidiary levels, all of whom possess considerable experience and expertise and have strong relationships with customers, participants of the Colombian business.

The loss of the services of any of these members of our, or our subsidiaries', senior management and members of the Board of Directors, could have an adverse effect on our business. Accordingly, our success is dependent on appropriately managing the risks related to executing a succession plan for senior management and members of the Board of Directors on a timely basis.

We are subject to reputational risk, and our reputation is closely tied to that of our controlling shareholder, our senior management and members of the Board of Directors, and that of our subsidiaries.

Damage to our reputation may limit our ability to attract customers, employees and investors. Harm to our reputation can arise from employee or former employee misconduct, legal and regulatory non-compliance, ethical issues, allegations of money laundering, and failing to deliver minimum standards of service and quality, among others. In particular, our success has been attributable, in part, to the high esteem in which our controlling shareholder Mr. Sarmiento Angulo, our president, Mr. Sarmiento Gutiérrez, some of our senior management and our subsidiaries' senior management, ex-senior management and members of the Board of Directors are held in Colombia. Reputation plays an integral role in our business operations, which are based on customer confidence and trust. If the public image or reputation of any of the foregoing is damaged as a result of negative publicity or otherwise, business relationships with customers of the entire group may deteriorate, which would adversely affect our results of operations and financial condition. Any perceived or real difficulties experienced by any one of our subsidiaries would harm the reputation of Grupo Aval as a whole, which would also have an adverse effect on our results of operations and financial condition.

We are controlled by Mr. Sarmiento Angulo, whose interests could differ from the interests of other common, preferred shareholders and ADS holders.

Mr. Sarmiento Angulo beneficially owns 97.5% of our common shares outstanding and 42.7% of our preferred shares outstanding, as of April 17, 2020, and, accordingly, controls our group. See "Item 7. Major Shareholders and Related Party Transactions—A. Major shareholders". The preferred shares do not have any voting rights and thus will not affect such control of our group. Mr. Sarmiento Angulo will continue to have the right to control decisions, regardless of how our minority shareholders may vote on these issues and regardless of the interests of such shareholders, including holders of ADSs and underlying preferred shares. In addition to Mr. Sarmiento Angulo's beneficial ownership through Grupo Aval, as of April 17, 2020, he beneficially owns 8.3% of Banco de Bogotá, 13.3% of Banco de Occidente, 15.5% of Banco AV Villas, 0.8% of Banco Popular and 11.0% of Corficolombiana.

Circumstances may occur in which Mr. Sarmiento Angulo may have an interest in pursuing transactions that, in his judgment, enhance the value of his several investments in the financial sector. These transactions may not necessarily be in Grupo Aval's interest or that of its shareholders even if holders of the ADSs or the underlying preferred shares disagree. Due to his control, Mr. Sarmiento Angulo has, and will have, the power to:

- elect a majority of our directors and appoint our executive officers, set our management policies and exercise overall control over our company and subsidiaries;

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- agree to sell or otherwise transfer his controlling stake in our company; and
- determine the outcome of substantially all actions requiring shareholder approval, including transactions with related parties, corporate reorganizations, acquisitions and dispositions of assets, and dividends.

In addition, the concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our shareholders of an opportunity to receive a premium for the ADSs or underlying preferred shares as part of a sale of our company and might ultimately affect the market price of the ADSs and the underlying preferred shares.

We may engage in additional transactions with our controlling shareholder in the future.

In the future we may engage, as we have done in the past, in business and financial transactions with our controlling shareholder and other shareholders that may present potential conflicts of interest between our company and these shareholders. For example, we may incur indebtedness, or acquire shares in Banco de Bogotá, Banco de Occidente, Banco Popular, Banco AV Villas and Corficolombiana from entities that are beneficially owned by Mr. Sarmiento Angulo. While we believe that these transactions will be carried out on an arm's-length basis, commercial and financial transactions between us and our controlling shareholder could create the potential for, or could result in, conflicts of interests between us and our other shareholders. To the extent that the price we pay for any assets acquired from our controlling shareholder exceeds the market value of such assets or is not as productive a use of our cash as other uses, our results of operations and financial condition could be adversely affected.

Certain risks relating to our Central American operations

We may be unsuccessful in addressing the challenges and risks presented by our operations in countries outside Colombia.

We conduct banking businesses outside our historical home market of Colombia primarily through BAC Credomatic. Our Central American operations may involve risks to which we have not previously been exposed. Some of these operations are in countries that may present different or greater risks than those in Colombia. For example, BAC Credomatic has a significant consumer finance business, including credit card operations, in the Central American countries in which it operates. At December 31, 2019, BAC Credomatic's consumer loan portfolio (including mortgages, vehicles and other personal loans) totaled U.S.$6.3 billion (Ps 20.8 trillion) which represented 37.8% of BAC Credomatic's gross loan portfolio, and U.S.$ 3.2 billion (Ps 10.6 trillion) in credit card loans, which represented 19.2% of BAC Credomatic's gross loan portfolio. We may face delays in payments by customers and higher delinquency rates in these countries, which could necessitate higher impairments for loan losses and, consequently, have a negative effect on our financial performance.

We depend on BAC Credomatic's current senior management, and the loss of their services could have a material adverse effect on BAC Credomatic's business.

We have retained most of the senior management of BAC Credomatic, who have worked on average over 18 years at BAC Credomatic. The loss of services of any of BAC Credomatic's senior officers could have an adverse effect on BAC Credomatic's business.

Changes in credit card regulations may adversely affect BAC Credomatic's business.

The credit card business is an important business segment for BAC Credomatic, representing 19.2% and 18.3% of its gross loan portfolio for December 31, 2019 and 2018, respectively. The adoption of new laws and regulations or the revision of the current regulatory regime for credit cards in any of the jurisdictions in which BAC Credomatic operates may have an adverse effect on BAC Credomatic's results of operations and financial condition.

BAC Credomatic and our Central American operations are subject to significant compliance risks in connection with a multi-jurisdictional regulatory regime.

BAC Credomatic's businesses are subject to regulation under Costa Rican, Guatemalan, Honduran, Nicaraguan, Panamanian, Salvadoran, Grand Cayman, British Virgin Islands, Bahamian and U.S. federal, state and other foreign laws, regulations and policies. BAC Credomatic thus is subject to a multi-jurisdictional regulatory regime. In addition, any changes to the regulatory regime of one of the Central American countries may lead to corresponding changes to the regulatory regime of other countries in the region. BAC Credomatic's businesses are regularly reviewed or investigated by regulators, which could lead to enforcement actions, fines and penalties or the assertion of private litigation claims and damages.

Regulation of financial institutions varies across the different Central American jurisdictions in which we operate. These differences are particularly pronounced in the assessment of credit risk and investments. These asymmetries may affect the expected results of our operations in each jurisdiction, and as a consequence could adversely affect our consolidated results of operations in Central America.

Risks relating to our preferred shares and ADSs

Exchange rate volatility may adversely affect the Colombian economy, the market price of the ADSs and the dividends payable to holders of the ADSs.

Pursuant to Colombian law, the Colombian Central Bank has the power to intervene in the exchange market in order to consolidate or dispose of international reserves, as well as to control any volatility in the exchange rate, acting through a variety of mechanisms, including discretionary ones. During recent years, the Colombian Central Bank has employed a floating exchange rate system with periodic interventions. From time to time, there have been significant fluctuations in the exchange rate between the Colombian peso and the U.S. dollar. For example, the peso depreciated 0.8% against the U.S. dollar in 2019, depreciated 8.9% in 2018, appreciated 0.6% in 2017, appreciated 4.7% in 2016 and depreciated 31.6% in 2015. Unforeseen events in international markets, fluctuations in interest rates, changes in capital flows, political developments or inflation rates may cause exchange rate instability that could, in turn, depress the value of the Colombian peso, thereby decreasing the U.S. dollar value of the dividends paid to holders of the ADSs.

Restrictions on purchasing our preferred shares may affect the market liquidity of our preferred shares and ADSs.

Under Colombian securities regulations, as a general rule, any transaction involving the sale of publicly traded shares of any Colombian company, including any sale of our preferred shares for the equivalent of 66,000 Unidades de Valor Real or "UVRs" (approximately U.S.$5,452.0), or more, must be effected through the Colombian Stock Exchange. UVR is a Colombian inflation-adjusted monetary index calculated by the board of directors of the Colombian Central Bank and generally used for pricing home-mortgage loans (one UVR = Ps 270.7 (U.S.$0.08) and 66,000 UVRs = Ps 17,867,071.2 at December 31, 2019). Any transfer of preferred shares underlying the ADSs may be required to be sold through the Colombian Stock Exchange, which could limit their liquidity or affect their market price.

The relative illiquidity of the Colombian securities markets may impair the ability of preferred shareholders and holders of ADSs to sell preferred shares underlying the ADSs.

Our preferred shares are listed on the Colombian Stock Exchange, which is relatively small and illiquid compared to securities exchanges in major financial centers. In addition, a small number of issuers represent a disproportionately large percentage of the market capitalization and trading volume on the Colombian Stock Exchange. A liquid trading market for the preferred shares or ADSs may not develop on the Colombian Stock Exchange or New York Stock Exchange, respectively. A limited trading market could impair the ability of a holder of preferred shares or ADSs to sell preferred shares (in the case of an ADS holder, obtained upon withdrawal of such shares from the ADR facility) on the Colombian Stock Exchange in the amount and at the price and time desired by such holder, and could increase the volatility of the market price of the preferred shares and the ADSs.

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An active market for our preferred shares and the ADSs may not continue to develop or be maintained and the market price of our preferred shares and the ADSs may fluctuate in response to numerous factors.

The market price of our ADSs and preferred shares may fluctuate significantly in response to numerous factors, many of which are beyond our control, including actual or anticipated fluctuations in our operating results, economic downturns, political events in Colombia, Central America or other jurisdictions where we operate, developments affecting the banking industry, exchange rates, changes in financial estimates by securities analysts or our failure to perform in line with such estimates, departures of key personnel, and sales of our preferred shares in the future, including by our banking subsidiaries who may have to sell our preferred shares obtained from investors who entered into loans with them to acquire our preferred shares in our offering of preferred shares in 2011, or the "Preferred Shares Local Offering". Furthermore, common shares may be converted into preferred shares on a 1-1 basis provided that our preferred shares do not exceed 50% of our total subscribed share capital. Preferred shares are available for deposit into the ADS Program.

Our banking subsidiaries extended credit through loans to finance the acquisition of preferred shares in the Preferred Shares Local Offering of which, six loans, representing Ps 84.6 billion (U.S.$25.8 million), remained outstanding on December 31, 2019. The final loan will mature in 2021. Depending on the characteristics of the borrower, our banking subsidiaries may have required collateral, which may have included a pledge of the preferred shares that were subject to the financing. Such a pledge would permit our banking subsidiaries through a court procedure to seek the sale of the preferred shares if the borrower defaults. Our banking subsidiaries had, on an aggregate basis, pledges over 65,095,523 preferred shares (0.9% of our total preferred shares) related to loans made to third parties at December 31, 2019. All the loans are full-recourse loans. Under the terms of the pledges, each borrower is limited from selling the pledged shares until the loan is repaid. Under Colombian law, our banking subsidiaries must seek to sell any repossessed shares as banks are not permitted to hold shares issued by their parent. If changes in general economic conditions or other factors cause these borrowers to default on their loans, our subsidiaries will have to sell our preferred shares into the market, or alternatively, upon repayment of the loans, these borrowers will not be restricted from selling such shares in the market. As a result, the market price of our preferred shares and ADSs may decline.

Holders of ADSs and underlying preferred shares may face difficulties in protecting their interests because we are subject to different corporate rules and regulations than those available in other jurisdictions, and our preferred shareholders have limited rights.

Holders of ADSs are not direct shareholders of our company and are unable to enforce the rights of shareholders under our by-laws and Colombian law. Under Colombian law, holders of our preferred shares may have fewer rights than shareholders of a corporation incorporated in the United States. Even if a holder of ADSs surrenders its ADSs and becomes a direct shareholder, a holder of our preferred shares under Colombian law may have fewer alternatives to protect its interests relative to actions by our board of directors or executive officers, and these alternatives may be less well-defined than under the laws of those other jurisdictions.

The Colombian securities markets are not as highly regulated or supervised as the U.S. securities markets or the markets in some other jurisdictions. In addition, rules and policies against self-dealing or for preserving shareholder interests may be less well-defined and enforced in Colombia than in the United States and certain other countries, which may put holders of our preferred shares and the ADSs at a potential disadvantage. Corporate disclosures also may be less complete or informative than for a public company in the United States or in certain other countries.

Our by-laws contain an arbitration clause that provides for the exclusive jurisdiction of an arbitral tribunal to be seated at the Bogotá Chamber of Commerce. The arbitration provision provides that any conflict arising among shareholders, or between shareholders and Grupo Aval, in connection with the by-laws must be resolved by an arbitral tribunal. In addition, holders of the ADSs and our preferred shares are not entitled to vote for the election of directors or to influence our management policies. Under our by-laws and Colombian law, holders of preferred shares (and, consequently, holders of ADSs) have no voting rights in respect of preferred shares, other than in limited circumstances.

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Our ability to pay dividends on the ADSs or underlying preferred shares may be limited by Colombian law and because we are a holding company dependent on dividends from subsidiaries.

Under Colombian law, a company may only distribute dividends to the extent such distribution is fully supported by accurate financial statements demonstrating the financial condition of the company. Any dividends distributed in violation of this provision may not be reclaimed from shareholders who received such payments in good faith, and any subsequent distribution of profits may be suspended. In addition, dividends may not be distributed until losses from previous fiscal years have been absorbed. Dividends must be approved at the ordinary annual shareholders' meeting.

Our ability to pay dividends on the preferred shares represented by ADSs will be contingent upon the financial condition of our subsidiaries. Any of our banking subsidiaries may be restricted from paying dividends to us if such subsidiary does not meet its required technical capital ratios or does not have sufficient retained earnings. In addition, we conduct substantially all of our operations through subsidiaries and are dependent on dividends from our subsidiaries to meet our obligations.

Holders of ADSs may encounter difficulties in the exercise of dividend rights and in the limited voting rights of our preferred shares.

Holders of ADSs may encounter difficulties in exercising rights with respect to the preferred shares underlying ADSs. If we make a distribution to holders of underlying shares in the form of securities or rights to acquire securities, the depositary is allowed, in its discretion, to sell those securities or rights on behalf of ADS holders and instead distribute the net proceeds to the ADS holders. Also, under some circumstances, you may not be able to exercise your limited voting rights by giving instructions to the depositary.

Our status as a foreign private issuer allows us to follow alternate standards to the corporate governance standards of the NYSE, which may limit the protections afforded to investors.

We are a "foreign private issuer" within the meaning of the NYSE corporate governance standards. Under the NYSE rules, a foreign private issuer may elect to comply with the practices of its home country and not to comply with certain corporate governance requirements applicable to U.S. companies with securities listed on the NYSE. We currently follow Colombian practices concerning corporate governance and intend to continue to do so. Accordingly, you will not have the same protections afforded to shareholders of companies that are subject to all NYSE corporate governance requirements. For example, Colombian law requires that at least 25% of our board of directors consist of "independent" directors within the meaning of Colombian law, whereas NYSE rules generally require that a majority of a domestic U.S. company's board consist of "independent" directors within the meaning of NYSE rules. In addition, NYSE rules require non-executive directors of domestic U.S. listed companies to meet on a regular basis without management being present. There is no similar requirement under Colombian law, and our non-executive directors do not meet formally without management present. See "Item 6. Directors, Senior Management and Employees—C. Board practices—Principal differences between Colombian and U.S. corporate governance practices".

Preemptive rights may not be available to holders of preferred shares or ADSs.

Colombian law and our by-laws require that, whenever we issue new common shares, we must offer the holders of common shares the right to subscribe a number of shares of such class sufficient to maintain their existing percentage ownership of our aggregate share capital. On the other hand, holders of preferred shares, including holders of ADSs, are entitled to preemptive rights only when so declared at a meeting of holders of our common shares. Our common shareholders may decide not to provide for such preemptive rights. Also, U.S. holders of ADSs may not be able to exercise their preemptive rights through JPMorgan Chase Bank, N.A., which acts as ADR depositary for our ADR facility, unless a registration statement under the Securities Act is effective with respect to such rights or an exemption from the registration requirement thereunder is available. Although we are not obligated to do so, we or our shareholders, as applicable, could consider at the time of any preemptive rights offering the costs and potential liabilities associated with any such registration statement, the benefits to us from enabling the holders of the ADSs to exercise those rights and any other factors deemed appropriate at the time, and will then make a decision as to whether to file a registration statement. Accordingly, we might decide not to file a registration statement in some cases.

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If holders of ADSs are unable to exercise these rights because a registration statement has not been filed and no exemption from the registration requirement under the Securities Act is available, the ADR depositary may attempt to sell the holders' preemptive rights and distribute the net proceeds from that sale, if any, to such holders, provided that, the meeting of holders of our common shares decides that holders of preferred shares are entitled to preemptive rights. The ADR depositary, after consultation with us, will have discretion as to the procedure for making preemptive rights available to the holders of ADSs, disposing of such rights and making any proceeds available to such holders. If by the terms of any preemptive rights offering or for any other reason the ADR depositary is unable or chooses not to make those rights available to any holder of ADSs, and if it is unable or for any reason chooses not to sell those rights, the depositary may allow the rights to lapse.

Whenever the rights are sold by the ADR depositary or such rights lapse, or if the common shareholders' meeting does not grant preemptive rights to the holders of preferred shares, the equity interests of the holders of ADSs will be proportionately diluted.

Our ability to make payments on the ADSs may be adversely affected if we become unable to convert Colombian pesos to U.S. dollars or to transfer U.S. dollars abroad.

The Colombian government does not currently restrict the ability of Colombian persons or entities to convert Colombian pesos to U.S. dollars. However, the government may impose foreign exchange controls on dividend payments and remittances of interest and principal if the foreign currency reserves of the Central Bank fall below a level equal to the value of three months of imports into Colombia. Colombian law also allows the imposition of a deposit requirement with the Central Bank in connection with any foreign exchange transaction that may increase the cost of foreign exchange transactions or limit the amount of such transactions for a particular time. No such foreign exchange controls are currently applicable. Nevertheless, such restrictions may be imposed in the future, and any such restrictions could prevent, restrict or increase the price of our access to U.S. dollars, which we need to pay our foreign currency-denominated obligations.

We are traded on more than one market and this may result in price variations; in addition, investors may not be able to easily move shares for trading between such markets.

Trading in our ADSs on the NYSE or preferred shares on the Colombian Stock Exchange take place in different currencies (U.S. dollars on the NYSE and pesos on the Colombian Stock Exchange), and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Colombia). The trading prices of our shares on these two markets may differ due to these and other factors. Any decrease in the price of our preferred shares on the Colombian Stock Exchange could cause a decrease in the trading price of our ADSs on the NYSE. Investors could seek to sell or buy our shares to take advantage of any price differences between the markets through a practice referred to as arbitrage. Any arbitrage activity could create unexpected volatility in both our share prices on one exchange, and the shares available for trading on the other exchange. In addition, holders of ADSs will not be immediately able to surrender their ADSs and withdraw the underlying preferred shares for trading on the other market without effecting necessary procedures with the depositary. This could result in time delays and additional cost for holders of ADSs.

If holders of ADSs surrender their ADSs and withdraw preferred shares, they may face adverse Colombian tax consequences.

Although Colombian tax law does not specifically refer to the tax consequences applicable to an ADS holder withdrawing the underlying preferred shares, we believe, based on the advice of our Colombian counsel, that such a transaction should not result in a taxable event under Colombian law in the case of non-resident entities and non-resident individuals given the nature of the transaction. Nevertheless, this issue is not free from doubt, and the Colombian tax authorities may have a different interpretation of the law, or the law may change, and the Colombian tax authorities may assess taxes on the conversion of ADSs into preferred shares based upon the difference between the market value of the preferred shares and the adjusted tax basis of the ADSs. Furthermore, an investor who surrenders ADSs and withdraws preferred shares will be subject to income taxes on any gain associated with the sale of such preferred shares if such sale exceeds 10% of the issued and outstanding shares of the listed company during a taxable year.

Banking regulations, accounting standards and corporate disclosure applicable to us differ from those in the United States and other countries.

Colombian banking regulations may differ in material respects from regulations applicable to banks in other countries, including those in the United States. For example, in Colombia, we are not subject to regulations applicable to financial institutions, although our banking subsidiaries, Corficolombiana, Porvenir and certain of our other subsidiaries are subject to such regulations. As of February 6, 2019, Grupo Aval is subject to supervision as the financial holding company of the Aval Financial Conglomerate. In addition, capital adequacy requirements for banks and financial conglomerates under Colombian regulations differ from those under U.S. regulations and may differ from those of other countries.

Colombia and other countries in which we operate have different corporate disclosure and accounting standards for our industry than those applicable in the United States. Financial reporting disclosure requirements in the jurisdictions in which we operate differ in certain significant respects from those required in the United States. There are also material differences between IFRS (as issued by the IASB) and Colombian IFRS. Accordingly, our separate financial statements may not be the same as the information available to holders of shares issued by a U.S. company. Furthermore, since January 1, 2015, we began preparing our financial statements in accordance with IFRS as issued by the IASB and, as a result, some of our financial data may not be easily comparable from period to period.

Judgments of Colombian courts with respect to our preferred shares will be payable only in pesos.

If proceedings are brought in Colombian courts seeking to enforce the rights of holders of our preferred shares, we will not be required to discharge our obligations in a currency other than Colombian pesos. Under Colombian law, an obligation in Colombia to pay amounts denominated in a currency other than Colombian pesos may only be satisfied in Colombian currency at the exchange rate, as determined by the Colombian Central Bank and published by the Superintendency of Finance, also known as *Tasa Representativa del Mercado*, in effect on the date the judgment is obtained, and such amounts are then adjusted to reflect exchange rate variations through the effective payment date. The then-prevailing exchange rate may not afford non-Colombian investors with full compensation for any claim arising out of or related to our obligations under the preferred shares, or indirectly, the ADSs.

U.S. investors in our preferred shares or the ADSs may find it difficult or impossible to enforce service of process and enforcement of judgments against us and our officers and directors.

We are incorporated under the laws of Colombia, and all of our subsidiaries are incorporated in jurisdictions outside the United States. In addition, our executive offices are located outside of the United States. All of our directors and officers reside outside of the United States, and all or a substantial portion of our assets and the assets of most of our officers and directors are, and will most likely continue to be, located outside of the United States. As a result, it may be difficult or impossible for U.S. investors to serve legal process within the United States upon us or any of these persons or to enforce a judgment against us for civil liabilities in U.S. courts. In addition, you should not assume that courts in the countries where we or our subsidiaries are incorporated or where our or our subsidiaries' assets are located (i) would enforce judgments of U.S. courts obtained in actions against us or our subsidiaries based upon the civil liability provisions of applicable U.S. federal and state securities laws or (ii) would enforce, in original actions, liabilities against us or our subsidiaries based on those laws.

There is also substantial doubt that the courts of Colombia would enter judgment in original actions brought in those courts predicated on U.S. federal or state securities laws. We have been advised by our Colombian counsel that there is no legal basis for original actions to be brought against us or our directors and executive officers in a Colombian court predicated solely upon the provisions of the U.S. federal or state securities laws. In addition, certain remedies available under provisions of the U.S. securities laws may not be admitted or enforced by Colombian courts.

Grupo Aval's by-laws contain an arbitration provision that provides for the exclusive jurisdiction of an arbitral tribunal to be seated at the Bogotá Chamber of Commerce. The arbitration provision provides that any conflict arising among shareholders, or between shareholders and Grupo Aval, in connection with the by-laws must be resolved by the arbitral tribunal. See "Item 4. Information on the Company—B. Business overview—Service of Process and Enforcement of Judgments".

ITEM 4. INFORMATION ON THE COMPANY

A. History and development of the company

Our company

We are Colombia's largest banking group based on total assets and we are also the largest banking group in Central America based on total assets as of December 31, 2019. We provide a comprehensive range of financial services and products from traditional banking services, such as making loans and taking deposits, to pension and severance fund management.

As of December 31, 2019, 70.3% of our assets are recorded in our Colombian entities, and 29.7% in our Central American operations (through LB Panamá who consolidates BAC Credomatic's operations). In terms of businesses, 87.3% of our total assets were consolidated assets from our banking subsidiaries, 11.4% were consolidated assets from Corficolombiana, and 1.3% were on-balance sheet consolidated assets of our pension fund manager, Porvenir. On a consolidated basis, Grupo Aval manages Ps 278.8 trillion of on-balance sheet assets, and Ps 259.9 trillion of off-balance sheet assets (assets under management).

The SEC maintains an internet website that contains reports, proxy, information statements and other information about issuers, like us, that file electronically with the SEC. The address of that website is www.sec.gov. The Company's website address is www.grupoaval.com. The information contained on, or that can be accessed through, the Company's website is not part of, and is not incorporated into, this Annual Report.

Colombian operations

Our operations in Colombia mainly consist of four commercial banks (Banco de Bogotá, Banco de Occidente, Banco Popular and Banco AV Villas), the largest merchant bank (Corficolombiana) measured by assets and the largest private pension and severance fund manager (Porvenir) measured by AUMs and customers. Through our subsidiaries, we have trust, portfolio management and bonded warehouse services. Our *Red Aval* (Grupo Aval network) is one of the largest networks of ATMs and branches in Colombia and has been a key element of our competitive positioning in the Colombian market. Customers of any of our banks may access Grupo Aval's other bank branches to carry out basic banking transactions throughout our *Red Aval* (Grupo Aval network).

Under our multi-brand strategy, each of our banks focuses on particular types of customers, geographic regions and products. Our banks are encouraged to compete among themselves and with other market participants, while operating within central strategic guidelines established by our management. We believe that this strategy has contributed to our strong financial performance and allowed us to provide an integrated service network to our customers. Underlying Grupo Aval's competitive strengths are group-level policies focused on comprehensive brand management, strategic planning, general procurement, risk management, convergence of technologies and cost controls that we believe promote best practices, realization of synergies and efficiency across our subsidiaries.

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The following table shows ROAA, ROAE, efficiency ratio and Colombian market share information of our Colombian banking subsidiaries, our aggregate operation and our principal competitors in accordance with Colombian IFRS on a separate basis.

	At and for the Year ended December 31, 2019							
	Grupo Aval entities							
	Banco de Bogotá	Banco de Occidente	Banco Popular	Banco AV Villas	Grupo Aval Aggregate (1)	Bancolombia	Davivienda	BBVA Colombia
	(in percentages)							
ROAA(2)	2.8	1.2	1.3	1.3	2.1	2.0	1.4	1.2
ROAE(3)	13.9	10.6	12.3	12.4	13.1	13.8	12.2	16.3
Efficiency ratio(4)	37.7	53.8	62.4	58.9	46.7	45.3	42.1	45.1
Market share in Colombia:								
Net income	24.1	4.2	3.0	1.7	33.0	30.6	12.0	6.7
Deposits	13.6	5.9	4.1	2.9	26.4	24.8	13.7	11.2
Gross loans	12.2	6.0	4.2	2.5	24.9	26.0	15.9	10.4
Assets	14.6	5.7	3.7	2.2	26.2	25.2	14.1	9.7
Branches	11.6	3.8	3.6	5.4	24.5	12.5	9.7	8.4
ATMs	10.9	2.0	4.9	3.6	21.4	30.8	13.2	8.2

Source: Calculations for ROAA, ROAE and efficiency ratio are based on each entity's respective separate financial statements in accordance with Colombian IFRS that are publicly available on the Superintendency of Finance website. Colombian market share information is based on separate data filed with the Superintendency of Finance, except for figures relating to branches and ATMs from Grupo Aval entities, which are derived from Grupo Aval data. Colombian market share data for Grupo Aval Aggregate is based on aggregate figures. For market share information on each of our banking subsidiaries, see "—B. Business overview—Our operations".

(1) Ratios and market share data reflect aggregated separate data of Banco de Bogotá, Banco de Occidente, Banco Popular and Banco AV Villas.

(2) ROAA is calculated as net income divided by the 13-month average of month-end total assets.

(3) ROAE is calculated as net income divided by the 13-month average of month-end total equity.

(4) Throughout this section, efficiency ratios are calculated as total expenses, divided by total income before net impairment losses on financial assets (including net interest income, net income from commissions and fees, net trading income and other income).

Central American operations

Through our BAC Credomatic operations, we are the largest banking group in Central America based on consolidated assets. We have a leading Central American presence with operations that are complementary to our Colombian businesses and a leading position in the consumer and credit card banking businesses in the region.

We have operations in six Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panamá). We are the leading credit card issuer and merchant-acquiring franchise in Central America, according to internal benchmarks. At December 31, 2019, BAC Credomatic's credit card portfolio totaled U.S.$ 3.2 billion (Ps 10.6 trillion), which represents a 9.1% increase from U.S.$ 3.0 billion (Ps 9.7 trillion) at December 31, 2018. At December 31, 2019, 84.5% of BAC Credomatic's credit card portfolio was distributed across Costa Rica, Honduras, Guatemala and Panamá. The remaining 15.5% was distributed among El Salvador and Nicaragua.

Through a network of 762 branches, 2,136 ATMs and 8,860 other points of service at December 31, 2019, BAC Credomatic has more than 3.8 million customers and serves a region with a total population of approximately 49.7 million at December 31, 2019. Our Central American operations represented 29.7% of our consolidated total assets at December 31, 2019. For the years ended December 31, 2019, 2018 and 2017, the efficiency ratio for BAC Credomatic was 56.2%, 54.5% and 55.7%, respectively.

We continue working to improve our performance in Central America and continue to improve BAC Credomatic's efficiency and profitability ratios. The efficiency ratio of our consolidated Colombian operations was 43.3% for the year ended December 31, 2019, while the efficiency for our consolidated Central American operations was 56.3% for the same period. We also believe we can continue leveraging Grupo Aval's expertise to increase BAC Credomatic's share in corporate lending within Central America.

The following table shows the market shares of our Central American operations and that of our principal competitors in Central America.

	At December 31, 2019				
	BAC Credomatic	Bancolombia Central America	Banco General	Banco Industrial	Banco Promerica
	(in percentages)				
Central American market share:					
Loans, net	10.3	9.3	7.6	6.0	4.0
Assets	9.4	8.0	7.4	7.0	3.7
Deposits	9.7	8.1	7.0	6.5	3.8
Liabilities	9.2	8.0	7.2	7.2	3.8
Total equity	11.0	7.9	8.8	5.9	3.1
Net income	13.7	7.4	17.1	9.2	2.7

Source: Calculated based on consolidated data aggregated from the local superintendencies of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panamá. Loans, net exclude Interbank and overnight funds.

Our business strengths

We believe that we have achieved our leading positions in the Colombian and Central American financial services industry through the following competitive strengths.

Strong track record of growth and resilient profitability

We believe that our leading position in the Colombian market, cross-bank synergies, economies of scale, low-cost funding and operating efficiencies have helped us achieve stable profits. Despite declines, such as the one experienced in 2017 mainly due to the economic cycle in Colombia, the resilience of our returns, both on our separate and consolidated financial statements results from the diversified loan portfolio provided by our multi-brand banking subsidiaries, a competitive and more stable cost of funding structure and solid coverage ratios of our past due loans. Our consolidated total assets have grown at a compounded annual growth rate[1] (CAGR) of 6.5% from December 31, 2015 to December 31, 2019. During the same period, our consolidated total liabilities have grown at a CAGR of 6.1% and our total equity has grown at a CAGR of 9.8%. We have historically accomplished our growth through both organic expansion (growing with the market, increasing the number of clients, deepening our share of any client's exposure to the financial system and improving cross-selling) and strategic acquisitions.

Leading banking operations in Colombia and Central America

We are the largest participant in the Colombian banking market with a market share of 26.2% of total assets and second largest market share of gross loans, 24.9%, at December 31, 2019. As of the same date we also have the largest market share of deposits, 26.4%. Our *Red Aval* (Grupo Aval network) has been a key element of our competitive positioning in the Colombian market. At December 31, 2019, our ATMs and branches represented 21.4% and 24.5% of total ATMs and branches in Colombia, respectively.

Through our digitalization strategy we have and will continue to take advantage of new technologies that improve our existing customers' experience through new digital products and services, that enable us to serve previously unserved or underserved segments and reach new markets. In addition, the implementation of these new digital technologies allows us to serve these products and segments in new markets in a significantly more efficient way. The strengthening of our digital channels, the optimization of the *Red Aval* (Grupo Aval network) footprint and the implementation of business analytic cases have been fundamental to this process.

In Central America, BAC Credomatic is the leading financial group as measured by several metrics (as detailed at the beginning of Item 4), and with a record of strong financial performance. Its ROAE was 14.1% for the year ended December 31, 2019 and 15.2% for the year ended December 31, 2018. BAC Credomatic is a full-service financial institution with one of the leading card-issuing and acquiring businesses in the region. Its Credomatic brand has key alliances with major credit card networks, such as Visa, MasterCard, American Express and Diners Club, and has the only network in the region that processes all major credit card brands. BAC Credomatic's market share in terms of net loans varies in the different countries as follows, as of December 31, 2019: 15.3% in Costa Rica, 14.3% in El Salvador, 12.1% in Guatemala, 14.6% in Honduras, 24.0% in Nicaragua and 5.6% in Panamá.

Diversified and competitive sources of funding

We have access to diverse sources of funding, including deposits and debt securities issued in Colombia and in the international capital and credit markets, which results in a competitive cost of funding for our operations, among the lowest between our main competitors. At December 31, 2019, our market share of total customer deposits in Colombia was 26.4%, supported by a 37.5% market share in checking accounts and a 25.7% market share in savings accounts. Our consolidated deposits represented 76.2% of our total funding both at December 31, 2019 and December 31, 2018, which provides us with a stable and low cost funding base. Furthermore, the ratio of deposits to total loans, net, which was 100.9% as of December 31, 2019 and 97.4% as of December 31, 2018, is among the best of our peers. We believe that this funding base supports our initiatives to expand our businesses.

Sound credit risk management

In accordance with Colombian IFRS, Grupo Aval's aggregate ratio of loans past due more than 30 days over gross loans was 3.9% at December 31, 2019, low relative to our principal competitors on a separate basis. Each of our banking subsidiaries has a comprehensive credit risk management system, which enables them to identify risks and resolve potential problems on a timely basis. In addition, we have established upward loan reporting processes, and our risk management staff meets on a weekly basis to discuss the loan portfolio, risks, opportunities and developments in the industry.

Solid capital positions

Each of our banks is well-capitalized above the minimum capital adequacy mandatory ratios as calculated under Colombian capital adequacy regulations. We expect that our banks will also exceed minimum capital requirements when we migrate to post-crisis Basel III standards in 2021.

Multi-brand business model

Our differentiated multi-brand business model builds on the individual strengths of our banking subsidiaries and the market-wide recognition of their brands. Each of our banks has developed a focus on particular and, to a degree, overlapping market sectors, geographic regions, services and products. We believe that this specialization has contributed to the individual success of our banks and the diversity of Grupo Aval as a whole. Our banking subsidiaries in Colombia operate as four independent banks that are encouraged to compete among themselves and with other market participants, while operating within central guidelines established by us in the areas of internal control, credit risk management, brand management, strategic planning, general procurement and information technology.

[1] Calculated as the division of a value at the end of any given period by the value at the beginning of any previous period. The result is raised to an exponent of one divided by the number of periods between the two points in time. Finally, one (1) is subtracted from the subsequent result.

These guidelines, together with group support services, are designed to allow each bank to achieve economies of scale and benefit from cross-bank synergies and group-wide best practices without inhibiting individual competition and the decision-making abilities of each bank's management. We may, in the future, consider merging one or more of our subsidiaries in our group or additional business we may acquire if meaningful improvements in efficiencies, revenue or other benefits could be achieved.

Focus on group-wide best practices

We apply group-wide best practices and corporate policies and procedures to all of our operating subsidiaries. These practices are designed to encourage a consistent approach with respect to effective risk management, efficient use of capital, cost control, brand management, general procurement and integration of information technology. We believe that these practices have helped us and will continue to help us achieve economies of scale and synergies to optimize operating and administrative costs. For the year ended December 31, 2019, we had a consolidated efficiency ratio of 47.6%, and our banking subsidiaries had consolidated efficiency ratios ranging from 49.6% (Banco de Occidente) to 62.8% (Banco Popular).

Experienced management teams

Our qualified and experienced management teams, both at Grupo Aval and at its operating subsidiary levels, have played a key role in guiding our growth. Our chairman, Mr. Sarmiento Angulo, has over 65 years of business experience, including over 45 years in the banking and related financial services industry. Our president, Mr. Luis Carlos Sarmiento Gutiérrez, has over 20 years of experience in the banking and related financial services industry and over 30 years of business experience as an executive in Colombia and the United States. Our and each of our operating subsidiaries' management teams are dedicated to formulating and executing business strategies through a culture of excellence, innovation and cooperation, which has served as our guiding vision throughout the various acquisitions and initiatives undertaken by Grupo Aval.

Our strategy

We pursue profitable and sustainable growth based on five pillars:

(i) ***Risk management***

Risk management is at the core of the banking business. We seek to excel in understanding, managing and pricing the financial risks that we assume as part of our activity. In addition, we strictly manage non-financial risks that our business is exposed to in order to ensure the sustainability of our business.

Through our risk management teams at the corporate level and in our subsidiaries, we seek to ensure that the financial risks we assume are within our risk appetite and are correctly priced to generate long term value for our stakeholders. We constantly monitor changes in the environment in order to reassess our risk position and anticipate their impact on our business.

We have implemented strict risk underwriting standards and a rigorous pricing discipline, seeking long-term value generation. Banks use funds transfer pricing (FTP) curves that allow them to isolate the risks managed by the asset liability management (ALM) units from the business units, as the base of a disciplined pricing system for the intermediation activity.

(ii) ***Innovation and Digitalization***

Grupo Aval works to identify and capture synergies between our banking subsidiaries. In order to contribute to this objective, in 2018 we launched a consolidated effort to lead the digital transformation, aligning our banking subsidiaries with a shared vision for a digital future. Our Colombian banking subsidiaries have joint efforts aligning our digital strategy with their individual capacities, with the aim of digitalizing their products, channels and processes in order to achieve operational efficiency and create more innovative products and services. In Central America, we have advanced along the same lines and consolidated a Digital Experience Lab in Costa Rica. This lab is responsible for all development needs for the six Central American banks regarding innovations in BAC Credomatic's website, online and mobile banking, and their payments platform.

Our digital strategy considers 3 dimensions:

- **Digitalize existing products and processes.** We intend to be more efficient, provide a better service and improve customer journeys. We believe our industry is changing through efforts like ours. Accomplishing this objective will become a bank's "ticket to play" in the future. We are therefore currently focusing most of our digitalization effort on this first dimension. So far, this strategy has allowed Grupo Aval to expand its portfolio to 22 digitized products for its banking subsidiaries, facilitating the creation of over 529.7 thousand digital customer deposits, 403.9 thousand digital sales of loans and other services and the approval of 7.1 thousand mortgages, as of December 31, 2019. Additionally, we consolidate our data strategy capabilities by implementing a data platform that was successfully tested and incorporated into 31 use cases, and supported on advanced analytics models to address specific business opportunities, such as churn rate and propensity models for both retail and commercial banking.

- **Develop new digital business models**. The creation of new products and services, such as dale! a 100% digital platform, which we launched in February 2020 should enable us to serve new segments and markets not previously served, mainly due to customer acquisition costs (CAC). These innovative platforms are expected to reach new clients that are not well served by traditional banking models, such as younger generations more inclined to maintain exclusively digital relations, and non-profitable clients who have not been sought out by banks due to their low return and high CAC.

- **Generate or participate in "digital ecosystems"**. Accomplishing this objective entails offering our digital financial products and services in a complimentary manner and in a way that generates added value to ecosystems through which other non-banking products and services are offered.

(iii) ***Efficiencies and economies of scale***

We pursue opportunities to create synergies among our subsidiaries and leverage our combined strength. We intend to benefit from our combined scale, while retaining the agility and the resilience of a diversified group of entities. In addition, we seek to benefit throughout the Group from innovation originated in any one of our entities. We focus work on group-wide projects, such as digital banking and business process digitization, analytics, information technology, network integration (such as Red Aval) and procurement of goods and services, among others. These efforts should allow us to achieve economies of scale by involving all of our subsidiaries under a single umbrella. We believe that these efforts have contributed and will continue to contribute to improve our efficiency. During 2019, BAC Credomatic launched a shared service center in Costa Rica to centralize business processes and serve its operations in Central America achieving efficiencies and improving control.

(iv) ***Talent management***

We focus on attracting, developing and retaining the best talent. To achieve this, we and our subsidiaries are committed to developing our human capital, focusing on well-being and training programs, diversity and inclusion, and in-house talent scouting at a corporate level. We are developing a corporate talent retention and promotion policies, supported on transparent goal setting and objective performance measurement and compensation

(v) ***Sustainability***

We believe that conducting business in a sustainable manner is key to achieve long-term value. Our sustainability strategy is supported on strong governance practices, protection of the environment and social contribution. In 2019, we launched an effort to consolidate and coordinate the social and environmental activities of our subsidiaries, to collectively increase our positive impact on our stakeholders.

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In addition to these pillars, we believe the continued growth of our business will be sustained by the following initiatives:

Further penetrate the markets in which we operate

Despite the slowdown in the growth of the economy driven by the drastic decline in oil prices seen in 2014 and 2015, we believe that after the necessary fiscal adjustments, Colombia's strong fundamentals enabled its return to a path of higher growth rates. In such a scenario, we can benefit from an increase in GDP per capita and thus in banking penetration. As part of Colombia's leading group, and drawing upon Grupo Aval's multi-brand business model, we believe that we are very well positioned to adjust to market conditions and take advantage of scenarios of stronger economic growth.

We plan to continue executing our multi-brand business model and maintain the BAC Credomatic brand. We intend to continue growing our business in Central American in the current economic scenario. In order to improve operational efficiency and increase market share in key sectors, we intend to continue to share our group-wide commercial and operational standards and best practices with BAC Credomatic, while capitalizing on its regional expertise, brand recognition, customer base, and financial services and products, such as credit card issuance and merchant-acquiring businesses.

Expand our services and product offering and diversify our sources of income

We believe we offer the most comprehensive range of banking services and products in Colombia, and we continually seek to expand these offerings to meet evolving customer needs and enhance our profitability. We think we can continue to capture additional revenue by (i) improving our market share in profitable segments and products where we have potential to grow organically given our existing market position (such as credit cards and mortgage loans, where we have a market share of 19.6% and 13.2% at December 31, 2019, respectively); (ii) launching existing and new products to serve new segments (such as the *underbanked population);* and (iii) improving our product and service offering through their digitization. In addition, we are also expanding our cross-selling efforts to our 12.3 million banking clients and our 14.1 million pension and severance fund clients in Colombia as of December 31, 2019.

Furthermore, we continue to implement initiatives to increase our non-interest income, which consists primarily of net fee income and income from our non-financial operations. For the year ended December 31, 2019, net fee income accounted for 25.5% of our consolidated total income before net impairment losses on financial assets. We believe we can increase non-interest income in future periods by, for example, expanding our offering of bancassurance products (i.e., bank-offered third-party insurance products) through our distribution networks and credit card fee income by increasing credit card loan volume across all of our banks and by growing our investment banking efforts. With regards to the income from our non-financial operations, we believe that our equity investments in strategic sectors such as energy and gas, infrastructure and hotels will continue to contribute sustainable income to our bottom line.

We constantly pursue initiatives to extend our banking services to under-penetrated segments of the Colombian population that have low usage or that do not currently use banking services by developing low-cost products such as *"Cuentas de Ahorro de Trámite Simplificado",* or "CATS", "*Cuentas de Ahorro Electrónicas*" or "CAES" and Electronic Deposits, which are savings accounts with lighter requirements for the account opening process, which will be offered by our banking subsidiaries in Colombia and by *Aval Soluciones Digitales,* the first SEDPE (Specialized Companies In Deposits And Electronic Payments) created by a financial institution in the country, cost-effective service channels, such as *Corresponsales Bancarios* and online/mobile banking and risk management tools.

Pursue other selected acquisitions and increase our controlling interests in our subsidiaries

We have a proven track record of identifying, acquiring and integrating interests in companies we believe have strategic value to us. We are interested in expanding our businesses in Colombia, Central America and into other strategic markets. We will continue to seek opportunities to further expand into new geographies and will evaluate potential acquisition targets that would enable us to grow and consolidate our franchise through the services and products we offer and the markets we can access. We actively consider additional strategic investments, alliances and acquisitions, principally in Colombia, Central America and other selected Latin American countries, which may materialize, if we believe they will generate value, complement our strategic goals, be accretive and will not hinder our technical capital position. We may also continue acquiring additional shares to increase our controlling interests in our subsidiaries as we did in 2016, 2017 and 2018. During 2016, we expanded Banco Popular's business with the acquisition of the Colombian credit card loan portfolio and users of *Ripley – Compañía de Financiamiento Comercial.* During 2017 we acquired, through Corficolombiana, an additional 40% stake in both Covipacífico (Concesionaria Vial del Pacífico S.A.S.) and in Covimar (Concesionaria Nueva Vía al Mar S.A.S.); Corficolombiana gained controlling interest in Covipacífico after the transaction. After the transaction, Corficolombiana owns 89.9% of Covipacífico and 100.0% of Covimar. In October 31, 2019, we entered into an agreement for the acquisition of Multi Financial Group (MFG), holding of Multibank, Inc. in Panama. This acquisition is subject to compliance with the conditions precedent set forth in the share purchase agreement and the approval of the supervisory authorities of the countries in which MFG operates.

Oversight

At the holding company, we closely monitor the performance of our banks, Corficolombiana, Porvenir and BAC Credomatic to align their performance with our strategic goals of profitable and sustainable growth. We do so through the following oversight functions.

Strategic planning and performance control

Each banking subsidiary has a long-term business and strategic plan. We agree with our business units on yearly budget, as well as market share and profitability targets, and control their execution. In addition, we make recommendations for setting the compensation of top management in each of our banking subsidiaries annually, and link incentive compensation to achieving budget goals and other financial and strategic performance targets.

Our banking subsidiaries, Porvenir and Corficolombiana are required to report their financial and commercial performance to us on a regular basis, including monthly detailed information. We monitor the performance of our banks against their respective budgets and the performance of our competitors. This systematic control process is complemented by ad-hoc analyses of key commercial and operational drivers, such as loan growth and the loan portfolio quality of each banking subsidiary relative to the others and our competitors. When a subsidiary deviates from its plan or when weaknesses are identified, we meet with the respective bank's management to discuss remedial measures and a course of action. Similarly, when a banking subsidiary finds itself in a new or challenging situation, we cooperate to assess and respond to these challenges. Our senior management and management of the banking subsidiaries meet on regular basis to discuss strategy, opportunities and current operations. In addition, we explore new business initiatives and recommend our banks new product and services lines, such as bancassurance.

Risk management

We contribute to the cohesion and control architecture of our subsidiaries through a corporate risk management system. Our subsidiaries have to comply with risk related regulations in each jurisdiction they operate, at the corporate level we lead and align transformational processes through corporate guidelines and processes, aimed at a homogeneous understanding of the Group's risk appetite. In the recent years, we have helped our subsidiaries adopt IFRS 9 and we are leading the transition to Basel III capital adequacy standards in Colombia.

Although each banking subsidiary is responsible for its credit decisions and risk management, we oversee the implementation of appropriate risk management controls at our banks and have established upward loan reporting processes. Our risk management staff meets on a weekly basis to discuss our subsidiaries' loan portfolio, developments in the industry, risks and opportunities. For potential loan transactions that would result in an aggregate exposure to a single issuer in excess of Ps 30 billion on a consolidated basis at the group level depending on the risk rating, our risk management staff will evaluate the transaction and will often make recommendations with respect to the structure of the loan (such as tenor, guarantees, interest rates, commissions and covenants). We also coordinate loan syndications among our banks to effectively leverage the combined equity of our banks and manage any risk issues. For a discussion of our risk management guidelines, see "Item 11. Quantitative and Qualitative Disclosures About Risk".

Information technology strategy and network integration

Grupo Aval manages the Group's IT strategy focused on architecture, cybersecurity, processes, infrastructure and corporate procurement. Although each banking subsidiary maintains its own information technology system, we work to identify potential synergies and assists in the implementation of technology and products developed at the holding level within our banks, and the standardization of technology and processes across our banks. For example, we are developing a new technology model based on service-oriented architecture for our institutions. For a discussion of our current technology projects, see "—B. Business overview—Other corporate information—Technology".

Each banking subsidiary is responsible for its information technology systems and distribution network; however, we seek to maximize the effectiveness of our distribution network and the levels of customer service and customer retention across all our banks through our *Red Aval* (Grupo Aval network), which connects all of our Colombian banks' networks. Our network allows each of our banking subsidiaries' customers to access basic banking services at any ATM or branch office in any of our banks.

Compliance with corporate policies

Our internal control department regularly performs audits to our banks, Corficolombiana, Porvenir and BAC Credomatic, as well as their operating subsidiaries, to provide objective assurance to our management and board of directors regarding their effectiveness, financial reporting and control mechanisms as well as to monitor compliance with our best practices and guidelines. Any deviations from our best practices and guidelines are monitored by our internal control team, which recommends remedial measures and ensures their implementation.

Marketing, corporate image and sustainability

Our centralized marketing strategy in Colombia pursues two main objectives: to increase the competitiveness of our banks and to strengthen our corporate image, while differentiating the identities of each of our entities. To achieve these objectives, we negotiate with third parties for the provision of certain marketing services and to design and implement advertising and marketing campaigns for certain services and products from our banking subsidiaries in Colombia. We have set up marketing guidelines and pursue communications that increase the exposure of our brands and those of our subsidiaries. In 2019, we launched an effort to consolidate and coordinate the social and environmental activities of our subsidiaries, to collectively increase our positive impact on our stakeholders. We are continuously searching for better environmental, social and governmental (ESG) standards and ratings to align our interests with those of our current and potential stakeholders.

Inorganic growth

From time to time, our banks explore merger and acquisition opportunities. We provide support to our banking subsidiaries' management teams in identifying opportunities, negotiating favorable terms and implementing acquisitions. We independently assess a prospective target's strategic fit with the acquiring banking subsidiary and within our group as a whole, and aid our banks in evaluating, negotiating and implementing acquisitions.

Our Markets

Our operations are substantially located in Colombia, representing 70.3% of our consolidated assets and 69.5% of net income attributable to owners of the parent, and in Central America, representing 29.7% of our 30.5% of net income attributable to owners of the parent, in each case at and for the year ended December 31, 2019.

Colombia

In the last five years, the Colombian financial system has proven to be resilient despite a challenging macroeconomic scenario. The decline in oil prices that began in 2014 had severe impacts on Colombia, mainly in the fiscal balance and GDP growth. First, as oil represented close to 50% of the exports in 2014, the decline in the price of the commodity brought with it a severe current account deficit which peaked at 6.3% in 2015. Second, the Colombian peso reacted accordingly, going from approximately Ps 1,850 per U.S.$ in mid-2014 to more than Ps 3,300 per U.S.$ in February 2016. Third, the government saw a decline of close to 20% of its total revenues originated from oil-related activities (taxes paid by the oil sector and dividends paid by Ecopetrol), which implied a deterioration of the Government fiscal deficit from 2.3% of GDP in 2013 to a high of 4.0% of GDP in 2016. In order to reduce the fiscal deficit and comply with the Law 1473 of 2011 (the "Law of Fiscal Rule"), the Government passed four fiscal reforms in the last 5 years: Law 1739 in December 2014, Law 1819 in December 2016, Law 1943 in December 2018 and, most recently, Law 2010 in December 2019. Fourth, inflation increased from a stable 3% level in mid-2014 to close to 9% in July 2016, mainly driven by a pass-through effect of the currency devaluation, but also affected by a severe drought caused by the El Niño climatic phenomenon and the longest truckers' union strike in the country's history. To control inflation and inflation expectations, the Central Bank had to pursue a contractionary monetary policy, taking its intervention rate from 4.50% in 2015 to 7.75% in 2016, and easing it back to 4.25% after inflation was contained within the Central Bank's target range of between 2% and 4%.

As a result of the above, the economy decelerated and grew at only 2.1% in 2016 and 1.4% in 2017, the slowest pace since the global financial crisis in 2009. Nevertheless, the economic recovery began in 2018 with a GDP growth of 2.5% and gained traction in 2019 with a GDP growth of 3.3%. Banks improved their performance in terms of loan growth and asset quality, in line with the improving economic conditions. Bank credit volume, adjusted for securitized mortgage loans, grew 7.9% year-on-year at December 31, 2019, significantly higher than the 5.9% of December 31, 2018 and the 6.2% of December 31, 2017. In addition, the delinquency of gross loans past due more than 30 days of 4.8% at December 31, 2019 was 22 bps below the 5.0% at December 31, 2018, driven by a strong improvement in the delinquency of consumer loans which has been steadily trending down to 4.7% at December 31, 2019, after reaching 6.1% in March 2018.

The 3.3% GDP growth of Colombia for 2019, compares favorably to the Latin America and the Caribbean growth of 0.1%, estimated by the IMF. According to data from the IMF's October 2019 WEO, at December 31, 2019, Colombia's population and economy were the third and fourth largest in Latin America, respectively.

The current account and fiscal deficits remain a vulnerability of Colombia's economy and a source of risk for the financial sector. Colombia's current account deficit widened to 4.3% of GDP in 2019, from 3.9% in 2018. The widening current account deficit is primarily explained by the increase in the trade deficit of goods and services. The increase in imports, especially capital goods and transportation equipment, along with lower oil and coal exports, explain most of the trade deficit increase in 2019. The trade deficit has been partially offset by a decrease in the factor payments and increase in remittances from Colombian citizens living abroad.

On the fiscal front, the Government's deficit improved to 2.5% as a percentage of GDP in 2019, from 3.1% in 2018, in compliance with the Law of Fiscal Rule which establishes a fiscal rule of 2.7% for 2019. Per the Law of Fiscal Rule, the Government's deficit is expected to decline further to 2.2% as percentage of GDP in 2020. The government will face a challenge with regards to how to replace waived tax revenue resulting from the reduction in corporate income tax approved by Congress at the end of last year (Law 2010 of 2019).

Global growth prospects for 2020 have deteriorated recently as the coronavirus outbreak has continued to escalate and oil prices experienced a sharp decline. In line with these new developments, the local stock market has posted significant losses in the year to date and the currency weakened to a maximum of Ps 4,153.91 per U.S.$ in March 20, 2020. In order to slow the infection rate of COVID-19, the Colombian Government decided to lockdown the country in early March 2020, shutting down airports, sports events and other social events. Uncertainty surrounds the fiscal cost of the additional emergency spending announced by the Colombian Government in connection with the coronavirus, intended to mitigate the fall in income of vulnerable households, in particular those who work in the informal sector, due to the nation-wide lockdown. The Ministry of Finance is borrowing resources equivalent to 1.3% of GDP from local and regional rainy-day funds to face the economic impact related to the lockdown, which we estimate makes it difficult to achieve 2020's fiscal target.

On March 27, 2020, Colombia's Central Bank unanimously decided to reduce the intervention rate by 50 basis points from 4.25% to 3.75%, after holding it steady for 23 consecutive months, in order to contribute to the recovery in domestic demand. The Central Bank considered that the reduction in the interest rate will help alleviate the financial burden on households and businesses under the current situation.

It is still too early to assess the full impact of the coronavirus and the recent oil shock on the economic environment. This impact will depend on the duration of such economic impact and the magnitude of the rebound after the virus is controlled. Going forward, the medium and long-term prospects for the economy and the financial sector remain unknown until the effect of the COVID-19 fades and the effect of the oil price shock settles down. The IMF estimates that Colombia's economy will contract 2.4% in 2020 and recover in 2021 with a 3.7% growth.

Central America

Central America, a region of approximately 49.7 million people, is currently serving as a diversifying source of income that stabilizes any potential negative impact derived from a slower growing economy in Colombia. According to the IMF, the region's GDP grew 2.5% in 2019, slightly below the 2.7% in 2018. Within the region, the IMF estimates the 2019 growth per country was as follows: Guatemala was the best performer with GDP growth of 3.6%, followed by Panama with 3.0%, Honduras with 2.7%, El Salvador with 2.4%, Costa Rica at 2.1% and Nicaragua contracted by 3.9%. According to the IMF, the region is expected to contract 2.8% in 2020 and recover in 2021 with a 4.1% growth.

We continue to view this region as having organic and inorganic growth potential, supported by low banking penetration and increasing GDP per capita.

Our history

Grupo Aval Acciones y Valores S.A. is a *sociedad anónima*, incorporated under the laws of Colombia on January 7, 1994 under the name Administraciones Bancarias S.A. On April 18, 1997, the company changed its name to Sociedad A.B. S.A., and on January 8, 1998, to Grupo Aval Acciones y Valores S.A.

Grupo Aval was created by our chairman, Mr. Sarmiento Angulo, to consolidate his interests in the Colombian financial sector. The milestones in the history of Grupo Aval are the following:

- Mr. Sarmiento Angulo established a real estate development firm in Bogotá in 1956, and in 1959 founded Organización Luis Carlos Sarmiento Angulo, which developed low- and middle-income housing neighborhoods in Bogotá in the 1960s and 1970s;

- In 1971, Mr. Sarmiento Angulo acquired a majority stake in Banco de Occidente, and in 1972 founded Corporación de Ahorro y Vivienda Las Villas to focus on low- and middle-income mortgage financing;

- In 1981, Mr. Sarmiento Angulo purchased a minority stake in Banco de Bogotá, and in 1988 he acquired a majority stake and control, consolidating a major participation in the banking system. Banco de Bogotá acquired a substantial majority of, and absorbed, Banco del Comercio in 1992;

- In 1991, Banco de Bogotá and Banco de Occidente founded Porvenir as a severance fund manager, and following the creation in 1993 of the private pension fund system in Colombia, expanded the business to include pension fund management in 1994;

- In 1996, Banco Popular was acquired from the Colombian government through a privatization process;

- In 1997, Mr. Sarmiento Angulo acquired Corporación de Ahorro y Vivienda Ahorramas, which was later merged with Corporación de Ahorro y Vivienda Las Villas in 2000 and became Banco AV Villas in 2002;

- In 1998, Mr. Sarmiento Angulo contributed a majority of his direct and indirect holdings in the financial institutions into Grupo Aval. The *Red Aval* (Grupo Aval Network) was also established in 1998 to provide an integrated service network of branches and ATMs;

- In 1999, we conducted our initial public equity offering in Colombia and listed our common shares on the Colombian Stock Exchange under the ticker symbol "GRUPOAVAL", raising Ps 62.5 billion (U.S.$35.3 million) in gross proceeds. Grupo Aval's initial public offering was the first large-scale equity offering of a Colombian company to the general public, which allowed several thousand investors to become our shareholders;

- Corficolombiana, which was founded in 1959 as an affiliate of Banco de Bogotá, acquired and merged with several merchant banks between 1997 and 1999, including Corfitolima, Corfiprogreso, Corfes, Corfiboyacá, Corfisantander, Corfiandes and Indufinanciera. In 2005, Corfivalle, also a merchant bank merged with Corficolombiana;

- In 2007, we conducted our second public offering of common shares pursuant to a preemptive rights offering in Colombia, raising Ps 372.0 billion (U.S.$210.4 million) in gross proceeds;

- In 2010, we acquired BAC Credomatic from GE Consumer Finance Central Holdings Corp. and General Electric Capital Corporation;

- In 2011, we registered our preferred shares with the SEC and concluded our first offering of our preferred shares pursuant to a preemptive rights offering in Colombia, raising Ps 2.1 trillion (U.S.$1.1 billion) in gross proceeds;

- In February 2012, we completed our first international bond offering, issuing Ps 1,083.6 billion (U.S.$600 million) at the date of the issuance of our 5.25% Senior Notes due 2017;

- In September 2012, we completed our second international bond offering, issuing Ps 1,795.7 billion (U.S.$1.0 billion) at the date of the issuance of our 4.75% Senior Notes due 2022;

- On April 18, 2013, we acquired Horizonte and on December 31, 2013, we completed the merger of Horizonte into Porvenir;

- On December 19, 2013 and December 23, 2013, we expanded our Central America operations with the acquisitions of BBVA Panamá (merged into BAC International Bank, Inc.) and Grupo Reformador (merged into Banco de América Central S.A. (Guatemala)), respectively;

- On January 17, 2014, we completed our third public offering of common shares pursuant to a preemptive rights offering, or the "Common Share Rights Offering", raising Ps 2.4 trillion (U.S.$1.3 billion);

- In September 2014, we completed a SEC-registered initial public offering in the United States. We raised Ps 2.6 trillion (U.S.$1.3 billion) in gross proceeds. Our ADSs began to trade on the New York Stock Exchange, or NYSE, under the symbol "AVAL" on September 23, 2014;

- On June 21, 2016, Grupo Aval, Banco de Bogotá, Banco de Occidente and Banco Popular entered into the Amended Corficolombiana Shareholders' Agreement to provide for Grupo Aval to directly control Corficolombiana. Prior to June 21, 2016, Banco de Bogotá, which held a 38.3% equity interest in Corficolombiana, controlled Corficolombiana;

- During 2017, Grupo Aval issued its sixth bond issuance in the local market. Banco de Bogotá completed a Ps 1.8 trillion (U.S.$ 600 million) senior bond issuance due in 2027 in the international market;

- On December 4, 2018, Aval Soluciones Digitales S.A. received an operating license issued by the Superintendency of Finance, to act as the first SEDPE created by a financial institution in Colombia;

- On December 31, 2018, our controlling shareholder registered Grupo Aval and some of its subsidiaries as part of the Sarmiento Angulo's economic group (Grupo Empresarial Sarmiento Angulo) before the Chamber of Commerce of Bogotá;

- On February 6, 2019, Law 1870 of 2017 came into force and Grupo Aval officially became the holding company of the Aval Financial Conglomerate (which includes, aside from the holding company, all of the financial subsidiaries of the group) and as such is now under surveillance of the Superintendency of Finance;

- On October 31, 2019, LB Panamá, a wholly owned subsidiary of Banco de Bogotá, entered into an agreement to acquire 99.1% of the share capital of Multi Financial Group, Inc. ("MFG"), the holding company for Multibank Inc. in Panamá for a cash purchase price of U.S.$728.0 million. This acquisition is subject to compliance with the conditions precedent established in the share purchase agreement and the approval of the supervisory authorities in which MFG operates;

- In November, 2019, Grupo Aval issued the first tranche of its first issuance program of ordinary bonds in an amount of Ps 400.0 billion;

- In February 2020, we completed our third international bond offering, issuing Ps 3,401.6 billion (U.S.$1.0 billion) at the date of the issuance of our 4.375% Senior Notes due 2030.

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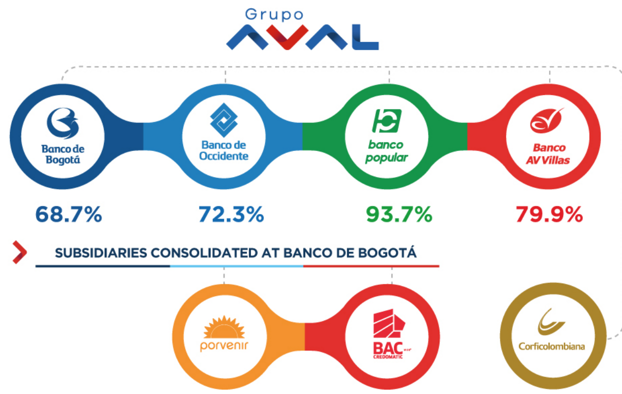
B. Business overview

Our operations

We conduct our operations through our four banks in Colombia (Banco de Bogotá, Banco de Occidente, Banco Popular and Banco AV Villas), our merchant bank (Corficolombiana), a pension and severance fund manager (Porvenir) and our Central American banking group (BAC Credomatic).



Owner	Porvenir	BAC Credomatic	Corficolombiana Voting Rights	Corficolombiana Total Shares
Grupo Aval	20.0%		8.7%	8.2%
Banco de Bogotá	46.9%	100.0%	35.2%	33.3%
Banco de Occidente	33.1%		4.2%	4.0%
Banco Popular			5.3%	5.0%
Total	**100.0%**	**100.0%**	**53.5%**	**50.4%**
% Consolidated by Aval	**75.7%**	**68.7%**		**38.6%**

*Grupo Aval is part of Grupo Empresarial Sarmiento Angulo which was declared on December 31, 2018 and registered on January 31, 2019.

Source: Company data at December 31, 2019. Porvenir is held in Banco de Bogotá as follows: 36.5% through Banco de Bogotá and 10.4% through Fiduciaria Bogotá. Porvenir is held in Banco de Occidente as follows: 24.2% through Banco de Occidente and 8.9% through Fiduciaria de Occidente.

In addition to Mr. Sarmiento Angulo's beneficial ownership through Grupo Aval, he beneficially owned 8.3% of Banco de Bogotá, 13.3% of Banco de Occidente, 15.5% of Banco AV Villas, 0.8% of Banco Popular and 11.0% of Corficolombiana, at April 17, 2020.

Colombian Banking Operations

Banco de Bogotá, founded in 1870, is Colombia's oldest financial institution and the third largest bank measured by gross loans. As of December 31, 2019, Banco de Bogotá had a market share of 13.6% of deposits and 12.2% of gross loans. At and for the year ended December 31, 2019, Banco de Bogotá had consolidated total assets of Ps 175.0 trillion and net income attributable to controlling interest of Ps 2.8 trillion on a consolidated basis. Banco de Bogotá is a full-service bank with nationwide coverage and a comprehensive portfolio of services and products, distributed through a network of 637 branches and 1,802 ATMs in Colombia at December 31, 2019. While Banco de Bogotá serves all market segments, it has had a leading presence in commercial loans historically, with a particular focus on large corporations and a market share of 16.5% of commercial loans at December 31, 2019. Banco de Bogotá expanded its consumer banking and mortgage businesses and now has a market share of 8.7% of consumer loans and 5.9% of mortgages at December 31, 2019. Banco de Bogotá consolidates our Central American operations in BAC Credomatic Inc. and our pension and severance fund Porvenir, which will be described in detail below.

Banco de Occidente is the fifth largest bank in Colombia measured by gross loans, with a market share of 6.0% at December 31, 2019. It focuses on mid-size and small and medium sized (SME) corporate customers, state-owned entities and high net-worth customers and has a diversified revenue stream. For the year ended December 31, 2019, on a consolidated basis its loan portfolio was distributed as follows: 32.5% in consumer and auto lending; 48.7% in corporate and public sector lending; and 18.8% in SMEs. Banco de Occidente had market shares of 8.0% of commercial loans and 4.8% of consumer loans at December 31, 2019.

Banco Popular is the eighth largest bank in Colombia measured by gross loans with a market share of 4.2% at December 31, 2019. Banco Popular operates primarily in the consumer and public sector businesses. Banco Popular is a premier provider of financial solutions to government entities nationwide with a particular strength in public sector deposits and loans, and a significant part of its portfolio consists of payroll loans to pensioners and public sector employees. Banco Popular achieved better returns on its consumer loan portfolio due to its access to payroll deductions for repayment of loans, which has resulted in consumer loans with a substantially lower-risk profile for consumer loans (consumer past-due loans of 3.1% compared to a banking system average of 4.7% at December 31, 2019).

Banco AV Villas is the tenth largest bank in Colombia measured by gross loans and focuses on services and products such as payroll loans and credit cards, as well as its traditional line of mortgages. Banco AV Villas has a broad service network throughout Colombia, with a concentration in Colombia's central region, including Bogotá and the southwestern region. Banco AV Villas had a market share of 2.9% of deposits, 2.5% of loans, 4.5% of consumer loans and 3.5% of mortgages at December 31, 2019.

Generally, following a period of declining interest rates, as seen in Colombia between 2016 and 2018, consumer focused banks such as Banco Popular and Banco AV Villas see their net interest margin expand as their consumer loan book is less sensitive to rate cuts than its funding. In contrast, corporate banks such as Banco de Bogotá and Banco de Occidente see their net interest margin contract, as their corporate loan books reprice in tandem with the declining benchmark rates.

Merchant Banking

Corficolombiana is the largest merchant bank in Colombia based on total assets as of December 31, 2019. Corficolombiana focuses on four main lines of business: (1) equity investments in strategic sectors of the Colombian economy, including infrastructure, energy and gas, agribusiness and hospitality; (2) investment banking, including services relating to capital markets, mergers and acquisitions and project finance transactions; (3) treasury operations; and (4) financial services such as trust services, among others. Corficolombiana's ROAE was 22.1%, 37.3% and 6.8%, for the years ended December 31, 2019, 2018 and 2017, respectively, based on its consolidated financial statements.

Pension and Severance Fund Management Administration

Porvenir is the leading private pension and severance fund management business in Colombia, based on assets under management, with a 42.9% market share of assets under management as of December 31, 2019. Pension funds provide individual savings for retirement, while severance funds provide temporary income to employees who become unemployed. Based on separate data prepared under Colombian IFRS, at December 31, 2019, Porvenir was the most efficient pension and severance fund manager in Colombia, with an efficiency ratio of 41.8%. It serves 14.1 million pension and severance funds clients and manages Ps 156.9 trillion in assets.

Central American Operations

BAC Credomatic is the leading Central American banking group with operations in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panamá as measured by total assets and net loans. BAC Credomatic is a full-service financial institution with a leading credit card issuance and merchant-acquiring franchise in Central America, according to internal benchmarks. It has achieved processing volumes of U.S.$ 21,704.8 million (Ps 71,129.6 billion) for the year ended

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December 31, 2019 and U.S.$ 20,330.2 million (Ps 66,625.0 billion) for the year ended December 31, 2018, in the merchant-acquiring business. BAC Credomatic's consolidated ROAE was 14.1% in 2019 and 15.2% in 2018.

Competition

We operate in competitive markets. Our principal competitors in Colombia are Bancolombia, Davivienda and BBVA Colombia, which are the three leading banking groups following Grupo Aval.

We are the market leader in Colombia in terms of market share of assets, deposits, net income and our distribution network by branches. Recently, we have outperformed one or more of our principal competitors under key operational metrics, such as the ratio of loans past due more than 30 days over gross loans and the ratio of loans classified as CDE over gross loans. We believe that these results have been achieved due to our banks' historically strong franchises, results-oriented philosophy and the Grupo Aval multi-brand business model.

In addition to our market-leading banking business, we are also, through Porvenir, the market leader in privately managed mandatory pensions and severance funds. Porvenir also has the largest share of individual customers in the private severance fund and mandatory pension fund markets in Colombia.

Corficolombiana is the largest merchant bank in Colombia, with the largest equity portfolio primarily invested in strategic sectors of the Colombian economy: energy and gas, infrastructure, agribusiness, treasuries, hotels and financial services. Corficolombiana complements its core investment management business with treasury and investment banking operations.

Market share and other data from separate financial information

The following market share and other data comparing us and our banking subsidiaries to our competitors is based on information derived from separate financial information reported to the Superintendency of Finance by commercial banks based on Colombian IFRS. Average balances are calculated using the 13 end-of-month average balances between December 2019 and December 2018. Grupo Aval figures reflect aggregated amounts of our separate banking subsidiaries in Colombia.

Deposits

At December 31, 2019, Grupo Aval Aggregate had the largest market share of total deposits in Colombia, with a market share of 26.4%. As of the same date our principal competitors—Bancolombia, Davivienda and BBVA Colombia—had market shares of 24.8%, 13.7% and 11.2%, respectively.

The following table presents a breakdown of market share of deposits by type of deposit at December 31, 2019.

	At December 31, 2019				
Colombian IFRS	**Grupo Aval aggregate**	**Bancolombia**	**Davivienda**	**BBVA Colombia**	**Rest of the Colombian market**
			(in percentages)		
Checking accounts	37.5	24.0	9.7	10.8	18.0
Savings accounts	25.7	27.2	13.2	10.4	23.5
Time deposits	23.0	22.1	15.8	12.5	26.5
Total deposits	**26.4**	**24.8**	**13.7**	**11.2**	**23.9**

Source: Company calculations based on separate information published by the Superintendency of Finance.

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At December 31, 2019, deposits represented a larger share of our total funding than that of most of our principal competitor banks, and we had a higher concentration of checking accounts. The table below presents the total funding mix of the market at December 31, 2019.

Colombian IFRS	At December 31, 2019				
	Grupo Aval aggregate	Bancolombia	Davivienda	BBVA Colombia	Rest of the Colombian market
			(in percentages)		
Funding:					
Deposits	77.5	76.4	71.1	82.8	69.2
Other funding(1)	22.5	23.6	28.9	17.2	30.8
Total funding	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Deposits:					
Checking accounts	20.8	14.1	10.3	14.1	11.0
Savings accounts	46.3	52.2	46.0	43.9	47.0
Time deposits	32.9	33.7	43.6	42.0	42.0
Total deposits	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Average rate paid on funding:					
Average rate paid on deposits	3.4	3.1	3.5	4.1	3.8
Average rate paid on other funding(1)	4.7	5.2	5.5	4.5	3.8
Average rate paid on total funding	**3.7**	**3.6**	**4.1**	**4.2**	**3.8**

Source: Company calculations based on information published by the Superintendency of Finance.

(1) Other funding includes interbank borrowings and overnight funds, borrowings from banks, bonds issued, borrowings from development entities and other deposits.

Loans

At December 31, 2019, we had the second largest market share of gross loans in Colombia, with a 24.9% market share. As of the same date, our principal competitor banks—Bancolombia, Davivienda and BBVA Colombia—had market shares of 26.0%, 15.9% and 10.4%, respectively.

The following table presents a breakdown of the market share of our gross loans by category at December 31, 2019.

Colombian IFRS	At December 31, 2019				
	Grupo Aval aggregate	Bancolombia	Davivienda	BBVA Colombia	Rest of the Colombian market
			(in percentages)		
Commercial loans	28.5	32.5	13.4	7.3	18.4
Consumer loans	26.2	19.5	16.1	13.0	25.2
Microcredit loans	3.0	6.0	0.2	0.0	90.8
Mortgages loans	13.2	19.5	27.8	17.9	21.6
Gross loans	**24.9**	**26.0**	**15.9**	**10.4**	**22.8**

Source: Company calculations based on separate information published by the Superintendency of Finance.

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The following table shows the breakdown of our gross loans and that of our competitors at December 31, 2019.

	At December 31, 2019				
Colombian IFRS	Grupo Aval aggregate	Bancolombia	Davivienda	BBVA Colombia	Rest of the Colombian market
			(in percentages)		
Commercial loans	59.9	65.6	44.0	37.1	42.2
Consumer loans	32.3	23.1	31.2	38.4	33.9
Microcredit loans	0.3	0.6	0.0	0.0	10.4
Mortgages loans	7.5	10.7	24.7	24.5	13.4
Gross loans	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Company calculations based on separate information published by the Superintendency of Finance.

Loan Portfolio Quality

We believe that the credit quality of our gross loans compares favorably against our principal competitors. The following table presents credit quality metrics for our gross loans at the dates indicated.

Colombian IFRS	Loans past due more than 30 days / gross loans	Loans rated C, D, E / gross loans(1)	Gross provision expense / average gross loans(2)	Net provision expense / average gross loans(3)	Allowance / loans past due more than 30 days
	For the year ended December 31, 2019 (in percentages)				
Banco de Bogotá	4.2	6.9	2.5	2.2	129.4
Banco de Occidente	4.2	7.0	3.0	2.4	122.2
Banco Popular	2.9	4.0	1.4	1.2	185.6
Banco AV Villas	3.5	3.4	2.4	2.0	126.7
Grupo Aval aggregate	**3.9**	**6.1**	**2.4**	**2.1**	**134.2**
Bancolombia	4.5	7.2	2.6	2.2	158.7
Davivienda	5.8	6.9	3.6	3.1	99.2
BBVA Colombia	4.8	5.8	2.2	1.9	124.5
Rest of the Colombian market	5.4	6.8	2.9	2.5	114.8

Source: Company calculations based on separate information published by the Superintendency of Finance.

(1) For further information about loan classification categories, see "Item 11. Quantitative and Qualitative Disclosures About Risk".

(2) Gross provision expense is defined as provision expenses net of provision recoveries.

(3) Net provision expense is defined as gross provision expense minus recoveries of charged-off loans.

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Branches and ATM Network

Through our banking subsidiaries, we have the largest branch network in Colombia, with 1,341 branches and 3,535 ATMs at December 31, 2019. The following table presents the distribution of branches and ATMs across the market at December 31, 2019.

	At December 31, 2019			
	Branches		ATMs	
	# of branches	Market share %	# of ATMs	Market share %
Grupo Aval aggregate	**1,341**	**24.5%**	**3,535**	**21.4%**
Bancolombia	686	12.5%	5,090	30.8%
Davivienda	528	9.7%	2,186	13.2%
BBVA Colombia	460	8.4%	1,361	8.2%
Rest of the Colombian market	2,453	44.9%	4,355	26.4%

Source: Company calculations based on separate information published by the Superintendency of Finance, except for information for Grupo Aval which reflects aggregate data obtained from our banking subsidiaries. ATMs for the Rest of the Colombian market include "Servibanca", an ATM network.

Pension and severance fund management – Porvenir

Porvenir is the leading private pension fund manager in Colombia in terms of assets under management and has the largest share of earnings in the private pension and severance fund management market in Colombia. Porvenir's principal private competitors are other pension fund managers, including Protección, Colfondos and Skandia.

Porvenir also has the largest share of individual customers of privately managed mandatory pension of the Private Pension Fund Managers in Colombia in 2019, 2018 and 2017.

The following table presents the market shares of the main market participants with respect to assets under management and individual customers of severance funds and mandatory pension funds at December 31, 2019, as well as net income for the year ended December 31, 2019.

	At and for the year ended December 31, 2019			
	Porvenir	Protección	Colfondos	Skandia
	(in percentages)			
Individual customers to pension funds:				
Mandatory	58.1	29.5	11.7	0.7
Severance	55.3	33.6	10.4	0.6
Voluntary	24.3	58.1	6.6	11.0
Total	**56.2**	**31.6**	**11.2**	**1.0**
Assets under management:				
Mandatory	44.3	35.9	13.5	6.3
Severance	47.9	38.9	10.6	2.6
Voluntary	21.2	44.1	6.5	28.1
Total	**42.9**	**36.6**	**12.9**	**7.6**
Net income:	**48.2**	**37.4**	**7.5**	**6.8**

Source: Information published by the Superintendency of Finance. Information does not include data from third-party pension liability funds, which does not comprise a material portion of the market. Net income calculated under Colombian IFRS.

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Merchant banking - Corficolombiana

Corficolombiana was the largest merchant bank in Colombia in terms of assets and equity at December 31, 2019. Corficolombiana faces competition from local and global banks focused on merchant and investment banking. Bancolombia, through its subsidiary Banca de Inversión Bancolombia S.A., is Corficolombiana's largest local competitor. Corficolombiana also faces competition from global banks with local investment banking operations. In addition, as an equity investor, Corficolombiana faces competition from other equity investors such as hedge funds, private equity firms and others.

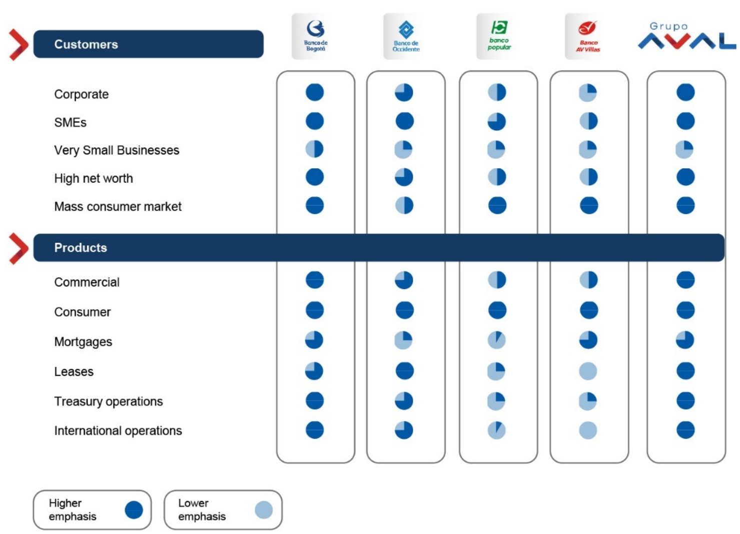
The following table presents the market shares of Corficolombiana and its principal competitors by assets, liabilities, equity and net income at and for the year ended December 31, 2019.

Colombian IFRS	Assets	Liabilities	Equity	Net income
	(in percentages)			
Corficolombiana	**81.4**	**95.1**	**71.7**	**84.4**
Banca de Inversión Bancolombia S.A.	9.3	0.4	15.6	9.3
J.P. Morgan Corporación Financiera S.A.	4.1	3.0	4.9	3.3
BNP Paribas Colombia Corporación Financiera S.A.	1.5	1.4	1.6	0.8
Corporación Financiera GNB Sudameris S.A.	3.7	0.1	6.3	2.3

Source: Information published by the Superintendency of Finance.

Colombian banking business overview

Our differentiated multi-brand business model builds on the individual strengths of our banks and the wide recognition of their brands. Each of our banks has developed over time a focus on particular and, to a degree, overlapping market sectors, geographic regions and services and products. As a group, we are present in all banking businesses in Colombia, as shown in the following chart.



Through the subsidiaries of our banks, we also offer bancassurance, trust, bonded warehousing and brokerage transactions, real estate escrow services, merchandise and document storage and deposit, customs agency, cargo management, surety bond and merchandise distribution services, payment and collection services, and provide deposit and lending operations in foreign currencies. Through Corficolombiana, we operate as a merchant and investment bank and, through Porvenir, we participate in pension and severance fund management.

Corporate Customers

Our banks provide services and products to public and private sector customers. Our banks segment their corporate customers into separate categories based principally on their annual revenues. We believe that these customer classifications, which are specific to each bank, allow our entities to tailor their services and products to the needs of each customer classification sector.

At December 31, 2019, our banks had an aggregate in excess of 306,900 corporate customers, which may include customer overlap among our banks, a 2.6% increase over 299,100 corporate customers at December 31, 2018.

The following table presents the number of corporate customers that our banks served at the dates indicated.

	Grupo Aval				
	Banco de Bogotá	Banco de Occidente	Banco Popular	Banco AV Villas	Grupo Aval aggregate(1)
	(in thousands)				
Total corporate customers, as of:					
December 31, 2019(2)	202.0	67.9	7.1	29.8	306.9
December 31, 2018(2)	193.7	69.1	7.4	29.0	299.1

(1) Reflects aggregated amounts of our banking subsidiaries, these figures may include overlap of customers.

(2) Additionally, BAC Credomatic had approximately 129,500 and 120,800 corporate customers as of December 31, 2019 and 2018, respectively.

Individual customers

Our banks provide services and products to individuals throughout Colombia. Our banks classify their individual banking customers into separate categories based principally on income.

At December 31, 2019, our banks had a total of approximately 11,961,500, a 1.6% increase over the approximately 11,775,900 individual customers at December 31, 2018. Customers of more than one of our banking subsidiaries are counted separately for each banking subsidiary.

The following table presents the number of individual customers that our banks served at the dates indicated.

	Grupo Aval				
	Banco de Bogotá	Banco de Occidente	Banco Popular	Banco AV Villas	Grupo Aval aggregate(1)
	(in thousands)				
Total individual customers, as of:					
December 31, 2019(2)	6,619.2	871.2	3,176.7	1,294.5	11,961.5
December 31, 2018(2)	6,141.4	812.2	3,525.0	1,297.3	11,775.9

(1) Reflects aggregated amounts of our banking subsidiaries, these figures may reflect overlap of customers.

(2) Additionally, BAC Credomatic had approximately 3,705,300 and 3,459,000 individual customers as of December 31, 2019 and 2018, respectively.

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Lending activities

In accordance with Superintendency of Finance guidelines, we classify our banks' loans into the following categories: commercial, consumer, microcredit and mortgages.

The following table presents our total loans, net at December 31, 2019.

	At December 31, 2019					
	Grupo Aval entities					
	Banco de Bogotá(2)	Banco de Occidente	Banco Popular	Banco AV Villas	Corficolombiana	Grupo Aval consolidated(3)
	(in Ps billions)					
Commercial	69,208.8	22,062.0	7,333.2	2,947.8	1,693.0	101,655.7
Commercial loans	67,440.6	21,523.3	7,315.9	2,947.8	1,264.8	98,936.7
Interbank and overnight funds interbank	1,768.1	538.7	17.2	—	428.2	2,719.0
Consumer	33,440.1	7,208.2	11,961.1	6,797.0	434.1	59,840.5
Mortgages	15,199.0	1,641.3	951.8	2,419.3	10.2	20,221.7
Microcredit(1)	404.0	—	5.4	0.9	—	410.3
Total gross loans	**118,251.8**	**30,911.5**	**20,251.5**	**12,165.1**	**2,137.4**	**182,128.1**
Loss allowance	(5,141.7)	(1,537.3)	(991.3)	(493.9)	(21.6)	(8,185.8)
Total loans, net	**113,110.1**	**29,374.1**	**19,260.2**	**11,671.2**	**2,115.9**	**173,942.3**

(1) Microcredit loans are issued for the purpose of encouraging the activities of small businesses and are subject to the following requirements: the maximum amount to be lent is equal to 25 times the minimum wage (*salario mínimo mensual legal vigente*) without the balance of one single borrower exceeding such amount at any time, and the main source of payment for the corresponding obligation shall be the revenues obtained from the activities of the borrower's micro business. The borrower's outstanding indebtedness may not exceed 120 times the minimum wage.

(2) Reflects Banco de Bogotá consolidated figures, which include Central American operations that accounted for Ps 56,697.9 billion (Ps 25,207.3 billion in commercial loans, Ps 20,377.4 billion in consumer loans and Ps 11,113.2 billion in mortgage loans) as of December 31, 2019.

(3) Includes eliminations for intercompany or intra-group operations between Grupo Aval subsidiaries.

As of December 31, 2019, the aggregate outstanding loans to our banks' ten largest borrowers, our 11th to 50th largest borrowers and our 51st to 160th largest borrowers, represented 3.1%, 6.1% and 7.9%, respectively, of our consolidated total gross loan portfolio.

Commercial loans

Our commercial loan portfolio consists of general purpose loans (loans with a maturity of over one year), working capital loans (loans with a maturity of up to one year), leases, loans funded by development banks, corporate credit cards and overdraft loans. Loans funded by development banks are loans granted to customers and focused on specific economic sectors and are funded by national or international government or government-related institutions. Interbank and overnight funds are short-term borrowings mostly entered into between banks.

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The following table presents our commercial loan portfolio at December 31, 2019.

	At December 31, 2019					
	Grupo Aval entities					
	Banco de Bogotá(1)	Banco de Occidente	Banco Popular	Banco AV Villas	Corficolombiana	Grupo Aval consolidated(2)
	(in Ps billions)					
General purpose loans	49,044.6	12,250.2	6,079.9	2,894.4	—	68,814.0
Loans funded by development banks	2,111.0	1,120.7	310.4	12.1	—	3,547.0
Working capital loans	11,877.9	2,908.6	696.1	6.8	—	15,476.3
Credit cards	266.0	89.4	2.2	1.1	—	280.5
Overdrafts	383.1	74.3	4.2	8.4	—	470.0
Leases	3,758.0	5,080.1	223.1	25.1	1,264.8	10,348.9
Interbank and overnight funds	1,768.1	538.7	17.2	—	428.2	2,719.0
Commercial loans	**69,208.8**	**22,062.0**	**7,333.2**	**2,947.8**	**1,693.0**	**101,655.7**

(1) Reflects Banco de Bogotá consolidated figures, which include Central American operations for Ps 25,207.3 billion of commercial loans.

(2) Includes eliminations for intercompany or intra-group operations between Grupo Aval subsidiaries.

Consumer loans

Our consumer loan portfolio consists of payroll loans, personal loans, automobile and other vehicle loans, credit cards, overdrafts, leases, and general purpose loans. A payroll loan is a type of loan where payments are deducted directly from an employer's salary.

The following table presents our consumer loan portfolio at December 31, 2019.

	At December 31, 2019					
	Grupo Aval entities					
	Banco de Bogotá(1)	Banco de Occidente	Banco Popular	Banco AV Villas	Corficolombiana	Grupo Aval consolidated(2)
	(in Ps billions)					
Personal loans(3)	6,430.6	1,714.8	47.6	2,045.8	434.1	10,673.0
Payroll loans	9,112.6	2,251.4	11,573.0	3,388.7	—	26,325.7
Automobile and other vehicle loans	3,937.0	1,725.1	0.5	97.0	—	5,759.6
Credit cards	13,641.5	1,365.2	339.7	1,264.5	—	16,610.8
Overdrafts	77.9	4.6	0.3	0.9	—	83.7
General purpose loans	—	135.1	—	—	—	135.1
Leases	240.5	12.0	0.1	—	—	252.5
Consumer loans	**33,440.1**	**7,208.2**	**11,961.1**	**6,797.0**	**434.1**	**59,840.5**

(1) Reflects Banco de Bogotá consolidated figures, which include Central American operations for Ps 20,377.4 billion of consumer loans.

(2) Includes eliminations for intercompany or intra-group operations between Grupo Aval subsidiaries.

(3) Mostly composed of personal installment loans.

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We provide credit card services to our bank customers in Colombia through the Visa and MasterCard networks. The following table presents the number of activated issued credit cards of our banks in Colombia at the dates indicated.

	Activated Issued Credit Cards	
Bank	**December 31, 2019**	**December 31, 2018**
Banco de Bogotá	1,168,126	1,120,193
Banco de Occidente	597,084	567,744
Banco Popular	283,484	235,386
Banco AV Villas	506,581	488,805
Total Colombian activated issued credit cards(1)	**2,555,275**	**2,412,128**

(1) Additionally, BAC Credomatic had 2,395,838 and 2,293,581 credit card accounts in Central America at December 31, 2019 and at December 31, 2018, respectively. See "—Central American operations—Lending activities—Credit cards".

Mortgages

In Colombia, Banco de Bogotá and Banco AV Villas are our main originators of loans to customers for the purchase of real estate secured by mortgages, while Banco de Occidente and Banco Popular are increasing their presence in this business. We have implemented strict underwriting standards: we do not offer mortgage loans in amounts greater than 70% of the value of the property to be purchased, upon origination and all of our mortgage loans (excluding housing leases) have maturities of up to fifteen years. The weighted average maturity of the Colombian mortgage loan portfolio at December 31, 2019 was 166 months. Borrowers must also meet certain minimum income levels, and payments may not exceed 30% of the borrower's monthly income. The weighted average maturity, for our Central American operations mortgage portfolio at December 31, 2019 was 246 months.

Deposit-taking activities

Deposits

Our banks offer traditional deposit services and products, including checking accounts, savings accounts, time deposits and other deposits. Checking accounts typically bear low or no interest. Checking accounts and savings accounts are payable on demand, although a significant portion of these accounts tend to be stable in amount over time. The majority of our time deposits have maturities below 12 months and commonly earn interest at a fixed rate.

The following table presents our deposits by product type at the dates indicated.

	At December 31, 2019					
	Grupo Aval entities					
	Banco de Bogotá(1)	**Banco de Occidente**	**Banco Popular**	**Banco AV Villas**	**Corficolombiana**	**Grupo Aval consolidated(2)**
	(in Ps billions)					
Checking accounts	33,990.7	6,366.4	1,101.0	1,072.5	—	42,449.7
Savings accounts	34,744.9	12,574.6	8,300.2	6,156.9	467.8	59,352.8
Time deposits	48,739.5	9,728.0	7,573.3	4,618.2	3,530.7	73,225.2
Other deposits	319.9	57.4	14.4	3.8	69.0	463.8
Customer deposits	**117,795.0**	**28,726.4**	**16,988.9**	**11,851.4**	**4,067.5**	**175,491.4**

(1) Includes Central American operations for Ps 56,279.7 billion as of December 31, 2019 (made up of Ps 19,135.9 billion in checking accounts, Ps 10,929.8 billion in savings accounts, Ps 25,979.9 billion in time deposits, and Ps 234.2 billion in other deposits).

(2) Includes eliminations for intercompany or intra-group operations between Grupo Aval subsidiaries.

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Treasury operations

Our banks' treasury departments are responsible for managing their proprietary trading activities, liquidity and distribution of treasury services and products to customers. Our banks' proprietary trading activities include fixed income trading, derivatives and foreign exchange operations. We do not have any proprietary trading activities in equities and each of our banks have implemented trading activities policies. Our banks also take deposits from financial institutions as part of their treasury operations. These deposits are represented by certificates of interbank deposit, or "CDIs", and earn interest at the interbank deposit rate. Banco de Bogotá and Banco de Occidente have active treasury operations, while Banco Popular and Banco AV Villas have smaller treasury operations.

Distribution

Our banks provide services and products to their customers through our network. Each of our banks manages its own distribution network. In 1998, we created the *Red Aval* (Grupo Aval network), which allows customers of any of our banks to make transfers, payments and undertake other basic banking functions in the networks of our other banks, through traditional channels and electronic networks, with results posting in real time to the accountholder's bank with no additional fees. *Red Aval* (Grupo Aval network) services vary for each channel.

The following chart shows the distribution channels of our network in Colombia.

Distribution Channel	Description
Full-service branches	We had 1,341 full-service branches at December 31, 2019. *Red Aval* (Grupo Aval network) service points across our banks allow our bank customers to perform check cashing, deposits, savings account withdrawals, loan and credit card payments, transfers and advances at any of our branches.
ATMs and electronic service points	We had 3,535 ATMs at December 31, 2019. Through our ATMs, all of our bank customers can, among other services, consult their balances, execute loan and credit card payments, transfers and advances, and pay for certain third-party services where we have a payment collection agreement in place (such as utility service companies).
Payment collection centers (*Centros de pagos)*	We had 69 payment collection centers at December 31, 2019, which allow our customers to pay for certain third-party services where we have a payment collection agreement in place (such as utility service companies).
Banking correspondents (*Corresponsales bancarios*)	We had 32,281 banking correspondents at December 31, 2019. Our banks enter into agreements with various third parties, including convenience store owners, to provide all of our bank customers with certain services, which can include checking and savings account withdrawals, account balance consultation, loan and credit card payments, transfers and advances, and payments for certain third-party services where we have a payment collection agreement in place (such as utility service companies).
Automated telephone banking, mobile banking and online banking	Through our banks' websites, mobile banking services and automated telephone banking, customers may pay loan and credit card balances, make transfers between accounts and make payments for collection agreements originated in any of our banks.

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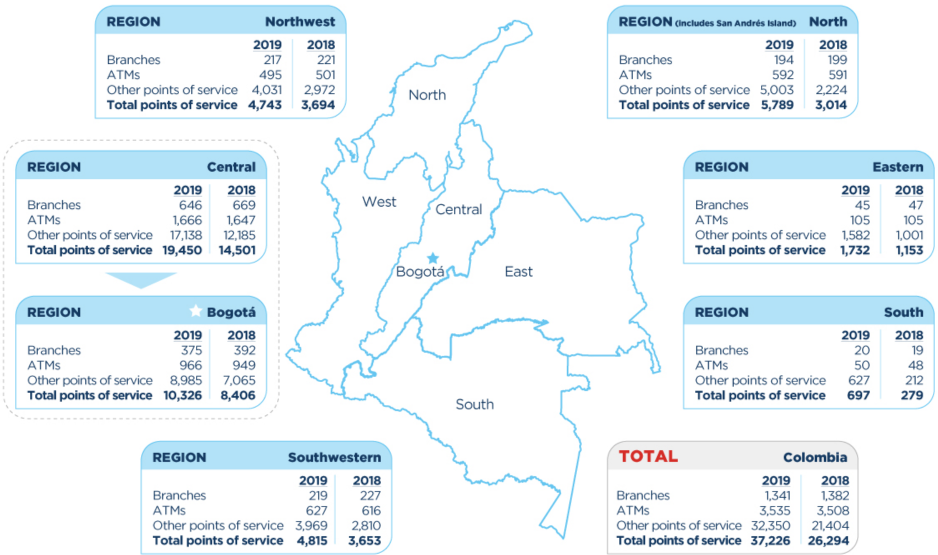
The following map presents our banks' points of service across the main regions of Colombia, at December 31, 2019 and 2018.



Source: Grupo Aval.

Note: Other points of service include Banking correspondents (*corresponsales bancarios*) or "CBs" and payment collection centers (*centros de pago*).

The following table presents transaction volumes through our branches and ATMs and their share of total transactions (in both physical and digital channels) at the dates indicated.

Grupo Aval	Transactions for the year ended December 31, 2019	Transactions for the year ended December 31, 2018	% of total transactions for the year ended December 31, 2019	% of total transactions for the year ended December 31, 2018
	(in thousands)			
Branches	160,344	195,964	13.3	18.3
ATMs	197,943	171,822	16.4	16.0
Other	59,865	74,657	5.0	7.0
Total physical channels	**418,152**	**442,444**	**34.7**	**41.3**

The decrease in the number of transactions in branches and their share of the total transactions reflects our strategy of migration towards lower cost channels. In addition, the following table presents transaction volumes for online banking, mobile banking and automated telephone banking channels which, pursuant to our growth strategy, are expected to continue growing on an annual basis relative to total transactions.

	Transactions for the year ended December 31,		% of total transactions for the year ended December 31,	
Grupo Aval	**2019**	**2018**	**2019**	**2018**
	(in thousands)			
Online banking	467,089	434,418	38.8	40.5
Mobile banking	315,919	191,327	26.2	17.8
Automated telephone banking	3,695	4,137	0.3	0.4
Total alternate channels	**786,703**	**629,882**	**65.3**	**58.7**

Banco de Bogotá Segment

Banco de Bogotá is Colombia's oldest financial institution. As of December 31, 2019, it had a market share of 13.6% of deposits and 12.2% of loans. At and for the year ended December 31, 2019, Banco de Bogotá had total consolidated assets of Ps 175,019.6 billion and net income attributable to owners of the parent of Ps 2,766.4 billion. Banco de Bogotá's consolidated ROAE was 14.4% for the year ended December 31, 2019.

Banco de Bogotá is a full-service bank with nationwide coverage and a comprehensive portfolio of services and products, distributed through a network of 637 branches and 1,802 ATMs in Colombia at December 31, 2019. While Banco de Bogotá serves all market segments, it has a leading presence in commercial loans historically, with a particular focus on large corporations and a market share of 16.5% of commercial loans at December 31, 2019. Banco de Bogotá had a market share of 8.7% of consumer loans in Colombia and of 5.9% of mortgages, both at December 31, 2019. Banco de Bogotá's ROAE for the year ended December 31, 2019 on a separate basis made it one of the most profitable banks in Colombia.

Starting in 2018, Banco de Bogotá offers clients the option of opening digital savings accounts, credit cards, personal loans, payroll loans, and mortgage loans. Due to constant innovation and IT developments, the bank continues to strengthen and position the digital channels as the first option in customer transactions.

Lending activities

The following table presents Banco de Bogotá's total loans, net at the dates indicated.

	At December 31, (1)		Change, December 31, 2019 vs. December 31, 2018	
	2019	**2018**	**#**	**%**
	(in Ps billions)			
Commercial	69,208.8	70,446.1	(1,237.3)	(1.8)
Commercial loans	67,440.6	63,838.6	3,602.0	5.6
Interbank and overnight funds	1,768.1	6,607.4	(4,839.3)	(73.2)
Consumer	33,440.1	31,170.6	2,269.5	7.3
Mortgages	15,199.0	14,116.0	1,083.0	7.7
Microcredit	404.0	418.3	(14.3)	(3.4)
Total gross loans	**118,251.8**	**116,150.9**	**2,100.9**	**1.8**
Loss allowance	(5,141.7)	(5,132.7)	(9.0)	0.2
Total loans, net	**113,110.1**	**111,018.2**	**2,091.9**	**1.9**

(1) Includes Central American operations which, as of December 31, 2019, accounted for Ps 56,697.9 billion of the total gross loan portfolio (Ps 25,207.3 billion in commercial loans, Ps 20,377.4 billion in consumer loans and Ps 11,113.2 billion in mortgage loans). As of December 31, 2018, Central American operations accounted for Ps 54,872.1 billion of the total gross loan portfolio (Ps 24,751.9 billion in commercial loans, Ps 19,513.5 billion in consumer loans and Ps 10,606.8 billion in mortgage loans).

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Deposit-taking activities

Banco de Bogotá offers customers checking accounts, savings accounts, time deposits (CDs) and other deposits as described in the table below.

The following table presents a breakdown of Banco de Bogotá's deposits by product type at the dates indicated.

	At December 31, (1)		Change, December 31, 2019 vs. December 31, 2018	
	2019	2018	#	%
	(in Ps billions)			
Checking accounts	33,990.7	31,653.2	2,337.4	7.4
Savings accounts	34,744.9	31,148.8	3,596.1	11.5
Time deposits	48,739.5	45,255.0	3,484.5	7.7
Other deposits(2)	319.9	347.5	(27.6)	(8.0)
Customer deposits	**117,795.0**	**108,404.5**	**9,390.5**	**8.7**

(1) Includes Central American operations which as of December 31, 2019, Central American operations accounted for Ps 56,279.7 billion (Ps 19,135.9 billion in checking accounts, Ps 10,929.8 billion in savings accounts, Ps 25,979.9 billion in time deposits and Ps 234.2 billion in other deposits). As of December 31, 2018, Central American operations accounted for Ps 50,656.9 billion (Ps 17,261.5 billion in checking accounts, Ps 9,637.1 billion in savings accounts, Ps 23,479.0 billion in time deposits and Ps 279.3 billion in other deposits).

(2) Includes active account portfolios, payroll accounts, funds held in trust, banks and correspondents, special deposits and temporary deposits held in connection with collection services agreements.

Distribution

The following table presents Banco de Bogotá's points of service across Colombia.

	At December 31,	
	2019	2018
Branches	637	664
ATMs	1,802	1,742
Banking correspondents	9,321	9,444
Other points of service	28	37
Total points of service	**11,788**	**11,887**

Banco de Bogotá had a network concentration of 58.0% in Colombia's central region, of which Bogotá represents 33.8% of Banco de Bogotá's total network at December 31, 2019. Banco de Bogotá had a market share of 11.6% of branches and 10.9% of ATMs at December 31, 2019.

Banco de Bogotá Segment includes both our Pension Fund Management operation and our Central American operation. Information on these operations is described below.

Pension Fund Management - Porvenir

Porvenir is the leading private pension and severance fund manager in Colombia, with a market share of 58.1% of mandatory pension fund individual customers and 55.3% of severance plan individual customers at December 31, 2019. See "—Competition—Pension and severance fund management—Porvenir". Porvenir also provides voluntary pension funds and manages third-party sponsored pension funds. Pension funds provide individual savings for retirement, and severance funds provide temporary income to employees who lose their jobs. Through Aportes en Línea, Porvenir manages social security-related information systems designed to provide employees with efficient payment solutions.

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At December 31, 2019, Porvenir had Ps 156.9 trillion in total assets under management, of which Ps 124.9 trillion was managed under the privately managed mandatory pension fund, Ps 6.1 trillion was managed under the severance fund, Ps 4.5 trillion was managed under the voluntary pension fund and Ps 21.4 trillion was managed as a third-party sponsored pension liability fund.

Porvenir's strengths include the following:

- Porvenir is one of the most profitable privately managed pension fund in Colombia, with a ROAE of 26.7%, 19.1% and 25.5% for the years ended December 31, 2019, December 31, 2018 and December 31, 2017 based on public separate figures under Colombian IFRS. The company's higher ROAE in 2019 as compared to 2018 was derived from better market conditions;

- Porvenir has the largest and, we believe, one of the most effective sales force in the industry with a nationwide presence. At the same time, it is the most efficient privately managed pension fund in Colombia, with an efficiency ratio of 41.8% for the year ended December 31, 2019, based on public separate figures under Colombian IFRS; and

- Porvenir has access to Grupo Aval's banking network. This advantage is particularly relevant in the severance market, as Grupo Aval's banks provide financing to employers to comply with legally imposed annual severance allowance liabilities for their employees. In addition, the banks of Grupo Aval provide collection services for all of the funds administered by Porvenir.

Pension business overview

The Ministry of Finance limits the range of assets in which pension and severance fund managers can invest and sets concentration limits. In addition, each AFP is required by law to provide a minimum return on investment for each of its mandatory pension and severance funds. This minimum return is determined pursuant to certain formulas established by means of Decree 2555 of 2010, which vary pursuant to the type of fund. Prior to the multi-fund scheme, the minimum return was calculated on a 36-month time horizon for mandatory pension funds and 24-month time horizon for severance funds. With the introduction of the multi-fund scheme, a new risk profile system came into effect which differentiates conservative, moderate and aggressive risk portfolios for individual clients of severance and mandatory pension funds. To adjust the minimum return of mandatory pension funds to the new risk profile portfolios, the time horizon for the minimum return will change from 36 months to a range of 36 to 60 months, depending on the risk profile of each portfolio. For severance funds, the long-term portfolio will continue to have a 24-month time horizon, and the short-term portfolio will have a three-month time horizon.

If a fund's cumulative return for any month is lower than the minimum return, the pension and severance fund manager must supplement the necessary amount to cover the difference within a period of five days. To do so, the pension and severance fund manager must first apply funds from its "stabilization reserve", which is a portion of the pension and severance fund manager's capital invested in the fund administered by the pension and severance fund manager and which must represent at least 1.0% of the value of that fund. If the stabilization reserve is insufficient to cover the difference, the pension and severance fund manager must provide resources from its remaining capital. If the pension and severance fund manager does not have enough resources to cover the difference, the Superintendency of Finance may order the capitalization of the pension and severance fund manager. If, notwithstanding the above, a pension and severance fund manager fails to observe either the minimum return or the stabilization requirements or the order of capitalization, the Superintendency of Finance may take control over the pension and severance fund manager, in which case FOGAFIN, the Colombian deposit insurance fund, is required to supply funds to cover the shortfall. In that event, the pension and severance fund manager may be dissolved and the funds transferred to another pension and severance fund manager. See "Item 3. Key Information—D. Risk Factors—Risks relating to our businesses and industry—Risks relating to our pension and severance fund management business".

For the year ended December 31, 2019, 56.9% of Porvenir's revenues were derived from mandatory pension funds, 13.4% from severance funds, 6.2% from voluntary pension funds and 0.9% from third-party sponsored pension liability funds.

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Porvenir derived the remaining 22.6% of its revenues from a combination of the profitability of its own investment portfolio, stabilization reserves and other income.

Mandatory pension funds

Mandatory pension funds are independent trusts formed by contributions made by individual customers to the social security pension system.

At December 31, 2019, mandatory pension funds represented 79.6% of Porvenir’s assets under management and constituted its main line of business.

Contributions to these pension funds are mandatory for all employees in Colombia and are jointly funded by the employer and the employee. In the case of contributing clients, the base contribution rate is 16.0% (up to 18.0% for employees meeting a certain salary threshold) of an employee’s base salary, whereby the employer contributes 75.0% and the employee 25.0% of the base contribution rate. Contributions are paid on a monthly basis. Of the 16.0%-18.0% total contribution, 11.5% goes to the individual customer’s fund. The pension and severance fund manager retains 300 basis points (3.0%) as compensation, of which Porvenir currently pays 194 basis points (1.94%) to an insurer for life and disability coverage, to which it is required by law to subscribe. The percentage that Porvenir pays for this insurance may increase or decrease depending on market conditions among other factors. The remainder is distributed between the National Solidarity Fund (*Fondo de Solidaridad Pensional*), depending on the employee’s salary (up to 2.0%), and the National Minimum Pension Warranty Fund (*Fondo de Garantía de Pensión Mínima*) (at 1.5%).

In the case of non-contributing clients, regulation allows private pension funds to charge a performance-based commission considering that these customers have to be to be served in the same manner as a contributing client through branches, call-centers, billing and managing of their individual customer fund. The established performance-based commission is 4.5% of monthly returns of the clients’ individual customer fund, with a cap at 50% of the last value charged as commission over the clients’ contribution as an active customer.

Employees may freely select their mandatory pension fund, a private pension and severance fund manager of their choice or the government-sponsored defined public benefit plan, administered by Colpensiones, and can change plans after meeting minimum tenure requirement of five years to switch from the public fund to a private plan and only up to ten years prior to the retirement age, and six months to switch between private fund providers with no limitation prior to retirement age. Whenever an employee changes from one pension and severance fund manager to another, his/her entire savings balance at the fund is transferred to the pension fund administered by the new pension and severance fund manager.

Mandatory pension funds cannot be withdrawn prematurely, and they generally expand over the individual’s working years. Porvenir is the market leader in the mandatory pension’s area, with Ps 124.9 trillion of assets under management and 9.6 million individual customers at December 31, 2019.

Severance funds

Severance funds are independent trusts formed by the accumulated severance payment allowance required by Colombian labor law. The severance payment allowance is a social benefit inuring to employees for which employers are responsible under an employment agreement. The allowance consists of the payment of one month’s salary per year of service and pro rata amounts for fractions of a year. This amount is deposited directly with the pension and severance fund manager by the employer.

Severance accounts represented 3.9% of Porvenir’s assets under management at December 31, 2019.

Porvenir and all other pension and severance fund managers in Colombia charge a fee (per year for assets under management) of 1.0% for amounts in the mandatory investments short-term portfolio and 3.0% in the long-term portfolio.

Porvenir is the market leader in the severance area, with Ps 6.1 trillion of assets under management and 4.4 million customers at December 31, 2019.

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Voluntary pension funds

Voluntary pension funds are independent trusts formed by contributions from their participants and/or sponsors and their respective yields, for the purposes of complying with one or several voluntary retirement or disability pension plans.

Voluntary pension funds represented 2.9% of Porvenir's assets under management at December 31, 2019.

Porvenir earns annual management commissions for assets under management that range between 0.5% and 4.0%, depending on the balance of the customer and the selected portfolios (lower commissions for liquidity portfolios and higher commissions for more complex portfolios). At December 31, 2019, Porvenir had Ps 4.5 trillion of voluntary pension assets under management and approximately 182 thousand voluntary pension fund individual customers.

Third-party sponsored pension liability funds

Third-party sponsored pension liability funds represent 13.6% of Porvenir's assets under management at December 31, 2019. Third-party sponsored pension liability funds are made up of deposits from different institutions (both private and publicly owned) that require a professional institution to manage a fund that is usually created to finance special pension regimes (i.e., pensions that are paid by the employer; before 1994, companies were allowed to establish their own internal pension systems).

Third-party sponsored pension liability funds enable Porvenir to receive performance-based commissions, in few cases these funds have a minimum guaranteed return pursuant to their specific terms. Porvenir had Ps 21.4 trillion of such assets under management at December 31, 2019, mostly under contracts of five years. The most important of these contracts is with FONPET, which was subject to renewal upon expiration during 2019, but was delayed by the Ministry of Finance until the last quarter of 2020. Porvenir retains a percentage of the yearly returns of each third-party sponsored pension liability fund, and in some cases, a portion of assets under management.

Porvenir's investments

Porvenir is required to own at least 1.00% of the funds it manages that are subject to a minimum return, known as the stabilization reserve. This stabilization reserve represents 56.0% of Porvenir's proprietary investments. In addition, Porvenir holds voluntary investments. Revenues related to Porvenir's stabilization reserve and its proprietary portfolio represented 22.0% and 8.2% of its total revenues for the years ended December 31, 2019 and December 31, 2018, respectively.

Distribution

Porvenir attracts new individual customers mainly through its direct sales force (1,248 individuals) that reports to five regional sales managers located in Bogotá, Antioquia, the South region, the East region and the North region. At December 31, 2019, Porvenir had 54 offices, 9 service modules, 72 electronic service centers and 5 business service centers. It maintains a presence in all regions of Colombia through its service agreements with Grupo Aval's banks.

Central American operations

We operate in Central America through BAC Credomatic Inc., a wholly-owned subsidiary of LB Panamá, which is wholly-owned by Banco de Bogotá. BAC International Bank, Inc. is the controlling shareholder of BAC International Bank, Inc. which consolidates BAC Credomatic's operations in Costa Rica, Guatemala, Honduras, Nicaragua, El Salvador and Panamá. BAC Credomatic Inc. has a non-controlling interest corresponding to LB Panamá's direct ownership of 9.467% in BAC International Bank, Inc. The following information is presented as BAC Credomatic Inc. in accordance with IFRS before non-controlling interest, to reflect full ownership of the operation.

BAC Credomatic is the leading financial group in Central America with a record of strong financial performance. BAC Credomatic is a full-service financial institution with one of the leading credit card-issuance and merchant-acquiring businesses in the region, according to internal benchmarks. BAC Credomatic offers commercial and retail banking, brokerage, insurance, pension fund management and other financial services. Its coverage extends throughout Central America with operations in Costa Rica, Panamá, Guatemala, Honduras, El Salvador and Nicaragua. Its Credomatic brand has key alliances with major credit card networks, such as Visa, Mastercard, American Express and Diners Club.

The table below shows financial data at LB Panamá's and BAC Credomatic's level at and for the year ended December 31, 2019.

	At and for the year ended December 31, 2019					
	Net income		Gross loans (2)		Deposits	
	(in U.S.$ millions)	(in Ps billions) (1)	(in U.S.$ millions)	(in Ps billions)	(in U.S.$ millions)	(in Ps billions)
LB Panamá	408.3	1,345.3	16,854.9	55,235.8	17,173.4	56,279.7
BAC Credomatic	408.7	1,346.5	16,788.0	55,016.5	17,149.2	56,200.3
BAC Credomatic / LB Panamá	100.1%		99.6%		99.9%	

(1) LB Panamá figures for net income in Ps reflect the sum of its monthly financial statements in U.S.$ converted at each monthly average exchange rate as per consolidated into Banco de Bogotá, resulting in an average exchange rate for the year of Ps 3,294.73 per U.S.$1.00. BAC Credomatic's net income was converted at this exchange rate.

(2) Loans excluding Interbank and overnight funds.

The following information for our Central American operation is presented at the BAC Credomatic level to provide more detailed information on a country-by-country basis. Information for Statement of Financial Position in pesos in this section for 2019 and 2018 has been translated using the representative market rate as computed and certified by the Superintendency of Finance at December 31, 2019 of Ps 3,277.14 per U.S$1.00. Information for the Statement of Income in pesos in this section has been translated using the 2019 average representative market rate of Ps 3,294.73 per U.S.$ used in the consolidation of LB Panamá's results into Banco de Bogotá.

The table below shows BAC Credomatic financial data on a country-by-country basis at and for the year ended December 31, 2019.

	At and for the year ended December 31, 2019								
	Net income			Gross loans (2)			Deposits		
	(in U.S.$ millions)	(in Ps billions)		(in U.S.$ millions)	(in Ps billions)		(in U.S.$ millions)	(in Ps billions)	
Costa Rica	147.4	485.8	36.1%	4,748.5	15,561.5	28.3%	4,829.0	15,825.2	28.2%
Panamá(1)	59.8	197.1	14.6%	3,983.1	13,053.2	23.7%	4,991.0	16,356.1	29.1%
Guatemala	89.6	295.1	21.9%	3,256.9	10,673.4	19.4%	3,134.0	10,270.7	18.3%
Honduras	72.7	239.5	17.8%	2,075.6	6,801.9	12.4%	2,177.8	7,137.1	12.7%
El Salvador	31.7	104.5	7.8%	1,854.0	6,075.9	11.0%	1,955.8	6,409.3	11.4%
Nicaragua	31.3	103.2	7.7%	871.9	2,857.2	5.2%	1,025.3	3,360.1	6.0%
Corporate and eliminations	(23.9)	(78.8)	-5.8%	(2.0)	(6.6)	0.0%	(963.7)	(3,158.1)	-5.6%
Consolidated	**408.7**	**1,346.5**	**100.0%**	**16,788.0**	**55,016.5**	**100.0%**	**17,149.2**	**56,200.3**	**100.0%**

Source: Consolidated financial statements of BAC Credomatic's subsidiaries.

(1) Panamá loans include operations from BAC Bahamas Bank Ltd., BAC International Bank (Grand Cayman), other BAC Credomatic's Panamá subsidiaries and certain intercompany adjustments.

The table below presents BAC Credomatic's market share of total loans and deposits in each of its main markets at December 31, 2019.

	At December 31, 2019	
	Net Loans	Deposits
Costa Rica(1)	15.3%	14.8%
Panamá	5.6%	6.7%
Guatemala	12.1%	8.8%
Honduras	14.6%	15.2%
El Salvador	14.3%	14.4%
Nicaragua	24.0%	26.1%

Source: Superintendency of banks of each country and company calculations. Percentage of total loans and deposits is based on banking operations in each country, as reported to the local financial regulator, which excludes certain credit card data and offshore operations.

(1) Percentage calculation for Costa Rica includes state-owned banks (Banco Nacional de Costa Rica, Banco de Costa Rica and Banco Popular), which at December 31, 2019 and December 31, 2018 had a 56.5% and 56.1% market share by loans, respectively, and a 59.6% and 58.2% market share by deposits, respectively.

Lending activities

The following tables show BAC Credomatic's gross loan portfolio at the dates indicated.

	At December 31,			
	2019 (in U.S.$ millions)	2019 (in Ps billion)	2018 (in U.S.$ millions)	2018 (in Ps billion)
Commercial loans	7,216.6	23,649.6	6,953.7	22,788.3
Mortgage loans(1)	3,372.7	11,052.7	3,254.4	10,665.1
Credit card loans	3,231.3	10,589.5	2,961.0	9,703.6
Automobile and vehicle loans	942.9	3,089.9	978.9	3,208.1
Other personal loans	2,024.6	6,634.8	2,047.4	6,709.6
Gross loans	**16,788.0**	**55,016.5**	**16,195.4**	**53,074.6**

Source: Consolidated financial statements of BAC Credomatic's subsidiaries.

(1) Includes loans measured at fair value.

We believe that BAC Credomatic's customer knowledge, coupled with a centralized risk-management structure, has benefited the quality of the loan portfolio, with an average ratio of loans past due more than 90 days to gross loans of 1.3% from 2015 to 2019.

Credit cards

BAC Credomatic has a leading presence in the credit card-issuing business and a significant presence in the merchant-acquiring business in the region. Through its Credomatic brand, BAC Credomatic offers its customers a wide variety of credit and debit cards including Visa, Mastercard, American Express and Diners Club, and is the only network that processes all major brands in the region. Additionally, BAC Credomatic and its customers benefit from co-branding agreements with major airlines (such as American Airlines and Avianca) and major supermarkets (such as Pricesmart and Wal-Mart) present in the region. BAC Credomatic has been a member of Visa and Mastercard for more than 20 years, issuing both national and international credit cards. Moreover, BAC Credomatic is currently the exclusive credit card issuer and merchant acquirer of American Express in the Central American region, including Panamá.

At December 31, 2019, BAC Credomatic had approximately 5.1 million credit card and debit card accounts, of which 2.7 million were debit card accounts and 2.4 million were credit card accounts, an increase of 4.3% and 4.5% compared to December 31, 2018, respectively. For the year ended December 31, 2019, BAC Credomatic's transactional volume of its credit and debit cardholders was U.S.$ 13,850.9 million (Ps 45,391.4 billion), a 10.3% increase over the U.S.$ 12,554.8 million (Ps 41,143.9 billion) transactional volume of its credit and debit cardholders for the year ended December 31, 2018.

At December 31, 2019, BAC Credomatic's credit card portfolio totaled U.S.$ 3.2 billion (Ps 10.6 trillion), which represents an 9.1% increase from U.S.$ 3.0 billion (Ps 9.7 trillion) at December 31, 2018. The following table shows the credit card portfolio breakdown by country at the dates presented.

	At December 31,					
	2019			2018		
	(in U.S.$ millions)	(in Ps billions)		(in U.S.$ millions)	(in Ps billions)	
Costa Rica	1,112.8	3,646.7	34.4%	998.3	3,271.5	33.7%
Panamá(1)	610.3	1,999.9	18.9%	579.2	1,898.0	19.6%
Guatemala	531.5	1,741.8	16.4%	457.0	1,497.5	15.4%
Honduras	476.2	1,560.6	14.7%	432.0	1,415.8	14.6%
El Salvador	380.8	1,248.1	11.8%	359.7	1,178.7	12.1%
Nicaragua	119.7	392.4	3.7%	134.9	442.2	4.6%
Corporate and eliminations	(0.0)	(0.0)	0.0%	(0.0)	(0.0)	0.0%
Total credit cards	**3,231.3**	**10,589.5**	**100.0%**	**2,961.0**	**9,703.6**	**100.0%**

Source: Consolidated financial statements of BAC Credomatic's subsidiaries.

(1) Panamá loans include operations from BAC Bahamas Bank Ltd., BAC International Bank (Grand Cayman), other BAC Credomatic's Panamá subsidiaries and certain intercompany adjustments.

Merchant acquiring

BAC Credomatic's processing volume of credit and debit card transactions for the year ended December 31, 2019 of U.S.$ 21,704.8 million (Ps 71,129.6 billion) represented an increase of U.S.$1,374.5 million (Ps 4,504.5 billion), or 6.8%, from U.S.$ 20,330.2 million (Ps 66,625.0 billion) for the previous year. BAC Credomatic has the only network in Central America that processes all the major brands including Visa, Mastercard, American Express and Diners Club. Furthermore, BAC Credomatic has exclusive card-issuing and merchant-acquiring agreements with American Express for the Central American region.

At December 31, 2019, BAC Credomatic serviced 186,088 merchant locations, with 95.3% of credit card authorizations processed electronically through its 330,614 point-of-sale devices.

Commercial loans

BAC Credomatic offers traditional commercial banking services and products. The following table displays BAC Credomatic's commercial loan portfolio by country at the dates presented.

	At December 31,					
	2019			2018		
	(in U.S.$ millions)	(in Ps billions)		(in U.S.$ millions)	(in Ps billions)	
Costa Rica	1,670.4	5,474.0	23.1%	1,502.1	4,922.6	21.6%
Panamá(1)	1,436.2	4,706.6	19.9%	1,561.3	5,116.5	22.5%
Guatemala	1,837.7	6,022.5	25.5%	1,689.5	5,536.8	24.3%
Honduras	1,076.6	3,528.2	14.9%	977.7	3,204.1	14.1%
El Salvador	710.9	2,329.7	9.9%	629.9	2,064.2	9.1%
Nicaragua	487.1	1,596.3	6.7%	596.6	1,955.3	8.6%
Corporate and eliminations	(2.4)	(7.8)	0.0%	(3.4)	(11.2)	0.0%
Total commercial loans	**7,216.6**	**23,649.6**	**100.0%**	**6,953.7**	**22,788.3**	**100.0%**

Source: Consolidated financial statements of BAC Credomatic's subsidiaries.

(1) Panamá loans include operations from BAC Bahamas Bank Ltd., BAC International Bank (Grand Cayman), other BAC Credomatic's Panamá subsidiaries and certain intercompany adjustments.

Consumer loans and mortgages

At December 31, 2019, as a proportion of BAC Credomatic's total consumer loan portfolio (which does not include credit cards), mortgage loans represented 53.2%, automobile and vehicle loans represented 14.9% and other personal loans represented 31.9%. At December 31, 2019, consumer loans amounted to U.S.$ 6.3 billion (Ps 20.8 trillion), a 0.9% increase over U.S.$ 6.3 billion (Ps 20.6 trillion) at December 31, 2018. The following table displays BAC Credomatic's consumer loan portfolio by country at the dates presented.

	At December 31,					
	2019			2018		
	(in U.S.$ millions)	(in Ps billions)		(in U.S.$ millions)	(in Ps billions)	
Costa Rica	1,965.4	6,440.8	31.0%	1,990.8	6,524.1	31.7%
Panamá(1)	1,936.7	6,346.7	30.5%	1,886.0	6,180.6	30.0%
Guatemala	887.7	2,909.2	14.0%	830.1	2,720.2	13.2%
Honduras	522.7	1,713.0	8.2%	469.4	1,538.2	7.5%
El Salvador	762.3	2,498.1	12.0%	748.2	2,452.1	11.9%
Nicaragua	265.0	868.4	4.2%	355.9	1,166.3	5.7%
Corporate and eliminations	0.4	1.2	0.0%	0.4	1.3	0.0%
Total consumer loans	**6,340.1**	**20,777.4**	**100.0%**	**6,280.7**	**20,582.8**	**100.0%**

Source: Consolidated financial statements of BAC Credomatic's subsidiaries.

(1) Panamá loans include operations from BAC Bahamas Bank Ltd., BAC International Bank (Grand Cayman), other BAC Credomatic's Panamá subsidiaries and certain intercompany adjustments.

At December 31, 2019, BAC Credomatic's mortgage loans had an individual average mortgage loan balance of U.S.$ 72,552.3 (Ps 237.8 million) with an average loan-to-value ratio of 56.9%. Given that BAC Credomatic's mortgage loan portfolio has no significant exposure to the higher risk sectors, such as vacation homes or second-home mortgages, it maintains a ratio of loans past due more than 90 days to gross loans of 2.7% and a coverage of 51.6% on loans past due more than 90 days.

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Banking

BAC Credomatic's commercial and consumer banking divisions offer traditional banking services and products. In some jurisdictions, BAC Credomatic also offers pension plan administration, investment fund advice, financial advisory, leasing, private banking and insurance services to its customers. Through its network and deep customer knowledge, BAC Credomatic is able to effectively offer services and solutions to its customers in addition to instant payment processing and funds transfers within the BAC Credomatic regional network.

Deposit-taking activities

At December 31, 2019, 34.8% of BAC Credomatic's deposit base was represented by checking deposits. Total deposits increased by 9.3% between December 31, 2019 and December 31, 2018. The following table shows BAC Credomatic's deposit breakdown at the dates indicated.

	At December 31,			
	2019	2019	2018	2018
	(in U.S.$ millions)	(in Ps billions)	(in U.S.$ millions)	(in Ps billions)
Checking deposits	5,971.8	19,570.5	5,578.2	18,280.6
Savings deposits	3,334.9	10,928.8	2,965.2	9,717.5
Time deposits	7,842.5	25,701.0	7,143.4	23,410.0
Customer deposits	**17,149.2**	**56,200.3**	**15,686.9**	**51,408.1**

Source: Consolidated financial statements of BAC Credomatic's subsidiaries.

Distribution network

BAC Credomatic serves its customers throughout Central America with a diversified distribution network that includes branches, kiosks (non-cash machines which provide online banking capabilities as well as a full keyboard), ATMs, a standardized online banking platform, call centers and mobile phone banking. Additionally, BAC Credomatic's strong point-of-sale presence in 186,088 merchant locations in Central America at December 31, 2019 allows clients to perform various transactions, including purchases, using credit or debit cards, payments of credit card balances and loyalty program services.

BAC Credomatic serves its clients through multiple channels to cover the needs of different customer segments across the region. The following map shows BAC Credomatic's branch distribution at December 31, 2019 and 2018.

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GUATEMALA

	2019	2018
Branches	211	208
ATMs	270	269
Other points of service	1,120	1,012
Total points of service	**1,601**	**1,489**

HONDURAS

	2019	2018
Branches	174	146
ATMs	474	435
Other points of service	1,571	1,467
Total points of service	**2,219**	**2,048**

EL SALVADOR

	2019	2018
Branches	81	81
ATMs	303	298
Other points of service	460	381
Total points of service	**844**	**760**

COSTA RICA

	2019	2018
Branches	116	125
ATMs	555	545
Other points of service	2,263	2,174
Total points of service	**2,934**	**2,844**

PANAMÁ

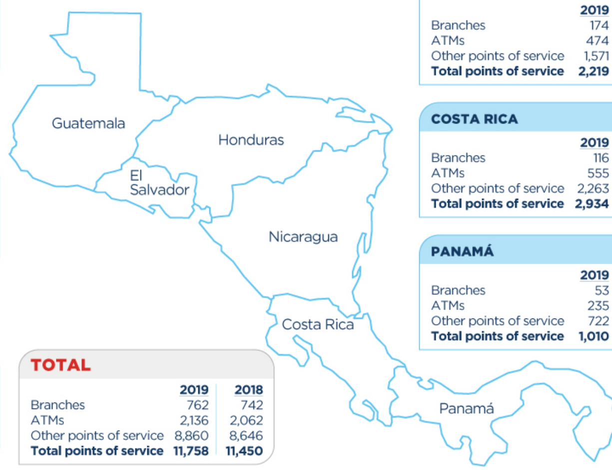
	2019	2018
Branches	53	53
ATMs	235	230
Other points of service	722	829
Total points of service	**1,010**	**1,112**

NICARAGUA

	2019	2018
Branches	127	129
ATMs	299	285
Other points of service	2,724	2,783
Total points of service	**3,150**	**3,197**

TOTAL

	2019	2018
Branches	762	742
ATMs	2,136	2,062
Other points of service	8,860	8,646
Total points of service	**11,758**	**11,450**



Source: BAC Credomatic.

At December 31, 2019 and 2018, branches include 351 full service branches, 29 in-store branches, 325 on-site branches, 9 digital branches and 48 auto/drive thru branches versus 352 full service branches, 30 in-store branches, 298 on-site branches, 14 digital branches and 48 auto/drive thru branches. At December 31, 2019 and 2018, other points of service include 322 self-service kiosks and 8,538 RapiBAC (banking correspondents) versus 332 self-service kiosks and 8,314 RapiBAC (banking correspondents).

Banco de Occidente Segment

Banco de Occidente is the fifth largest bank in Colombia, with a market share of 6.0% of loans at December 31, 2019.

Banco de Occidente focuses on mid-size companies, government, government-owned entities and retail customers and has a diversified revenue stream. At December 31, 2019, its loan portfolio was distributed as follows: 32.5% in consumer and auto lending; 48.7% in corporate and public sector lending; and 18.8% in SMEs. Banco de Occidente had market shares of 8.0% of commercial loans and 4.8% of consumer loans at December 31, 2019.

Banco de Occidente had a market share of 9.8% of checking accounts at December 31, 2019. Additional areas of focus for future growth include credit cards, low-risk consumer loan services and products, such as payroll loans and loans to government agencies.

At December 31, 2019, Banco de Occidente had total consolidated assets of Ps 42,577.7 billion and net income attributable to owners of the parent of Ps 563.4 billion for the year ended December 31, 2019. On a consolidated basis, Banco de Occidente's ROAE was 12.2% for the year ended December 31, 2019.

For the year ended December 31, 2019, Banco de Occidente continued focusing its efforts on the digitization of its credit line for vehicles (*Occiauto Digital*), approving vehicle loans in few minutes. For the year ended December 31, 2019, 31.0% of the bank's total sales of light vehicles were done digitally.

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Lending activities

The following table presents Banco de Occidente's total loans, net at the dates indicated.

	At December 31,		Change, December 31, 2019 vs. December 31, 2018	
	2019	2018	#	%
	(in Ps billions, except for percentages)			
Commercial	22,062.0	20,385.9	1,676.1	8.2
Commercial loans	21,523.3	19,776.6	1,746.7	8.8
Interbank and overnight funds	538.7	609.3	(70.6)	(11.6)
Consumer	7,208.2	6,800.2	407.9	6.0
Mortgages	1,641.3	1,387.4	253.9	18.3
Total gross loans	**30,911.5**	**28,573.6**	**2,337.9**	**8.2**
Loss allowance	(1,537.3)	(1,576.9)	39.6	(2.5)
Total loans, net	**29,374.1**	**26,996.7**	**2,377.5**	**8.8**

Deposit-taking activities

Banco de Occidente has a relatively high proportion of deposits held in checking accounts compared to the Colombian banking system average, contributing to the stability and lowering the overall cost of deposits. At December 31, 2019, 24.3% of Banco de Occidente's deposits on a separate basis were held by customers in checking accounts, as compared to a national banking system average of 14.6% at December 31, 2019.

The following table presents a breakdown of Banco de Occidente's deposits by product type at the dates indicated.

	At December 31,		Change, December 31, 2019 vs. December 31, 2018	
	2019	2018	#	%
	(in Ps billions, except for percentages)			
Checking accounts	6,366.4	6,135.4	231.0	3.8
Savings accounts	12,574.6	11,045.3	1,529.3	13.8
Time deposits	9,728.0	8,367.5	1,360.5	16.3
Other deposits(1)	57.4	44.0	13.4	30.4
Customer deposits	**28,726.4**	**25,592.2**	**3,134.1**	**12.2**

(1) Includes funds held in trust, banks and correspondents.

Distribution

The following table presents Banco de Occidente's points of service across in Colombia.

	At December 31,	
	2019	2018
Branches	210	211
ATMs	330	331
Banking correspondents	19,571	7,530
Other points of service	6	6
Total points of service	**20,117**	**8,078**

Banco de Occidente had a network concentration of 45.2% in Colombia's central region, of which Bogotá represented 20.7% of Banco de Occidente's total network at December 31, 2019. Banco de Occidente is also active in the southwestern region of Colombia, in which 13.9% of its distribution network is located. Banco de Occidente had 3.8% market share of branches and 2.0% market share of ATMs at December 31, 2019. During 2019, the bank entered into a banking correspondence agreement with Efecty, a large player in the Colombian payment and remittances market.

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Banco Popular Segment

Banco Popular is the eighth largest bank in Colombia in loans with a market share of 4.2% at December 31, 2019. Banco Popular operates primarily in the consumer and government and government-owned businesses, with operations across all regions of Colombia. Banco Popular is one of the leading providers of financial solutions to government entities nationwide, especially in departments (country subdivisions), making it the second largest credit provider and a strong collector of public sector deposits. A significant part of its consumer loan portfolio consists of payroll loans to public sector employees.

Banco Popular's consumer loan portfolio has a substantially lower-risk profile (consumer loans past due more than 30 days as a percentage of consumer loans of 3.1% compared to a banking system average of 4.7% at December 31, 2019) due to its concentration in payroll deductions for repayment of loans.

At December 31, 2019, Banco Popular had total consolidated assets of Ps 25,117.6 billion and net income attributable to owners of the parent of Ps 301.3 billion for the year ended December 31, 2019. Banco Popular's focus on consumer loans and institutional customers generates a mix of broad and stable sources of revenues. Banco Popular's consolidated ROAE was 10.3% for the year ended December 31, 2019.

Banco Popular's strategy for the future is based on four pillars: (i) strengthen its leadership in payroll loans supported by digitalization; (ii) diversify product offering, such as credit cards and mortgages; and (iii) further penetrate the medium-size business sector (companies with annual incomes of between Ps 2 billion and Ps 120 billion).

During 2019 and 2018, Banco Popular focused its digitalization efforts on payroll loans (*Libranza Digital*), digital credit card, digital savings account, collection and sales analytics, and on an upgrade of its online banking platform. Although at an early stage, the bank is now capable of (i) approving payrolls in less than 10 minutes and disbursing them in less than 24 hours, (ii) approving a credit card in less than 35 minutes, and (iii) opening a digital savings account in less than two minutes. All these efforts are expected to continue contributing to loan growth over the coming years.

Lending activities

The following table presents Banco Popular's total loans, net at the dates indicated.

	At December 31,		Change, December 31, 2019 vs. December 31, 2018	
	2019	2018	#	%
	(in Ps billions)			
Commercial	7,333.2	7,419.2	(86.1)	(1.2)
Commercial loans	7,315.9	7,391.6	(75.7)	(1.0)
Interbank and overnight funds	17.2	27.6	(10.4)	(37.6)
Consumer	11,961.1	10,828.4	1,132.7	10.5
Mortgages	951.8	813.7	138.1	17.0
Microcredit	5.4	6.4	(1.0)	(14.9)
Total gross loans	**20,251.5**	**19,067.8**	**1,183.7**	**6.2**
Loss allowance	(991.3)	(780.6)	(210.7)	27.0
Total loans, net	**19,260.2**	**18,287.2**	**973.0**	**5.3**

Deposit-taking activities

Banco Popular generates a substantial portion of its deposits through agreements with customers pursuant to which they agree to maintain a certain level of deposits in checking and/or savings accounts in exchange for the performance of services, primarily payment and collection services. These deposits totaled Ps 5,525 billion, representing approximately 58.8% of total checking and savings accounts, at December 31, 2019.

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The following table presents a breakdown of Banco Popular's deposits by product type at the dates indicated.

	At December 31,		Change, December 31, 2019 vs. December 31, 2018	
	2019	2018	#	%
	(in Ps billions)			
Checking accounts	1,101.0	1,078.7	22.3	2.1
Savings accounts	8,300.2	9,437.6	(1,137.4)	(12.1)
Time deposits	7,573.3	6,914.0	659.3	9.5
Other deposits	14.4	141.1	(126.7)	(89.8)
Customer deposits	**16,988.9**	**17,571.4**	**(582.4)**	**(3.3)**

Distribution

The following table presents Banco Popular's points of service in Colombia.

	At December 31,	
	2019	2018
Branches	199	211
ATMs	816	851
Banking correspondents	113	115
Other points of service	35	43
Total points of service	**1,163**	**1,220**

As of December 31, 2019, Banco Popular had a network concentration of 49.4% in Colombia's central region, of which Bogotá represented 25.6%. Banco Popular had a market share of 3.6% of branches and a market share of 4.9% of ATMs at December 31, 2019. Banco Popular continued with the optimization process of its distribution channel that started in 2018 that resulted in additional closures of 12 branches (5.7% of the total) and 35 ATMs (4.1% of the total).

Banco AV Villas Segment

Banco AV Villas has a broad service network throughout central and northern Colombia, including Bogotá. Banco AV Villas had a market share of 2.9% of deposits, 2.5% of loans, 4.5% of consumer loans and 3.5% of mortgages at December 31, 2019.

At December 31, 2019, Banco AV Villas had total consolidated assets of Ps 15,207.5 billion and net income attributable to owners of the parent was Ps 236.0 billion, and consolidated ROAE for the year ended December 31, 2019 was 14.1%. Just as Banco Popular, Banco AV Villas saw an important improvement on its returns on 2018 after recovering from the impact of a declining economic scenario and increasing interest rates.

In the consumer segment, Banco AV Villas focuses on services and products, such as payroll loans and credit cards, as well as its traditional line of mortgages. It serves customers through a recently expanded sales force and through its traditional retail network, enterprise business centers and Express Branches.

Banco AV Villas also seeks to continue to expand in the small- and medium-size corporate segment. In order to increase transaction volume through electronic channels and improve efficiency, Banco AV Villas is developing projects focusing its efforts on the digitalization of the bank's services to improve customer service experience.

Lending activities

The following table presents Banco AV Villas' total loans, net at the dates indicated.

	At December 31,		Change, December 31, 2019 vs. December 31, 2018	
	2019	2018	#	%
	(in Ps billions)			
Commercial	2,947.8	3,013.5	(65.7)	(2.2)
Commercial loans	2,947.8	2,963.0	(15.1)	(0.5)
Interbank and overnight funds	—	50.5	(50.5)	(100.0)
Consumer	6,797.0	6,289.0	508.0	8.1
Mortgages	2,419.3	2,264.0	155.4	6.9
Microcredit	0.9	1.0	(0.1)	(10.3)
Total gross loans	**12,165.1**	**11,567.5**	**597.6**	**5.2**
Loss allowance	(493.9)	(539.6)	45.8	(8.5)
Total loans, net	**11,671.2**	**11,027.8**	**643.4**	**5.8**

Deposit-taking activities

Banco AV Villas offers customers checking accounts, savings accounts, time deposits and other deposits consisting primarily of transactional accounts. Banco AV Villas' average savings account interest rate, one of the lowest in the market, is explained by a sizeable retail network and a low concentration of corporate and government accounts.

The following table presents a breakdown of Banco AV Villas' deposits by product type at the dates indicated.

	At December 31,		Change, December 31, 2019 vs. December 31, 2018	
	2019	2018	#	%
	(in Ps billions)			
Checking accounts	1,072.5	949.8	122.6	12.9
Savings accounts	6,156.9	5,916.6	240.3	4.1
Time deposits	4,618.2	4,556.5	61.7	1.4
Other deposits	3.8	2.4	1.4	55.4
Customer deposits	**11,851.4**	**11,425.4**	**426.0**	**3.7**

Distribution

The following table presents Banco AV Villas' points of service in Colombia.

	At December 31,	
	2019	2018
Branches	295	296
ATMs	587	584
Banking correspondents	3,276	4,229
Total points of service	**4,158**	**5,109**

Banco AV Villas had a network concentration of 70.9% in Colombia's central region, of which Bogotá represents 45.1% of Banco de AV Villas' total network at December 31, 2019. Banco AV Villas had 8.8% of its network in the southwestern region at December 31, 2019. Banco AV Villas had a market share of 5.4% of branches and a market share of 3.6% of ATMs at December 31, 2019.

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Corficolombiana Segment

Corficolombiana is the largest merchant bank in Colombia based on total assets at December 31, 2019. Corficolombiana focuses on four main lines of business: (i) equity investments in strategic sectors of the Colombian economy, including, in particular, infrastructure, energy and gas, agribusiness and hospitality; (ii) investment banking, including services relating to capital markets, mergers and acquisitions and project finance transactions; (iii) treasury operations; and (iv) financial services such as leasing, fiduciary and private banking.

Corficolombiana had consolidated total assets and shareholders' equity attributable to owners of the parent of Ps 31,809.6 billion and Ps 7,697.7 billion, respectively, at December 31, 2019 and net income attributable to owners of the parent of Ps 1,531.3 billion for the year ended December 31, 2018.

Corficolombiana's business model is based on the premise of investing in businesses in strategic sectors of the Colombian economy. Corficolombiana's equity investment strategy is to target acquiring and holding majority or substantial stakes in strategic businesses. These investments enable Corficolombiana to exert influence or control over these businesses' operations and to promote revenue growth, operational efficiencies and optimization of the capital structures.

Corficolombiana is regulated as a merchant bank (*corporación financiera*) by the Superintendency of Finance. Under Colombian law, a merchant bank is permitted to hold equity ownership positions in both financial and non-financial companies, unlike banks, which may only invest in financial companies. See "Item 4. Information on the Company—B. Business overview—Supervision and regulation".

Corficolombiana's asset distribution by sectors

Corficolombiana primarily invests in five sectors of the Colombian economy: energy and gas; infrastructure; agribusiness; hotels and financial services. It generally seeks to invest in businesses with leading market positions, strong cash flows and growth potential.

The following table provides information regarding Corficolombiana's consolidated assets distributed by sectors at December 31, 2019.

	At December 31, 2019					
	Energy and Gas	Infrastructure	Financial Services & Others	Hotels	Agribusiness	Total
	(in Ps billions)					
Total assets(1)	**11,811.7**	**12,153.3**	**6,268.7**	**889.5**	**686.4**	**31,809.6**
As a percentage of total assets	37.1%	38.2%	19.7%	2.8%	2.2%	100.0%

(1) Eliminations are assigned to each operating segment.

Corficolombiana's main investments in the energy and gas sector include a 50.9% controlling stake in Promigas S.A. E.S.P., the second largest natural gas pipeline and distribution company in Colombia, a minority stake in Grupo Energía Bogotá S.A. E.S.P, or "GEB", an electricity and gas group, and Gas Natural S.A. E.S.P., the gas distribution company for the city of Bogotá, and a majority stake in a gas distribution company in northern Perú (Gas Comprimido del Perú S.A. - Gascop).

Corficolombiana's infrastructure investments are concentrated mainly in toll road concession projects, a sector in which it is a leading private investor in Colombia. The main investments of Corficolombiana in the infrastructure sector include Proyectos de Infraestructura S.A. (Buga-Tuluá-La Paila), Concesionaria Vial de los Andes S.A.S. (Bogotá-Villavicencio), Concesiones CCFC S.A. (Fontibón-Los Alpes), Concesionaria Panamericana S.A.S. (Los Alpes-Villeta and Chuguacal-Cambao), Concesionaria Vial del Pacífico S.A.S. (Ancón Sur-Bolombolo or "Conexión Pacífico 1"), Concesionaria Nueva Vía al Mar S.A.S. (Mulaló-Loboguerrero), Concesionaria Vial Andina S.A.S. (Bogotá-Villavicencio) and Concesionaria

Vial del Oriente S.A.S. (Villavicencio-Yopal). During 2017 we acquired, through Corficolombiana, an additional 40% stake in both Covipacífico (Concesionaria Vial del Pacífico S.A.S.) and in Covimar (Concesionaria Nueva Vía al Mar S.A.S.); after the transaction, Corficolombiana gained control in Covipacífico (now owning 89.9%) and owns 100.0% of Covimar. The price paid for the 40% stakes was Ps 185.1 billion.

Corficolombiana's main investments in agribusiness are centered on forestry and woodworking as well as the production of palm oil, rubber, rice and cotton mainly through Organización Pajonales S.A. and Unipalma S.A.

Corficolombiana also has investments in the hospitality sector. These include majority stakes in Hoteles Estelar de Colombia S.A. and Promotora y Comercializadora Turística Santamar S.A.

In the financial-services sector, Corficolombiana offers leasing, trust, brokerage and offshore banking services to third-party customers through three subsidiaries: Leasing Corficolombiana S.A. (under voluntary liquidation), Fiduciaria Corficolombiana S.A. and Casa de Bolsa S.A.

Lending activities

The following table presents Corficolombiana's total loans, net at the dates indicated.

	At December 31,		Change, December 31, 2019 vs. December 31, 2018	
	2019	2018	#	%
	(in Ps billions)			
Commercial(1)	1,693.0	2,364.0	(671.0)	(28.4)
Commercial loans	1,264.8	2,007.4	(742.6)	(37.0)
Interbank and overnight funds	428.2	356.6	71.6	20.1
Consumer	434.1	366.9	67.3	18.3
Mortgages	10.2	11.0	(0.8)	(6.9)
Total gross loans	**2,137.4**	**2,741.9**	**(604.5)**	**(22.0)**
Loss allowance	(21.6)	(166.3)	144.8	(87.0)
Total loans, net	**2,115.9**	**2,575.6**	**(459.7)**	**(17.8)**

(1) Includes a Ps 1,100.2 billion and Ps 1,158.2 billion financial lease originated by Sociedad Portuaria del Cayao (SPEC) to a third party for LNG regasification services in 2019 and 2018, respectively.

In 2019, Leasing Corficolombiana concluded the assignment of all of its loans to Banco de Bogotá and Banco de Occidente.

Deposit-taking activities

The following table presents a breakdown of Corficolombiana's deposits by product type at the dates indicated.

	At December 31,		Change, December 31, 2019 vs. December 31, 2018	
	2019	2018	#	%
	(in Ps billions)			
Savings accounts	467.8	567.7	(100.0)	(17.6)
Time deposits	3,530.7	3,189.9	340.9	10.7
Other deposits	69.0	47.4	21.6	45.5
Customer deposits	**4,067.5**	**3,805.0**	**262.5**	**6.9**

Investment banking and treasury businesses

Corficolombiana's investment banking team provides advice to third-party clients in the Colombian market covering a broad range of transactions, including, among others, capital markets, mergers and acquisitions and project finance.

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Corficolombiana has helped to and is expected to continue to lead the participation of the private sector in infrastructure projects, to develop the domestic capital markets and to expand the resources and operations of local companies in the region. In 2019, Corficolombiana's investment bank helped raise financing and coordinate projects totaling Ps 7.1 billion, some of its clients were related parties.

Corficolombiana's treasury operation is a relevant participant in Colombian capital markets, both in sovereign and corporate debt securities and foreign currency-denominated securities. It is also an active participant in the derivatives market, and an active market maker for Colombian sovereign debt securities. At December 31, 2019, Corficolombiana had consolidated total fixed income assets of Ps 2,813.5 billion.

Other corporate information

Technology

We continuously invest in new technology and the renewal of equipment and infrastructure in order to serve customers effectively, improve our profitability and grow our business. We believe that proper management of technology is key to the efficient management of our business. Our technology architecture focuses on our customers and supports our business model.

Our Colombian banking subsidiaries currently operate in a hybrid IT model. Core banking processes are handled directly by each banking subsidiary, and electronic channels and administrative processes such as accounting, purchasing and budgeting operate in our shared services center, ATH and/or Nexa BPO. This model of centralization of our technological operation will continue its development in these shared services in order to achieve medium-term savings that optimize the results of Grupo Aval as a whole.

Our principal projects currently consist of the following:

- Technological infrastructure: By 2020, we expect to have integrated our telecommunications and cash management in our centralized technological operation.

- Basic software activity: We are focusing on the standardization of some processes in our banking subsidiaries, such as master data management (MDM), business process management (BPM) and customer relationship management (CRM).

- Digitalization: Our focus on digitalization encompasses creating new products (customer experience) and transversal microservices that can be invoked though new apps or channels.

- Policies: We continue working on migrating and implementing homogeneous policies in all our technological processes such as cybersecurity.

Intellectual property

We register and monitor our brands and trademarks in Colombia and abroad according to the importance of such brands and trademarks to our and our subsidiaries' marketing and commercial strategy. Certain of brands and trademarks of Grupo Aval's are registered in South and Central American countries and in the United States and México.

Corporate social responsibility

During 2019 we launched a new effort to consolidate and coordinate the social and environmental activities of our subsidiaries, to collectively increase our impact on our stakeholders. This approach on sustainability focuses on the business and understands it, not only from its economic impact, but from its social and environmental impact and its ability to create long-term value.

Our sustainability effort covers four dimensions (i) economic, (ii) corporate governance, (iii) social and (iv) environmental. Within this dimensions, Grupo Aval has defined the following material topics in which the group and its subsidiaries will focus their efforts:

(1) Corporate Governance and risk: (i) Governance structure, (ii) Ethics, and (iii) Risk;

(2) Financial performance: (i) Subsidiary management, (ii) Innovation, (iii) Corporate Marketing, and (iv) Investor services;

(3) Human Capital: (i) Talent retention and training, (ii) Employee health and safety, and (iii) Diversity and inclusion; and

(4) Community (Social and environmental): (i) Financial inclusion, (ii) Corporate procurement, and (iii) Social investment;

Management of these material matters will allow Grupo Aval to achieve sustainable growth through strong governance practices, protection of the environment and social contribution.

To meet these goals, Grupo Aval will continue strengthening its governance, in line with current practice, through an effort led by the holding company permeating down to its business units. We will strive for higher environmental, social and governance (ESG) standards and ratings to align our interests with those of our current and potential stakeholders.

Selected statistical data

The following information is included for analytical purposes and should be read in conjunction with our audited consolidated financial statements included in this annual report as well as "Operating and financial review and prospects". This information has been presented based on our financial records, which are prepared in accordance with IFRS. The selected statistical data of Grupo Aval at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017, as applicable, have been derived from our annual audited consolidated financial statements prepared in accordance with IFRS that are included in this annual report. We believe that the average data set forth herein accurately reflects in all material aspects our financial condition and results of operation at the date and for the periods specified.

Distribution of assets, liabilities and equity, interest rates and interest differential

- average statement of financial position for 2019, 2018 and 2017 have been calculated as follows: the average of balances at December 31, at September 30, at June 30, and at March 31 of the corresponding year, and the balance at December 31, of the previous year.

Average Statement of Financial Position

For the years ended December 31, 2019, 2018 and 2017, the following table presents:

- average balances for 2019, 2018 and 2017 calculated using the average of balances for our assets and liabilities (based on a five period average) according with above paragraph;

- interest income earned on assets and interest paid on liabilities; and

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- average yield and interest rate for our interest-earning assets and interest-bearing liabilities, respectively.

Average statement of financial position and income from interest-earning and non-interest-earning assets for the years ended December 31,

	2019			2018			2017		
	Average balance	Interest income earned	Average yield	Average balance	Interest income earned	Average yield	Average balance	Interest income earned	Average yield
	(in Ps billions, except percentages)								
ASSETS									
Interest-earning assets									
Fixed Income Investments									
Domestic									
Peso-denominated	13,110.5	620.2	4.7 %	12,962.8	669.8	5.2 %	10,906.8	465.7	4.3 %
Foreign -denominated	3,468.9	106.9	3.1 %	3,624.9	98.5	2.7 %	3,758.9	180.2	4.8 %
Total domestic	16,579.4	727.1	4.4 %	16,587.6	768.3	4.6 %	14,665.7	645.9	4.4 %
Foreign	6,674.6	334.4	5.0 %	5,215.2	197.7	3.8 %	5,225.1	196.0	3.8 %
Total	**23,254.0**	**1,061.6**	**4.6 %**	**21,802.9**	**966.0**	**4.4 %**	**19,890.8**	**841.9**	**4.2 %**
Interbank and overnight funds									
Domestic									
Peso-denominated	1,943.9	153.6	7.9 %	2,506.1	114.4	4.6 %	1,860.9	118.3	6.4 %
Foreign -denominated	790.1	211.0	26.7 %	1,140.8	111.7	9.8 %	1,495.1	103.8	6.9 %
Total domestic	2,734.0	364.5	13.3 %	3,646.9	226.1	6.2 %	3,356.0	222.1	6.6 %
Foreign	1,880.3	155.0	8.2 %	2,366.2	117.0	4.9 %	2,059.6	65.9	3.2 %
Total	**4,614.3**	**519.6**	**11.3 %**	**6,013.0**	**343.1**	**5.7 %**	**5,415.6**	**288.0**	**5.3 %**
Loans and leases									
Domestic									
Peso-denominated	108,485.1	11,471.7	10.6 %	103,269.3	11,367.4	11.0 %	100,125.4	12,387.3	12.4 %
Foreign -denominated	11,356.3	684.8	6.0 %	10,969.4	644.9	5.9 %	10,288.3	495.4	4.8 %
Total domestic	119,841.4	12,156.6	10.1 %	114,238.7	12,012.3	10.5 %	110,413.7	12,882.7	11.7 %
Foreign	53,560.0	5,815.0	10.9 %	47,209.3	5,035.2	10.7 %	44,064.1	4,729.3	10.7 %
Total	**173,401.5**	**17,971.6**	**10.4 %**	**161,447.9**	**17,047.5**	**10.6 %**	**154,477.8**	**17,612.0**	**11.4 %**
Loans and receivables (1)									
Domestic									
Peso-denominated	110,429.0	11,625.3	10.5 %	105,775.4	11,481.7	10.9 %	101,986.3	12,505.6	12.3 %
Foreign currency-denominated	12,146.4	895.8	7.4 %	12,110.1	756.6	6.2 %	11,783.4	599.2	5.1 %
Total domestic	122,575.4	12,521.1	10.2 %	117,885.5	12,238.4	10.4 %	113,769.7	13,104.8	11.5 %
Foreign	55,440.4	5,970.1	10.8 %	49,575.4	5,152.2	10.4 %	46,123.7	4,795.2	10.4 %
Total	**178,015.8**	**18,491.2**	**10.4 %**	**167,460.9**	**17,390.6**	**10.4 %**	**159,893.4**	**17,900.0**	**11.2 %**
Total interest-earning assets									
Domestic									
Peso-denominated	123,539.5	12,245.5	9.9 %	118,738.1	12,151.6	10.2 %	112,893.1	12,971.3	11.5 %
Foreign currency-denominated	15,615.3	1,002.7	6.4 %	15,735.0	855.2	5.4 %	15,542.3	779.3	5.0 %
Total domestic	139,154.8	13,248.2	9.5 %	134,473.2	13,006.7	9.7 %	128,435.4	13,750.6	10.7 %
Foreign	62,114.9	6,304.5	10.1 %	54,790.7	5,349.9	9.8 %	51,348.8	4,991.2	9.7 %
Total interest-earning assets	**201,269.8**	**19,552.7**	**9.7 %**	**189,263.8**	**18,356.6**	**9.7 %**	**179,784.2**	**18,741.8**	**10.4 %**
Total non-interest-earning assets	**65,789.1**	—	—	**51,641.6**	—	—	**49,531.1**	—	—
Total interest-earning and non interest-earning assets									
Domestic									
Peso-denominated	159,707.6	12,245.5	7.7 %	148,470.3	12,151.6	8.2 %	140,811.3	12,971.3	9.2 %
Foreign currency-denominated	27,068.6	1,002.7	3.7 %	21,879.2	855.2	3.9 %	22,022.2	779.3	3.5 %
Total domestic	**186,776.1**	**13,248.2**	**7.1 %**	**170,349.5**	**13,006.7**	**7.6 %**	**162,833.5**	**13,750.6**	**8.4 %**
Foreign	**80,282.7**	**6,304.5**	**7.9 %**	**70,555.9**	**5,349.9**	**7.6 %**	**66,481.8**	**4,991.2**	**7.5 %**
Total assets	**267,058.8**	**19,552.7**	**7.3 %**	**240,905.4**	**18,356.6**	**7.6 %**	**229,315.3**	**18,741.8**	**8.2 %**

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Average statement of financial position and income from interest-bearing and non-interest-bearing liabilities and equity for the years ended December 31,

	2019			2018			2017		
	Average balance	Interest expense paid	Average interest rate	Average balance	Interest expense paid	Average interest rate	Average balance	Interest expense paid	Average interest rate
	(in Ps billions, except percentages)								
LIABILITIES AND EQUITY									
Interest-bearing liabilities									
Checking accounts									
Domestic									
Peso-denominated	4,002.8	97.0	2.4 %	4,422.5	113.1	2.6 %	4,376.7	146.4	3.3 %
Foreign currency-denominated	4,815.6	182.5	3.8 %	3,637.2	129.5	3.6 %	5,078.3	61.2	1.2 %
Total domestic	8,818.4	279.5	3.2 %	8,059.8	242.6	3.0 %	9,455.0	207.6	2.2 %
Foreign	14,546.6	134.4	0.9 %	12,472.9	107.6	0.9 %	11,662.4	101.7	0.9 %
Total	**23,364.9**	**413.9**	**1.8 %**	**20,532.7**	**350.2**	**1.7 %**	**21,117.4**	**309.3**	**1.5 %**
Savings accounts									
Domestic									
Peso-denominated	46,542.6	1,357.1	2.9 %	45,693.8	1,378.7	3.0 %	43,090.9	1,870.8	4.3 %
Foreign currency-denominated	496.7	4.9	1.0 %	648.6	1.0	0.2 %	875.4	2.2	0.2 %
Total domestic	47,039.3	1,362.0	2.9 %	46,342.4	1,379.7	3.0 %	43,966.3	1,873.0	4.3 %
Foreign	10,257.0	141.3	1.4 %	8,748.1	117.3	1.3 %	8,084.4	106.0	1.3 %
Total	**57,296.3**	**1,503.3**	**2.6 %**	**55,090.4**	**1,497.0**	**2.7 %**	**52,050.8**	**1,979.0**	**3.8 %**
Time deposits									
Domestic									
Peso-denominated	37,948.2	2,063.3	5.4 %	35,002.2	2,021.4	5.8 %	34,179.1	2,472.1	7.2 %
Foreign currency-denominated	8,650.9	228.6	2.6 %	7,793.4	181.3	2.3 %	9,070.0	146.2	1.6 %
Total domestic	46,599.2	2,291.9	4.9 %	42,795.5	2,202.7	5.1 %	43,249.1	2,618.3	6.1 %
Foreign	24,659.4	1,303.7	5.3 %	21,278.7	1,093.8	5.1 %	18,859.6	942.2	5.0 %
Total	**71,258.5**	**3,595.6**	**5.0 %**	**64,074.3**	**3,296.5**	**5.1 %**	**62,108.7**	**3,560.5**	**5.7 %**
Total interest bearing deposits									
Domestic									
Peso-denominated	88,493.6	3,517.3	4.0 %	85,118.5	3,513.2	4.1 %	81,646.7	4,489.3	5.5 %
Foreign currency-denominated	13,963.3	416.1	3.0 %	12,079.2	311.8	2.6 %	15,023.7	209.6	1.4 %
Total domestic	102,456.9	3,933.4	3.8 %	97,197.7	3,825.0	3.9 %	96,670.5	4,698.9	4.9 %
Foreign	49,462.9	1,579.4	3.2 %	42,499.7	1,318.7	3.1 %	38,606.4	1,149.9	3.0 %
Total	**151,919.8**	**5,512.8**	**3.6 %**	**139,697.4**	**5,143.7**	**3.7 %**	**135,276.9**	**5,848.8**	**4.3 %**
Interbank and overnight funds (2)									
Domestic									
Peso-denominated	6,317.0	305.9	4.8 %	5,218.9	225.9	4.3 %	5,189.1	246.9	4.8 %
Foreign currency-denominated	692.3	66.9	9.7 %	759.2	31.9	4.2 %	781.4	30.1	3.8 %
Total domestic	7,009.4	372.8	5.3 %	5,978.0	257.8	4.3 %	5,970.5	277.0	4.6 %
Foreign	888.9	8.1	0.9 %	938.0	8.3	0.9 %	780.8	10.4	1.3 %
Total	**7,898.2**	**380.9**	**4.8 %**	**6,916.0**	**266.1**	**3.8 %**	**6,751.3**	**287.4**	**4.3 %**
Borrowings from banks and other									
Domestic									
Peso-denominated	6,091.8	394.0	6.5 %	4,425.9	289.6	6.5 %	4,991.6	386.8	7.7 %
Foreign currency-denominated	8,577.3	256.3	3.0 %	6,765.3	153.5	2.3 %	5,611.5	88.3	1.6 %
Total domestic	14,669.1	650.3	4.4 %	11,191.2	443.1	4.0 %	10,603.1	475.1	4.5 %
Foreign	9,846.4	502.8	5.1 %	9,841.0	469.2	4.8 %	10,313.6	454.2	4.4 %
Total	**24,515.5**	**1,153.1**	**4.7 %**	**21,032.3**	**912.4**	**4.3 %**	**20,916.7**	**929.3**	**4.4 %**
Long-term debt									
Domestic									
Peso-denominated	9,025.2	598.7	6.6 %	8,847.2	604.3	6.8 %	7,941.5	624.2	7.9 %
Foreign currency-denominated	10,629.8	555.6	5.2 %	9,452.3	500.7	5.3 %	8,716.3	454.8	5.2 %
Total domestic	19,655.0	1,154.3	5.9 %	18,299.6	1,105.0	6.0 %	16,657.8	1,079.0	6.5 %
Foreign	1,065.2	66.1	6.2 %	953.4	57.7	6.1 %	1,260.6	83.2	6.6 %
Total	**20,720.2**	**1,220.4**	**5.9 %**	**19,253.0**	**1,162.7**	**6.0 %**	**17,918.4**	**1,162.2**	**6.5 %**
Total interest-bearing liabilities									
Domestic									
Peso-denominated	109,927.6	4,815.9	4.4 %	103,610.6	4,633.0	4.5 %	99,768.9	5,747.2	5.8 %
Foreign currency-denominated	33,862.8	1,294.8	3.8 %	29,056.0	997.9	3.4 %	30,132.9	782.8	2.6 %
Total domestic	143,790.3	6,110.8	4.2 %	132,666.6	5,630.9	4.2 %	129,901.8	6,530.0	5.0 %
Foreign	61,263.3	2,156.4	3.5 %	54,232.1	1,853.9	3.4 %	50,961.5	1,697.7	3.3 %
Total interest-bearing liabilities	**205,053.7**	**8,267.2**	**4.0 %**	**186,898.6**	**7,484.8**	**4.0 %**	**180,863.3**	**8,227.7**	**4.5 %**
Total non-interest-bearing liabilities and equity	**62,005.1**	—	—	**54,006.8**	—	—	**48,451.9**	—	—
Total liabilities and equity	**267,058.8**	**8,267.2**	**3.1 %**	**240,905.4**	**7,484.8**	**3.1 %**	**229,315.3**	**8,227.7**	**3.6 %**

(1) Includes loans and leases and interbank and overnight funds

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(2) Reflects operations involving: common short-term interbank funds, repurchase transactions (repos), simultaneous operations and transactions involving the temporary transfer of securities.

Changes in net interest income and expenses – volume and rate analysis

The following tables allocate by currency of denomination, the changes in our interest income (interest-earning assets) and interest expense (interest-bearing liabilities) between the changes in average volume and changes in average yield (interest-earning assets) and average rates (interest-bearing liabilities) for the year ended December 31, 2019 compared to the year ended December 31, 2018 and the year ended December 31, 2018 compared to the year ended December 31, 2017. Volume and rate variances have been calculated based on variances in average balances over the period and changes in nominal interest rates on average interest-earning assets and average interest-bearing liabilities as follows: (a) changes in volume (change in volume times new rate) and (b) changes in rates (change in rate times old volume). Net changes attributable to changes in both volume and interest rate have been allocated to changes in volume. You should read the following tables and the footnotes thereto in conjunction to our observations noted in "—Average statement of financial position".

	2019 - 2018 Increase (decrease) due to changes in			2018 - 2017 Increase (decrease) due to changes in		
	Volume	Rate	Net change	Volume	Rate	Net change
	(in Ps billions, except percentages)					
Interest-earning assets:						
Fixed Income Investments						
Domestic						
Peso-Denominated	7.0	(56.6)	(49.6)	106.2	97.9	204.1
Foreign currency-denominated	(4.8)	13.2	8.4	(3.6)	(78.0)	(81.7)
Sum domestic	**2.2**	**(43.4)**	**(41.2)**	**102.6**	**19.8**	**122.4**
Foreign	**73.1**	**63.6**	**136.7**	**(0.4)**	**2.1**	**1.7**
Sum	**75.3**	**20.2**	**95.5**	**102.2**	**21.9**	**124.2**
Interbank loans and overnight funds						
Domestic						
Peso-Denominated	(44.4)	83.6	39.2	29.4	(33.3)	(3.9)
Foreign currency-denominated	(93.6)	192.9	99.2	(34.7)	42.6	7.9
Sum domestic	**(138.1)**	**276.5**	**138.4**	**(5.3)**	**9.3**	**4.0**
Foreign	**(40.1)**	**78.1**	**38.0**	**15.2**	**35.9**	**51.1**
Sum	**(178.1)**	**354.6**	**176.5**	**9.9**	**45.2**	**55.1**
Loans and leases						
Domestic						
Peso-Denominated	551.5	(447.2)	104.4	346.1	(1,366.0)	(1,019.9)
Foreign currency-denominated	23.3	16.6	39.9	40.0	109.5	149.6
Sum domestic	**574.9**	**(430.6)**	**144.3**	**386.1**	**(1,256.5)**	**(870.4)**
Foreign	**689.5**	**90.3**	**779.8**	**335.5**	**(29.6)**	**305.9**
Sum	**1,264.4**	**(340.3)**	**924.1**	**721.6**	**(1,286.1)**	**(564.5)**
Sum interest-earnings assets						
Domestic						
Peso-Denominated	514.1	(420.2)	93.9	481.7	(1,301.5)	(819.7)
Foreign currency-denominated	(75.1)	222.7	147.6	1.7	74.1	75.8
Sum domestic	**439.0**	**(197.5)**	**241.5**	**483.4**	**(1,227.3)**	**(743.9)**
Foreign	**722.6**	**232.0**	**954.6**	**350.2**	**8.5**	**358.7**
Sum interest-earnings assets	**1,161.6**	**34.5**	**1,196.1**	**833.7**	**(1,218.9)**	**(385.2)**
Interest-bearing liabilities						
Interest-bearing checking accounts						
Domestic						
Peso-Denominated	(10.2)	(5.9)	(16.1)	1.2	(34.5)	(33.4)
Foreign currency-denominated	44.7	8.3	53.0	(51.3)	119.7	68.4
Sum domestic	**34.5**	**2.4**	**36.9**	**(50.2)**	**85.2**	**35.0**

	2019 - 2018 Increase (decrease) due to changes in			2018 - 2017 Increase (decrease) due to changes in		
	Volume	Rate	Net change	Volume	Rate	Net change
	(in Ps billions, except percentages)					
Foreign	**19.2**	**7.7**	**26.8**	**7.0**	**(1.2)**	**5.8**
Sum	**53.6**	**10.1**	**63.8**	**(43.2)**	**84.0**	**40.8**
Saving accounts						
Domestic						
Peso-Denominated	24.7	(46.4)	(21.7)	78.5	(570.6)	(492.1)
Foreign currency-denominated	(1.5)	5.5	3.9	(0.3)	(0.8)	(1.1)
Sum domestic	**23.2**	**(41.0)**	**(17.7)**	**78.2**	**(571.4)**	**(493.2)**
Foreign	**20.8**	**3.2**	**24.0**	**8.9**	**2.4**	**11.3**
Sum	**44.0**	**(37.8)**	**6.2**	**87.1**	**(569.0)**	**(481.9)**
Time deposits						
Domestic						
Peso-Denominated	160.2	(118.3)	41.9	47.5	(498.2)	(450.6)
Foreign currency-denominated	22.7	24.7	47.4	(29.7)	64.7	35.0
Sum domestic	**182.8**	**(93.6)**	**89.2**	**17.8**	**(433.5)**	**(415.6)**
Foreign	**178.7**	**31.1**	**209.9**	**124.4**	**27.3**	**151.7**
Sum	**361.6**	**(62.5)**	**299.1**	**142.2**	**(406.2)**	**(264.0)**
Interbank and overnight funds						
Domestic						
Peso-Denominated	53.2	26.8	80.0	1.3	(22.2)	(20.9)
Foreign currency-denominated	(6.5)	41.5	35.0	(0.9)	2.8	1.8
Sum domestic	**46.7**	**68.3**	**115.0**	**0.4**	**(19.5)**	**(19.1)**
Foreign	**(0.4)**	**0.3**	**(0.2)**	**1.4**	**(3.5)**	**(2.2)**
Sum	**46.3**	**68.5**	**114.8**	**1.7**	**(23.0)**	**(21.3)**
Borrowings from banks and other						
Domestic						
Peso-Denominated	107.7	(3.4)	104.4	(37.0)	(60.2)	(97.2)
Foreign currency-denominated	54.1	48.6	102.8	26.2	39.0	65.2
Sum domestic	**161.9**	**45.3**	**207.2**	**(10.8)**	**(21.1)**	**(32.0)**
Foreign	**0.3**	**33.3**	**33.6**	**(22.5)**	**37.5**	**15.0**
Sum	**162.2**	**78.6**	**240.7**	**(33.4)**	**16.4**	**(17.0)**
Long-term debt						
Domestic						
Peso-Denominated	11.8	(17.4)	(5.5)	61.9	(81.8)	(19.9)
Foreign currency-denominated	61.5	(6.7)	54.9	39.0	6.9	45.9
Sum domestic	**73.3**	**(24.0)**	**49.3**	**100.9**	**(74.9)**	**26.0**
Foreign	**6.9**	**1.5**	**8.4**	**(18.6)**	**(6.9)**	**(25.5)**
Sum	**80.3**	**(22.6)**	**57.7**	**82.3**	**(81.8)**	**0.5**
Sum interest-bearing liabilities						
Domestic						
Peso-Denominated	347.5	(164.5)	183.0	153.4	(1,267.5)	(1,114.1)
Foreign currency-denominated	175.1	121.9	296.9	(17.1)	232.3	215.2
Sum domestic	**522.5**	**(42.6)**	**479.9**	**136.3**	**(1,035.2)**	**(899.0)**
Foreign	**225.4**	**77.0**	**302.5**	**100.5**	**55.6**	**156.1**
Sum interest-bearing liabilities	**748.0**	**34.4**	**782.4**	**236.8**	**(979.6)**	**(742.8)**

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Interest-earning assets – net interest margin and spread

The following table presents average balances of interest-earning assets as well as our yields on our average interest-earning assets, net interest earned, net interest margin and interest spread for the years ended December 31, 2019, 2018 and 2017.

	For the year ended December 31,		
	2019	**2018**	**2017**
	(in Ps billions, except percentages)		
Interbank loans and overnight funds			
Domestic			
Peso-denominated	1,943.9	2,506.1	1,860.9
Foreign currency-denominated	790.1	1,140.8	1,495.1
Total Domestic	**2,734.0**	**3,646.9**	**3,356.0**
Foreign	**1,880.3**	**2,366.2**	**2,059.6**
Total	**4,614.3**	**6,013.0**	**5,415.6**
Loans and leases			
Domestic			
Peso-denominated	108,485.1	103,269.3	100,125.4
Foreign currency-denominated	11,356.3	10,969.4	10,288.3
Total Domestic	**119,841.4**	**114,238.7**	**110,413.7**
Foreign	**53,560.0**	**47,209.3**	**44,064.1**
Total	**173,401.5**	**161,447.9**	**154,477.8**
Fixed Income Investments			
Domestic			
Peso-denominated	13,110.5	12,962.8	10,906.8
Foreign currency-denominated	3,468.9	3,624.9	3,758.9
Total Domestic	**16,579.4**	**16,587.6**	**14,665.7**
Foreign	**6,674.6**	**5,215.2**	**5,225.1**
Total	**23,254.0**	**21,802.9**	**19,890.8**
Total average interest-earning assets			
Domestic			
Peso-denominated	123,539.5	118,738.1	112,893.1
Foreign currency-denominated	15,615.3	15,735.0	15,542.3
Total Domestic	**139,154.8**	**134,473.2**	**128,435.5**
Foreign	**62,114.9**	**54,790.7**	**51,348.8**
Total	**201,269.8**	**189,263.8**	**179,784.2**
Gross interest earned			
Domestic			
Peso-denominated	12,245.5	12,151.6	12,971.3
Foreign currency-denominated	1,002.7	855.2	779.3
Total Domestic	**13,248.2**	**13,006.7**	**13,750.6**
Foreign	**6,304.5**	**5,349.9**	**4,991.2**
Total	**19,552.7**	**18,356.6**	**18,741.8**
Net interest income (1)			
Domestic			
Peso-denominated	7,429.5	7,518.6	7,224.2
Foreign currency-denominated	(292.1)	(142.8)	(3.4)
Total Domestic	**7,137.4**	**7,375.8**	**7,220.8**
Foreign	**4,148.1**	**3,496.0**	**3,293.4**
Total	**11,285.5**	**10,871.8**	**10,514.2**
Average yield on interest-earning assets			
Domestic			
Peso-denominated	9.9 %	10.2 %	11.5 %
Foreign currency-denominated	6.4 %	5.4 %	5.0 %
Total Domestic	**9.5 %**	**9.7 %**	**10.7 %**
Foreign	**10.1 %**	**9.8 %**	**9.7 %**
Total	**9.7 %**	**9.7 %**	**10.4 %**
Net interest margin (2)			

	For the year ended December 31,		
	2019	2018	2017
	(in Ps billions, except percentages)		
Domestic			
Peso-denominated	6.0 %	6.3 %	6.4 %
Foreign currency-denominated	(1.9)%	(0.9)%	(0.0)%
Total Domestic	**5.1 %**	**5.5 %**	**5.6 %**
Foreign	**6.7 %**	**6.4 %**	**6.4 %**
Total	**5.6 %**	**5.7 %**	**5.8 %**
Interest spread on loans and leases (3)			
Domestic			
Peso-denominated	6.6 %	6.9 %	6.9 %
Foreign currency-denominated	3.1 %	3.3 %	3.4 %
Total Domestic	**6.3 %**	**6.6 %**	**6.8 %**
Foreign	**7.7 %**	**7.6 %**	**7.8 %**
Total	**6.7 %**	**6.9 %**	**7.1 %**
Interest spread on total interest-earning assets (4)			
Domestic			
Peso-denominated	5.5 %	5.8 %	5.7 %
Foreign currency-denominated	2.6 %	2.0 %	2.4 %
Total Domestic	**5.3 %**	**5.4 %**	**5.7 %**
Foreign	**6.6 %**	**6.3 %**	**6.4 %**
Total	**5.7 %**	**5.7 %**	**5.9 %**

(1) Net interest income is calculated as interest income less interest paid and includes accrued interest on interbank and overnight funds.
(2) Net interest margin is calculated as net interest income divided by total average interest-earning assets, determined based on quarterly ending balances during the applicable period.
(3) Interest spread on loans and leases is calculated as the difference between the average yield on interest-earning loans and leases and the average rate paid on interest-bearing deposits.
(4) Interest spread on total interest-earning assets is calculated as the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities.

Investment portfolio

We acquire and hold fixed income debt and equity securities for liquidity and other strategic purposes, or when required by law. In recent years, credit institutions, including our banking subsidiaries, have been required to hold certain debt securities issued by the Colombian government or government-related entities. Central Bank regulations require credit institutions to make investments in agricultural development bonds (*Títulos de Desarrollo Agropecuario*), or "TDAs", issued by the Agricultural Sector Financing Fund (*Fondo para el Financiamiento del Sector Agropecuario*), or "Finagro". Finagro is a development bank affiliated with the Ministry of Agriculture and finances the production and marketing activities of the agricultural and livestock sector. These securities yield below-market interest rates. The amount of these mandatory investments is calculated as a percentage of short-term deposits. Additionally, our banking subsidiaries still maintain mandatory investments in reduction bonds (*Títulos de Reducción de Deuda*) issued by the Republic of Colombia. Under government discretion, authorities may extend the scope of current regulations or require additional disbursements on current or new mandatory investments. See "Item 4. Information on the Company—B. Business Overview—Supervision and Regulation—Mandatory Investments".

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The following table presents the book value of our investments in debt and equity securities, net of allowance for investment securities losses, at the dates indicated.

	At December 31,		
	2019	2018	2017
	(in Ps billions)		
Debt securities			
Peso-denominated			
Securities issued or secured by the Republic of Colombia (1)	12,258.3	11,466.5	9,122.6
Securities issued or secured by other Colombian government entities	3,465.8	3,234.2	2,979.6
Securities issued or secured by other financial entities (2)	1,899.0	1,369.9	1,106.1
Other securities (3)	151.6	89.2	77.8
Total peso-denominated	**17,774.7**	**16,159.7**	**13,286.1**
Foreign currency-denominated			
Securities issued or secured by the Republic of Colombia (1)	1,811.4	1,329.9	1,594.0
Securities issued or secured by foreign central banks	984.1	1,144.7	1,391.0
Securities issued or secured by other Colombian government entities	205.5	323.2	592.4
Securities issued by foreign governments	5,160.0	3,146.0	2,224.2
Securities issued or secured by other financial entities (2)	3,007.4	3,166.4	3,681.9
Other securities (3)	403.1	432.6	570.1
Total foreign currency-denominated	**11,571.4**	**9,542.9**	**10,053.6**
Total debt securities	**29,346.1**	**25,702.6**	**23,339.7**
Equity securities	**4,851.2**	**3,763.2**	**2,973.2**
Total investment securities	**34,197.3**	**29,465.9**	**26,312.9**

(1) Includes Colombian government-issued treasuries (*Títulos de Tesorería*), or "TES".
(2) Reflects investments made in debt securities issued by private financial entities.
(3) Reflects investments made in debt securities issued by multilateral institutions and non-financial companies.

At December 31, 2019, 2018 and 2017, we held securities issued by foreign governments and in the principal amounts, as follows. Figures in U.S.$ have been translated using the end of period exchange rate for each year as certified by the Superintendency of Finance.

At December 31,	Issuer	Investment amount – book value	Investment amount – book value
		(in Ps billions)	(in U.S.$thousands)
2019			
	Barbados	4.5	1,380
	Chile	33.7	10,297
	Costa Rica	2,817.4	859,711
	El Salvador	236.8	72,269
	Guatemala	645.8	197,063
	Honduras	403.8	123,221
	Nicaragua	79.3	24,198
	Panama	770.9	235,222
	United States of America	167.7	51,186
	Total 2019	**5,160.0**	**1,574,546**
2018			
	Chile	33.0	10,154
	Costa Rica	1,437.8	442,449
	El Salvador	40.9	12,583
	Guatemala	265.9	81,831

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At December 31,	Issuer	Investment amount – book value (in Ps billions)	Investment amount – book value (in U.S.$thousands)
	Honduras	402.3	123,787
	Panama	550.7	169,451
	United States of America	415.4	127,829
	Total 2018	**3,146.0**	**968,084**
2017			
	Chile	24.9	8,355
	Costa Rica	1,018.7	341,400
	El Salvador	76.7	25,698
	Guatemala	56.8	19,037
	Nicaragua	0.6	184
	Honduras	372.3	124,744
	Panama	617.1	206,812
	United States of America	57.1	19,143
	Total 2017	**2,224.2**	**745,373**

Investment securities portfolio maturity

The following table summarizes the maturities and weighted average nominal yields of our debt investment securities at December 31, 2019 issued by governments or government entities.

	At December 31, 2019									
	Maturity less than 1 year		Maturity between 1 and 5 years		Maturity between 5 and 10 years		Maturity more than 10 years		Total	
	Balance	Yield % (1)	Balance	Yield % (1)	Balance	Yield % (1)	Balance	Yield % (1)	Balance	Yield % (1)
	(in Ps billions, except yields)									
Debt securities										
Peso-denominated										
Securities issued or secured by the Colombian government	1,931.8	4.48 %	6,520.2	4.44 %	3,602.6	5.65 %	203.7	6.54 %	12,258.3	4.84 %
Securities issued or secured by Colombian government entities	3,041.4	3.19 %	330.8	6.30 %	93.6	7.27 %	—	0.00 %	3,465.8	3.60 %
Securities issued or secured by other financial entities	760.5	5.29 %	1,109.8	5.99 %	28.7	6.51 %	—	0.00 %	1,899.0	5.72 %
Other securities	10.3	4.90 %	65.7	5.56 %	62.7	7.05 %	13.0	6.18 %	151.6	6.18 %
Total peso-denominated	**5,744.0**	**3.91 %**	**8,026.4**	**4.74 %**	**3,787.6**	**5.72 %**	**216.7**	**6.52 %**	**17,774.7**	**4.70 %**
Foreign currency-denominated										
Securities issued or secured by the Colombian government	536.6	2.64 %	803.5	3.02 %	446.2	3.43 %	25.0	4.75 %	1,811.4	3.03 %
Securities issued or secured by foreign Central Banks	620.8	4.86 %	363.3	5.30 %	—	0.00 %	—	0.00 %	984.1	5.02 %
Securities issued or secured by Colombian government entities	—	0.00 %	205.5	2.74 %	—	0.00 %	—	0.00 %	205.5	2.74 %
Securities issued by foreign governments	1,109.1	2.82 %	2,601.9	5.68 %	998.9	6.01 %	450.1	4.82 %	5,160.0	5.06 %
Securities issued or secured by other financial entities	1,665.6	2.29 %	1,229.2	2.78 %	112.6	3.30 %	—	0.00 %	3,007.4	2.53 %
Other securities	110.4	2.82 %	46.5	3.49 %	212.5	4.73 %	33.7	5.39 %	403.1	4.12 %
Total foreign currency-denominated	**4,042.4**	**2.89 %**	**5,249.9**	**4.43 %**	**1,770.3**	**5.03 %**	**508.8**	**4.85 %**	**11,571.4**	**4.00 %**
Total debt securities	**9,786.5**	**3.49 %**	**13,276.3**	**4.62 %**	**5,557.8**	**5.50 %**	**725.4**	**5.35 %**	**29,346.1**	**4.43 %**
Equity securities									**4,851.2**	
Total investment securities									**34,197.3**	

(1) Yield was calculated using the internal rate of return, or "IRR", at December 31, 2019.

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At December 31, 2019, we had the following investments in securities of issuers that exceeded 10% of equity attributable to controlling shareholders of Grupo Aval.

	At December 31, 2019		
	Issuer	Book value	Market value
		(in Ps billions)	
Securities issued or secured by the Colombian Central government	Ministry of Finance	14,069.7	14,069.7
Securities issued or secured by Colombian government entities	Finagro	3,029.8	3,007.3
Securities issued or secured by foreign governments	Costa Rica Government	2,817.4	2,817.8
Total		**19,916.9**	**19,894.8**

Loan portfolio

The following table presents our loan portfolio classified into commercial, consumer, microcredit and mortgage loans for the periods indicated.

	At December 31,				
	2019	2018	2017	2016	2015
	(in Ps billions)				
Domestic					
Commercial					
General purpose loans (1)	53,106.7	51,644.5	52,332.9	49,412.9	46,614.4
Loans funded by development banks	3,547.0	3,222.7	2,713.8	2,829.0	2,514.5
Working capital loans	8,461.9	7,619.9	7,883.5	9,593.8	10,269.9
Credit cards	280.5	325.1	382.6	385.5	395.8
Overdrafts	184.8	146.2	181.4	185.4	191.6
Leases	9,610.7	9,125.7	9,209.3	9,302.2	7,824.0
Interbank loans and overnight funds	1,256.9	5,572.9	4,739.9	1,896.3	2,557.9
Total commercial	**76,448.4**	**77,657.1**	**77,443.4**	**73,605.1**	**70,368.2**
Consumer					
Credit cards	5,921.2	5,511.6	5,081.3	4,648.7	4,063.6
Personal loans	30,450.1	27,217.9	24,453.2	22,443.9	19,812.9
Automobile and vehicle loans	2,906.1	3,005.6	3,155.0	3,211.2	2,940.6
Overdrafts	30.0	32.5	34.2	33.3	38.0
Loans funded by development banks	—	—	—	—	0.1
General purpose loans	135.1	145.7	155.8	187.4	199.5
Working capital loans	—	—	—	—	0.1
Leases	20.5	28.1	32.1	40.0	36.8
Total consumer	**39,463.0**	**35,941.5**	**32,911.6**	**30,564.5**	**27,091.6**
Mortgages					
Mortgages	7,548.1	6,672.6	5,675.6	4,823.8	3,995.5
Leases	1,560.3	1,312.7	1,047.8	902.1	762.9
Total mortgages	**9,108.4**	**7,985.4**	**6,723.4**	**5,725.9**	**4,758.4**
Microcredit	**410.3**	**425.7**	**409.7**	**399.4**	**399.3**
Total domestic	**125,430.2**	**122,009.7**	**117,488.1**	**110,295.0**	**102,617.4**
Foreign					
Commercial					
General purpose loans (1)	15,707.2	14,133.2	11,664.6	10,961.1	11,114.1
Working capital loans	7,014.5	7,573.0	6,840.0	5,930.6	5,512.3
Overdrafts	285.2	250.2	258.6	323.1	334.0
Leases	738.2	733.2	683.1	655.9	642.5
Interbank loans and overnight funds	1,462.1	2,062.3	2,539.2	1,673.3	1,527.1
Total commercial	**25,207.3**	**24,751.9**	**21,985.5**	**19,544.1**	**19,130.0**
Consumer					
Credit cards	10,689.6	9,714.2	8,382.9	7,747.0	7,177.6
Personal loans	6,548.6	6,573.8	6,100.4	5,864.5	5,461.2
Automobile and vehicle loans	2,853.5	2,946.2	2,741.7	2,525.2	2,294.0
Overdrafts	53.7	53.0	51.7	51.2	52.5
Leases	232.0	226.4	194.7	175.6	153.6
Total consumer	**20,377.4**	**19,513.5**	**17,471.4**	**16,363.5**	**15,139.0**
Mortgages	**11,113.2**	**10,606.8**	**9,427.9**	**8,957.6**	**8,659.7**
Total foreign	**56,697.9**	**54,872.1**	**48,884.7**	**44,865.2**	**42,928.6**
Total portfolio	**182,128.1**	**176,881.8**	**166,372.8**	**155,160.2**	**145,546.0**

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	At December 31, 2019	2018	2017	2016	2015
	(in Ps billions)				
Loss allowance for loan portfolio (2)	(8,185.8)	(8,196.2)	(5,618.5)	(4,261.4)	(3,718.3)
Total portfolio, net	**173,942.3**	**168,685.6**	**160,754.3**	**150,898.7**	**141,827.7**

(1) General purpose commercial loans primarily include short-term loans *(créditos de tesorería*), trade finance loans, project finance loans and loans for capital expenditures.
(2) Loss allowance for loan portfolio as of December 31, 2018 includes the impact of the adoption of IFRS 9 of Ps 1,163.0 billion.

We classify our loan and leases portfolio into the categories set forth below:

- *Commercial loans*: Commercial loans are granted to companies or individuals to carry out economic activities.
- *Consumer loans*: Consumer loans are granted to individuals for the purchase of consumer goods or to pay for non-commercial or non-business services.
- *Microcredit loans*: Microcredit loans are issued for the purpose of encouraging the activities of small businesses and are subject to the following requirements: the maximum amount to be lent is equal to 25 times the minimum wage (*salario mínimo mensual legal vigente*), or "SMMLV", without the balance of one single borrower exceeding such amount at any time, and the main source of payment for the corresponding obligation shall be the revenues obtained from the activities of the borrower's micro business. The borrower's outstanding indebtedness may not exceed 120 times the SMMLV.
- *Mortgages*: Mortgages are loans granted to individuals for the purchase of new or used housing or to build a home. In Colombia, these loans include loans that are denominated in UVR or Colombian pesos, are guaranteed by a senior mortgage on the property and are financed with a total repayment term of five to 30 years.

The following table presents the maturities of our loan portfolio at December 31, 2019.

	At December 31, 2019			
	Due in one year or less	Due from one to five years	Due after five years	Total
	(in Ps billions)			
Domestic				
Commercial				
General purpose loans	24,920.5	21,590.0	6,596.2	53,106.7
Loans funded by development banks	841.4	1,848.2	857.4	3,547.0
Working capital loans	7,521.9	931.8	8.2	8,461.9
Credit cards	156.9	116.7	6.9	280.5
Overdrafts	184.8	—	—	184.8
Leases	2,213.8	5,013.3	2,383.6	9,610.7
Interbank loans and overnight funds	1,256.9	—	—	1,256.9
Total commercial	**37,096.1**	**29,500.0**	**9,852.3**	**76,448.4**
Consumer				
Credit cards	2,845.3	3,031.1	44.9	5,921.2
Personal loans	3,399.8	13,048.1	14,002.2	30,450.1
Automobile and vehicle loans	741.3	1,934.3	230.5	2,906.1
Overdrafts	30.0	—	—	30.0
General purpose loans	61.2	72.8	1.0	135.1
Leases	9.1	11.0	0.4	20.5
Total consumer	**7,086.8**	**18,097.3**	**14,278.9**	**39,463.0**
Mortgages				
Mortgages	320.2	1,138.7	6,089.3	7,548.1
Leases	109.8	365.9	1,084.6	1,560.3
Total Mortgages	**430.0**	**1,504.6**	**7,173.9**	**9,108.4**
Microcredit	**225.4**	**182.4**	**2.5**	**410.3**
Total domestic portfolio	**44,838.4**	**49,284.2**	**31,307.6**	**125,430.2**

	At December 31, 2019			
	Due in one year or less	Due from one to five years	Due after five years	Total
	(in Ps billions)			
Foreign				
Commercial				
General purpose loans	1,692.1	4,633.0	9,382.1	15,707.2
Working capital loans	5,704.1	1,118.6	191.7	7,014.5
Overdrafts	277.6	7.6	—	285.2
Leases	50.2	480.3	207.7	738.2
Interbank loans and overnight funds	1,462.1	—	—	1,462.1
Total commercial	**9,186.2**	**6,239.5**	**9,781.6**	**25,207.3**
Consumer				
Credit cards	9,594.6	701.1	393.8	10,689.6
Personal loans	176.3	1,665.5	4,706.8	6,548.6
Automobile and vehicle loans	47.2	1,532.7	1,273.6	2,853.5
Overdrafts	53.5	0.2	—	53.7
Leases	2.5	101.5	128.0	232.0
Total consumer	**9,874.1**	**4,001.2**	**6,502.2**	**20,377.4**
Mortgages	**5.7**	**179.5**	**10,928.1**	**11,113.2**
Total foreign portfolio	**19,065.9**	**10,420.2**	**27,211.8**	**56,697.9**
Total loan portfolio	**63,904.3**	**59,704.4**	**58,519.4**	**182,128.1**

The following table presents our loan portfolio due after one year and within one year or less at December 31, 2019, broken down between fixed and variable rates.

	At December 31, 2019
	(in Ps billions)
Loans with maturity of one year or less	
Variable rate:	
Peso-denominated	33,938.5
Foreign currency-denominated	9,108.5
Total	**43,047.0**
Fixed rate:	
Peso-denominated	10,899.8
Foreign currency-denominated	9,957.5
Total	**20,857.3**
Total loans with maturity of one year or less	**63,904.3**
Loans with maturity of more than one year	
Variable rate:	
Peso-denominated	37,968.7
Foreign currency-denominated	36,121.6
Total	**74,090.4**
Fixed rate:	
Peso-denominated	42,623.1
Foreign currency-denominated	1,510.4
Total	**44,133.4**
Total loans with maturity of more than one year	118,223.8
Total loan portfolio	**182,128.1**

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Loan portfolio by economic activity

The following table summarizes our loan portfolio, at the dates indicated, by the principal activity by the borrower using the International Standard Industrial Classification of All Economic Activities. Where we have not assigned a code to the borrower, classification of the relevant loan has been made based on the purpose of the loan as described by the borrower.

	At December 31,									
	2019	%	2018	%	2017	%	2016	%	2015	%
	(in Ps billions, except percentages)									
Agricultural	4,563.5	2.5	4,201.5	2.4	3,941.0	2.4	3,734.6	2.4	3,719.7	2.6
Mining products and oil	1,520.4	0.8	1,094.7	0.6	2,377.2	1.4	2,018.2	1.3	2,406.9	1.7
Food, beverage and tobacco	8,941.4	4.9	8,128.8	4.6	8,166.0	4.9	7,273.6	4.7	6,080.9	4.2
Chemical production	5,847.4	3.2	5,614.9	3.2	5,672.3	3.4	5,276.2	3.4	4,929.7	3.4
Other industrial and manufacturing products	5,309.0	2.9	4,859.5	2.7	4,469.4	2.7	4,576.2	2.9	4,311.3	3.0
Government	4,905.7	2.7	3,869.0	2.2	3,579.8	2.2	3,629.8	2.3	3,356.4	2.3
Construction	11,550.0	6.3	11,093.9	6.3	10,313.7	6.2	9,959.5	6.4	9,326.2	6.4
Trade and tourism	2,475.6	1.4	2,353.1	1.3	2,182.4	1.3	2,025.2	1.3	1,712.7	1.2
Transportation and communications	6,504.7	3.6	7,117.1	4.0	7,566.4	4.5	7,814.7	5.0	7,892.4	5.4
Public services	5,470.9	3.0	6,123.4	3.5	5,421.3	3.3	5,160.8	3.3	5,051.5	3.5
Consumer services (1)	84,790.1	46.6	78,976.9	44.6	70,947.9	42.6	66,157.9	42.6	60,374.9	41.5
Commercial services (2)	37,926.0	20.8	41,161.0	23.3	38,788.5	23.3	34,587.3	22.3	34,280.8	23.6
Other	2,323.4	1.3	2,288.0	1.3	2,947.0	1.8	2,946.0	1.9	2,102.6	1.4
Total loan portfolio	**182,128.1**	**100.0**	**176,881.8**	**100.0**	**166,372.8**	**100.0**	**155,160.2**	**100.0**	**145,546.0**	**100.0**

(1) Consumer services include loans to individuals, such as consumer loans (credit cards, vehicle, personal and others) and mortgage loans.

(2) Commercial services include wholesale trade and retail, consulting and business support services, health and social services, moneylending and other activities.

Credit categories

The following table presents our loan portfolio, for the purpose of credit risk evaluation, categorized in accordance with the regulations of the Superintendency of Finance, in effect at the relevant dates.

	Loan portfolio by type of loan (in Ps billions)				
	2019	2018	2017	2016	2015
Domestic					
Commercial loans	76,448.4	77,657.1	77,443.4	73,605.1	70,368.2
Commercial loans	75,191.5	72,084.2	72,703.5	71,708.8	67,810.2
Interbank loans and overnight funds	1,256.9	5,572.9	4,739.9	1,896.3	2,557.9
Consumer loans	39,463.0	35,941.5	32,911.6	30,564.5	27,091.6
Microcredit loans	410.3	425.7	409.7	399.4	399.3
Mortgages	9,108.4	7,985.4	6,723.4	5,725.9	4,758.4
Total domestic loan portfolio	**125,430.2**	**122,009.7**	**117,488.1**	**110,295.0**	**102,617.4**
Loss allowance for loans and financial lease losses	(6,504.6)	(6,559.1)	(4,912.2)	(3,642.3)	(3,189.7)
Total domestic loan portfolio, net	**118,925.6**	**115,450.6**	**112,575.9**	**106,652.7**	**99,427.7**
Foreign					
Commercial loans	25,207.3	24,751.9	21,985.5	19,544.1	19,130.0
Commercial loans	23,745.2	22,689.5	19,446.3	17,870.7	17,602.9
Repo and interbank	1,462.1	2,062.3	2,539.2	1,673.3	1,527.1
Consumer loans	20,377.4	19,513.5	17,471.4	16,363.5	15,139.0
Mortgages	11,113.2	10,606.8	9,427.9	8,957.6	8,659.7
Total foreign loan portfolio	**56,697.9**	**54,872.1**	**48,884.8**	**44,865.2**	**42,928.6**
Loss allowance for loans and financial lease losses	(1,681.2)	(1,637.1)	(706.3)	(619.0)	(528.6)

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	Loan portfolio by type of loan (in Ps billions)				
	2019	2018	2017	2016	2015
Total foreign loan portfolio, net	**55,016.7**	**53,235.0**	**48,178.5**	**44,246.0**	**42,400.0**
Total loan portfolio, net	**173,942.3**	**168,685.6**	**160,754.3**	**150,898.7**	**141,827.6**

Risk categories

Category A — "*Normal risk*": Loans and financial 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 B — "*Acceptable risk, above normal*": Loans and financial leases in this category are acceptably serviced and guaranty-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 normal collection of credit or contracts.

Category C — "*Appreciable risk*": Loans and financial leases in this category have debtors with insufficient capacity to pay or relate to projects with insufficient cash flow, which may compromise the normal collection of the obligations.

Category D — "*Significant risk*": Loans and financial leases in this category have the same deficiencies as loans in category C, but to a greater extent; consequently, the probability of collection is very low.

Category E — "*Risk of non-recoverability*": Loans and financial leases in this category are deemed uncollectible.

The following tables present the breakdown of our loan portfolio by risk classification in effect at December 31 of each year.

	At December 31,									
	2019	%	2018	%	2017	%	2016	%	2015	%
	(in Ps billions, except percentages)									
"A" Normal risk	165,091.9	90.6 %	159,863.1	90.4 %	152,434.7	91.6 %	144,464.6	93.1 %	136,445.6	93.7 %
"B" Acceptable risk, above normal	4,963.7	2.7 %	5,029.6	2.8 %	4,283.7	2.6 %	3,939.0	2.5 %	3,054.9	2.1 %
"C" Appreciable risk	4,915.6	2.7 %	5,528.6	3.1 %	4,695.5	2.8 %	3,438.6	2.2 %	3,393.2	2.3 %
"D" Significant risk	3,860.1	2.1 %	3,519.5	2.0 %	3,273.2	2.0 %	2,177.0	1.4 %	1,662.2	1.1 %
"E" Risk of non-recoverability	3,296.7	1.8 %	2,941.1	1.7 %	1,685.8	1.0 %	1,141.0	0.7 %	990.1	0.7 %
Total loan portfolio	**182,128.1**	**100.0 %**	**176,881.8**	**100.0 %**	**166,372.8**	**100.0 %**	**155,160.2**	**100.0 %**	**145,546.0**	**100.0 %**
Loan portfolio classified as "C", "D" and "E" as a percentage of total loan portfolio		6.6 %		6.8 %		5.8 %		4.4 %		4.2 %

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Past due loans classified more than 30 and 90 days past due

The following table presents our more than 30-day past due loans (from 31 days past due to 90 days past due) and our 90-day past due loans (more than 90 days past due).

	Past due loans				
	2019	2018	2017	2016	2015
	(in Ps billions)				
Domestic > 31 and < 91 days past due loans					
Commercial loans	277.4	328.4	309.9	258.5	346.2
Consumer loans	695.3	722.9	772.5	646.2	502.0
Microcredit loans	18.5	18.0	18.2	19.1	16.7
Mortgages	164.9	158.9	139.7	93.7	75.9
Total Domestic > 31 and < 91 days past due loans	**1,156.1**	**1,228.2**	**1,240.4**	**1,017.5**	**940.9**
Domestic > 91 days past due loans					
Commercial loans	3,393.6	3,078.5	2,500.0	1,483.8	1,139.9
Consumer loans	1,223.8	1,122.7	1,095.4	790.8	636.6
Microcredit loans	55.8	52.4	43.6	37.4	28.6
Mortgages	281.6	228.7	190.7	144.1	119.0
Total Domestic >91 days past due loans	**4,954.7**	**4,482.3**	**3,829.7**	**2,456.1**	**1,924.2**
Total domestic past due loans > 31 days	**6,110.8**	**5,710.5**	**5,070.1**	**3,473.6**	**2,865.1**
Foreign > 31 and < 91 days past due loans					
Commercial loans	86.9	110.3	35.2	49.3	44.8
Consumer loans	528.5	477.8	395.1	343.2	316.0
Mortgages	214.1	190.4	142.7	111.7	104.6
Total Foreign > 31 and < 91 days past due loans	**829.5**	**778.5**	**573.0**	**504.2**	**465.4**
Foreign > 91 days past due loans					
Commercial loans	143.8	161.8	108.3	113.7	100.5
Consumer loans	424.8	355.0	301.1	285.0	228.0
Mortgages	318.5	189.4	143.0	107.2	101.7
Total Foreign > 91 days past due loans	**887.1**	**706.2**	**552.3**	**505.9**	**430.2**
Total foreign past due loans > 31 days	**1,716.6**	**1,484.7**	**1,125.3**	**1,010.1**	**895.6**
Total past due loans > 31 days	**7,827.5**	**7,195.2**	**6,195.3**	**4,483.7**	**3,760.6**

Past due loans classification secured and unsecured

The following table presents information with respect to our secured and unsecured loan portfolio by past due days.

	At December 31,									
	2019	%	2018	%	2017	%	2016	%	2015	%
	(in Ps billions, except percentages)									
Secured										
Past due 31 to 360 days										
Commercial	1,381.7	0.8	906.0	0.5	751.4	0.5	725.6	0.5	386.2	0.3
Consumer	367.6	0.2	445.1	0.3	401.4	0.2	483.9	0.3	196.4	0.1
Microcredit	17.9	0.0	16.8	0.0	16.3	—	18.4	—	9.9	—
Mortgages	705.1	0.4	595.7	0.4	485.3	0.3	337.4	0.2	287.9	0.2
Total 31 to 360 days	**2,472.3**	**1.4**	**1,963.6**	**1.2**	**1,654.4**	**1.0**	**1,565.3**	**1.0**	**880.4**	**0.6**
Total past due more than 360 days	1,149.2	0.7	797.9	0.5	654.5	0.4	705.5	0.5	329.1	0.2
Total current and past due 1 to 30 days	75,651.7	43.5	76,756.7	45.5	70,088.6	43.6	64,220.0	42.6	58,169.0	41.0
Total secured loan portfolio	**79,273.2**	**45.6**	**79,518.2**	**47.1**	**72,397.5**	**45.0**	**66,490.9**	**44.1**	**59,378.5**	**41.9**
Unsecured (1)										
Past due 31 to 360 days										
Commercial	638.7	0.4	578.1	0.3	1,055.0	0.7	266.2	0.2	537.1	0.4
Consumer	2,113.4	1.2	1,953.6	1.2	1,954.0	1.2	1,407.2	0.9	1,332.1	0.9
Microcredit	36.5	0.0	37.3	0.0	36.4	—	19.7	—	19.9	—
Mortgages	0.1	—	—	—	—	—	—	—	—	—
Total 31 to 360 days	**2,788.8**	**1.6**	**2,569.0**	**1.5**	**3,045.4**	**1.9**	**1,693.1**	**1.1**	**1,889.1**	**1.3**
Total past due more than 360 days	1,417.2	0.8	1,864.7	1.1	841.2	0.5	519.7	0.3	662.0	0.5
Total current and past due 1 to 30 days	98,649.0	56.7	92,929.9	55.1	90,088.8	56.0	86,456.4	57.3	83,616.4	59.0
Total unsecured loan portfolio	**102,854.9**	**59.1**	**97,363.6**	**57.7**	**93,975.4**	**58.5**	**88,669.3**	**58.8**	**86,167.5**	**60.8**
Total loan portfolio, gross	**182,128.1**	**104.7**	**176,881.8**	**104.9**	**166,372.9**	**103.5**	**155,160.2**	**102.8**	**145,546.0**	**102.6**
Loss allowance	(8,185.8)	(4.7)	(8,196.2)	(4.9)	(5,618.5)	(3.5)	(4,261.4)	(2.8)	(3,718.3)	(2.6)
Total loan portfolio, net	**173,942.3**	**100.0**	**168,685.6**	**100.0**	**160,754.4**	**100.0**	**150,898.7**	**100.0**	**141,827.7**	**100.0**

(1) Includes loans with personal guarantees.

Troubled debt restructured loans

The following table presents our troubled debt restructured loan portfolio classified into domestic and foreign loans, the gross interest income that would have been recorded in the period that ended in accordance with their original terms and had been outstanding throughout the period or since origination and the amount of interest income on those loans that was included in net income for the period.

	At and for the year ended December 31, 2019		
	Amount of loans	Gross interest income	Interest income included in net income for the period
		(in Ps billions)	
Domestic	2,651.2	263.5	189.1
Foreign	1,739.9	187.8	184.4
Total troubled debt restructured loan portfolio	**4,391.2**	**451.3**	**373.5**

The following table presents a summary of our troubled debt restructured loan portfolio, classified into domestic and foreign loans.

	At December 31,				
	2019	2018	2017	2016	2015
			(in Ps billions)		
Domestic	2,651.2	2,693.0	2,674.6	3,179.9	2,252.7
Foreign	1,739.9	1,275.6	643.8	526.7	480.7
Total troubled debt restructured loan portfolio (1)	**4,391.2**	**3,968.6**	**3,318.4**	**3,706.6**	**2,733.4**

(1) Restructured loans are loans that have been modified due to an impairment of the conditions of the beneficiary.

Movements in allowances for credit losses

Loss allowance for loans

We record loss allowance for loans in accordance with IFRS. For further information regarding the regulation and methodologies for the calculation of such allowances, see Note 4.1 to our audited consolidated financial statements.

The following table presents the changes in the loss allowance for loans and financial leases during the periods indicated.

	Year ended December 31,				
	2019	2018	2017	2016	2015
			(in Ps billions)		
Balance at beginning of period	8,196.2	5,618.5	4,261.4	3,718.3	3,157.8
IFRS 9 adoption [1]	—	1,163.0	—	—	—
Charge-offs					
Domestic	(3,546.0)	(2,227.8)	(1,872.1)	(1,702.4)	(1,114.8)
Foreign	(1,170.8)	(921.2)	(811.5)	(652.5)	(521.6)
Loss allowance on loans and accounts receivable					
Domestic	4,125.2	4,028.4	4,675.8	4,207.8	3,269.7
Foreign	1,515.7	1,116.7	921.1	776.7	517.7

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	Year ended December 31,				
	2019	2018	2017	2016	2015
	(in Ps billions)				
Reversals of impairment losses on loans and accounts receivable	(1,468.3)	(1,041.5)	(1,534.9)	(2,051.7)	(1,716.3)
Effect of difference in exchange rate	29.4	75.7	3.3	(34.8)	125.8
Sale portfolio	—	—	(24.5)	—	—
Entity deconsolidation	—	2.4	—	—	—
Unwind of discount [(2)]	504.4	382.0	—	—	—
Balance at end of year total	**8,185.8**	**8,196.2**	**5,618.5**	**4,261.4**	**3,718.3**

(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).

Recoveries of charged-off loans are presented in the statement of income in the line item "recovery of charged-off financial assets" and are not included in impairment loss on loans and other accounts receivable.

The following table presents the allocation of our loss allowance for loans by category of loan.

	At December 31,				
	2019	2018	2017	2016	2015
	(in Ps billions)				
Domestic					
Commercial	3,822.6	4,030.9	2,771.0	1,907.8	1,754.7
Consumer	2,398.9	2,310.8	1,950.9	1,557.7	1,296.4
Microcredit	89.8	88.2	74.2	63.1	49.2
Mortgages	193.2	187.6	116.1	113.6	89.4
Total domestic	**6,504.6**	**6,617.5**	**4,912.2**	**3,642.3**	**3,189.7**
Foreign					
Commercial	366.8	326.9	157.4	120.6	119.8
Consumer	1,156.1	1,138.1	511.0	468.6	385.4
Mortgages	158.3	113.7	37.8	30.0	23.4
Total foreign	**1,681.2**	**1,578.7**	**706.3**	**619.2**	**528.6**
Total loss allowance for loans	**8,185.8**	**8,196.2**	**5,618.5**	**4,261.4**	**3,718.3**

The following table presents the allocation of our loss allowance for loans by type of loan.

	At December 31,									
	2019	%	2018	%	2017	%	2016	%	2015	%
	(in Ps billions, except percentages)									
Domestic										
Commercial										
General purpose loans	2,858.2	34.9	3,133.8	38.2	2,170.4	38.6	1,388.3	32.6	1,199.5	32.3
Loans funded by development banks	88.6	1.1	80.8	1.0	60.3	1.1	53.3	1.3	72.6	2.0
Working capital loans	355.0	4.3	323.5	3.9	214.3	3.8	207.0	4.9	234.4	6.3
Credit cards	56.6	0.7	65.5	0.8	52.2	0.9	38.3	0.9	40.2	1.1
Overdrafts	22.4	0.3	17.8	0.2	11.3	0.2	11.2	0.3	14.4	0.4
Leases	441.7	5.4	409.6	5.0	262.5	4.7	209.7	4.9	193.7	5.2
Total commercial	**3,822.6**	**46.7**	**4,030.9**	**49.2**	**2,771.0**	**49.3**	**1,907.8**	**44.8**	**1,754.7**	**47.2**
Consumer										
Credit cards	471.4	5.8	519.3	6.3	444.7	7.9	351.4	8.2	297.8	8.0
Personal loans	1,713.1	20.9	1,530.8	18.7	1,266.4	22.5	1,025.7	24.1	855.8	23.0
Automobile and vehicle loans	200.7	2.5	242.8	3.0	220.8	3.9	165.6	3.9	126.4	3.4
Overdrafts	5.4	0.1	6.9	0.1	5.4	0.1	3.5	0.1	5.5	0.1
Loans funded by development banks	0.0	0.0	—	—	—	—	—	—	—	—
General purpose loans	6.8	0.1	7.3	0.1	9.7	0.2	8.8	0.2	8.5	0.2

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	At December 31,									
	2019	%	2018	%	2017	%	2016	%	2015	%
	(in Ps billions, except percentages)									
Leases	1.5	0.0	3.7	0.0	3.9	0.1	2.6	0.1	2.3	0.1
Total consumer	**2,398.9**	**29.3**	**2,310.8**	**28.2**	**1,950.9**	**34.7**	**1,557.7**	**36.6**	**1,296.4**	**34.9**
Mortgages										
Mortgages	147.9	1.8	143.5	1.8	93.1	1.7	94.1	2.2	70.6	1.9
Leases	45.3	0.6	44.0	0.5	23.1	0.4	19.5	0.5	18.8	0.5
Total mortgages	**193.2**	**2.4**	**187.6**	**2.3**	**116.1**	**2.1**	**113.6**	**2.7**	**89.4**	**2.4**
Microcredits	**89.8**	**1.1**	**88.2**	**1.1**	**74.2**	**1.3**	**63.1**	**1.5**	**49.2**	**1.3**
Total domestic	**6,504.6**	**79.5**	**6,617.5**	**80.7**	**4,912.2**	**87.4**	**3,642.3**	**85.5**	**3,189.7**	**85.8**
Foreign										
Commercial										
General purpose loans	307.1	3.8	242.3	3.0	115.9	2.1	87.6	2.1	86.0	2.3
Working capital loans	49.3	0.6	69.7	0.8	30.8	0.5	27.0	0.6	25.9	0.7
Overdrafts	2.0	0.0	4.2	0.1	4.1	0.1	2.3	0.1	4.0	0.1
Leases	8.4	0.1	10.8	0.1	6.6	0.1	3.7	0.1	3.8	0.1
Total commercial	**366.8**	**4.5**	**326.9**	**4.0**	**157.4**	**2.8**	**120.6**	**2.8**	**119.8**	**3.2**
Consumer										
Credit cards	802.0	9.8	787.5	9.6	354.4	6.3	315.9	7.4	262.5	7.1
Personal loans	301.5	3.7	304.8	3.7	137.1	2.4	136.8	3.2	110.8	3.0
Automobile and vehicle loans	41.8	0.5	37.7	0.5	12.8	0.2	8.5	0.2	7.5	0.2
Overdrafts	5.8	0.1	5.2	0.1	5.5	0.1	6.5	0.2	4.1	0.1
Leases	4.9	0.1	2.9	0.0	1.2	—	0.8	—	0.5	—
Total consumer	**1,156.1**	**14.1**	**1,138.1**	**13.9**	**511.0**	**9.1**	**468.6**	**11.0**	**385.4**	**10.4**
Mortgages	**158.3**	**1.9**	**113.7**	**1.4**	**37.8**	**0.7**	**30.0**	**0.7**	**23.4**	**0.6**
Total foreign	**1,681.2**	**20.5**	**1,578.7**	**19.3**	**706.3**	**12.6**	**619.2**	**14.5**	**528.6**	**14.2**
Total loss allowance for loan and leases	**8,185.8**	**100.0**	**8,196.2**	**100.0**	**5,618.5**	**100.0**	**4,261.4**	**100.0**	**3,718.3**	**100.0**

Charge-offs

The following table presents the allocation of our charge-offs by type of loan for the years indicated.

	2019	2018	2017	2016	2015
	(in Ps billions)				
Domestic					
Commercial					
General purpose loans	1,515.7	296.1	238.9	358.6	97.1
Loans funded by development banks	31.3	9.8	11.5	25.8	8.8
Working capital loans	111.6	31.8	78.0	47.1	23.6
Credit cards	31.3	29.2	23.3	34.7	14.4
Overdrafts	5.0	1.7	3.4	6.1	3.0
Leases	100.0	88.8	44.0	52.1	82.2
Total commercial	**1,794.9**	**457.5**	**399.1**	**524.5**	**229.1**
Consumer					
Credit cards	449.2	474.3	419.1	310.5	247.4
Personal loans	1,075.3	1,103.8	904.2	753.0	280.2
Automobile and vehicle loans	141.5	127.7	76.9	61.0	48.3
Overdrafts	3.2	2.6	2.2	6.3	4.0
Loans funded by development banks	—	—	—	—	—
General purpose loans	7.2	10.6	11.6	9.3	269.8
Leases	5.3	0.8	0.4	0.8	0.6
Total consumer	**1,681.8**	**1,719.8**	**1,414.4**	**1,140.9**	**850.3**
Mortgages					
Mortgages	10.2	7.5	15.2	0.6	0.4
Leases	5.4	3.4	0.7	0.3	1.9
Total mortgages	**15.6**	**10.9**	**15.8**	**0.9**	**2.3**
Microcredits	**53.8**	**39.7**	**42.8**	**36.2**	**33.1**
Total domestic	**3,546.0**	**2,227.8**	**1,872.1**	**1,702.4**	**1,114.8**
Foreign					
Commercial					
General purpose loans	72.3	43.7	29.6	17.2	32.7
Working capital loans	32.4	23.4	17.4	9.3	16.2
Overdrafts	1.4	1.6	0.3	1.2	2.8
Leases	3.3	3.1	0.6	—	—
Total commercial	**109.3**	**71.8**	**47.8**	**27.7**	**51.7**
Consumer					
Credit cards	695.6	548.3	498.5	402.2	366.4

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	2019	2018	2017	2016	2015
		(in Ps billions)			
Personal loans	244.1	215.6	221.3	189.2	68.3
Automobile and vehicle loans	37.4	28.6	15.9	11.9	7.4
Overdrafts	14.9	15.5	14.9	13.7	12.9
Leases	7.3	2.6	1.2	0.4	1.2
Total consumer	**999.2**	**810.6**	**751.8**	**617.4**	**456.2**
Mortgages	**62.2**	**38.7**	**12.0**	**7.5**	**13.7**
Total foreign	**1,170.8**	**921.2**	**811.5**	**652.5**	**521.6**
Total charge-offs	**4,716.8**	**3,149.0**	**2,683.6**	**2,355.0**	**1,636.4**

The ratio of charge-offs to average outstanding loans for the periods indicated were as follows.

	Year ended December 31,		
	2019	2018	2017
		(in percentages)	
Ratio of charge-offs to average outstanding loans	2.6 %	1.9 %	1.7 %

Loans and debt securities are charged-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 charge-off.

However, charge-offs do not eliminate the obligation of our banking subsidiaries to continue to engage in collection efforts to accomplish recovery. The board of directors of each of our banks is the only administrative body with legal authority to approve charge-offs of transactions deemed uncollectible. The recovery of charged-off loans is accounted for as income in our consolidated statement of income.

Potential problem loans

In order to carefully monitor the credit risk associated with clients, we have established a committee that meets monthly to identify potential problem loans, which are then included on a watch list. In general, these are loans due by clients that could face difficulties complying with their repayment obligations, but who otherwise have had a good payment history. These potential difficulties could be related to factors such as a decline in economic activity, financial weakness or any other event that could affect the client's business. Our banks also monitor the credit risk associated with these clients.

Separately, we also monitor loans granted by our banks to a single borrower where we have an aggregate exposure of Ps 2.0 billion or greater.

Cross-border outstanding loans and investments

We do not have any cross-border outstanding loans and investments to a borrower in any country that exceeded 0.75% of our total assets. The following table presents information with respect to our cross-border outstanding loans and investments at December 31, 2019, 2018 and 2017. See "—Loan portfolio" above for a description of cross-border outstanding loans by type of foreign borrower.

	At December 31,		
	2019	2018	2017
		(in Ps billions)	
Loans			
Commercial			
Costa Rica	5,485.6	4,891.2	4,068.9
El Salvador	6,055.4	2,050.5	1,609.0
Guatemala	3,548.1	5,516.8	4,640.9
Honduras	2,334.4	3,191.7	2,540.9
Nicaragua	1,609.9	1,953.0	2,220.3
Panamá	6,173.9	7,148.6	6,905.5
Total Commercial	**25,207.3**	**24,751.9**	**21,985.5**

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	At December 31,		
	2019	2018	2017
	(in Ps billions)		
Consumer			
Costa Rica	1,912.4	2,113.0	2,138.8
El Salvador	1,122.7	1,466.8	1,252.6
Guatemala	759.8	1,095.0	965.8
Honduras	1,527.0	677.5	554.9
Nicaragua	477.8	721.2	886.8
Panamá	3,888.1	3,725.8	3,289.4
Total Consumer	**9,687.8**	**9,799.4**	**9,088.3**
Mortgages			
Costa Rica	4,525.9	4,343.2	3,868.5
El Salvador	1,805.6	969.7	897.4
Guatemala	965.0	1,617.3	1,365.2
Honduras	978.4	857.8	740.1
Nicaragua	393.5	436.9	403.2
Panamá	2,444.9	2,381.7	2,153.5
Total Mortgages	**11,113.2**	**10,606.8**	**9,427.9**
Credit Cards			
Costa Rica	3,707.9	3,303.1	2,903.2
El Salvador	1,758.5	1,170.4	1,015.3
Guatemala	1,562.9	1,498.6	1,299.0
Honduras	1,251.9	1,407.5	1,181.5
Nicaragua	396.1	441.9	420.2
Panamá	2,012.3	1,892.8	1,563.8
Mexico	—	—	—
Total Credit Cards	**10,689.6**	**9,714.2**	**8,383.0**
Total per country			
Costa Rica	15,631.8	14,650.6	12,979.4
El Salvador	10,742.2	5,657.4	4,774.3
Guatemala	6,835.8	9,727.7	8,270.9
Honduras	6,091.7	6,134.5	5,017.4
Nicaragua	2,877.3	3,553.0	3,930.5
Panamá	14,519.2	15,149.0	13,912.2
Mexico	—	—	—
Total loans	**56,697.9**	**54,872.1**	**48,884.8**
Investments			
Barbados	4.5	—	—
Brazil	354.0	424.3	698.6
Chile	146.1	150.2	223.6
Costa Rica	3,006.7	1,674.1	1,401.8
El Salvador	274.3	40.9	79.8
Guatemala	1,311.7	999.5	964.2
Honduras	621.3	586.3	531.2
Mexico	74.6	13.8	24.7
Netherlands	—	—	31.8
Nicaragua	79.3	64.9	148.8
Panama	1,211.7	813.7	1,052.7
Peru	192.8	352.8	331.9
Puerto Rico	—	—	23.8
Switzerland	—	—	16.6
United States of America	1,883.4	2,412.6	1,801.9
BAC San José Liquid Fund (BAC San José Fondo Líquido – Riesgo País Mixto)	—	3.8	15.5
Multilateral – Bladex (Foreign Trade Bank of Latin America)	89.5	87.5	73.1
Multilateral – Andean Development Corporation (Corporación Andina de Fomento)	—	31.2	31.8
Multilateral – Central American Bank for Economic Integration	6.6	—	—
Total investments	**9,256.6**	**7,655.5**	**7,451.8**

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Deposits

The principal components of our deposits are customer demand (checking and saving accounts) and time deposits. Our retail customers are the principal source of our demand and time deposits. The following table presents the composition of our deposits at December 31, 2019, 2018 and 2017.

	At December 31,		
	2019	2018	2017
	(in Ps billions)		
Domestic			
Interest-bearing deposits:			
Checking accounts	9,657.8	8,155.6	7,874.3
Time deposits	47,245.3	43,374.0	42,636.9
Savings deposits	48,423.0	47,584.3	47,254.0
Total	**105,326.1**	**99,113.9**	**97,765.2**
Non-interest-bearing deposits:			
Checking accounts	13,656.0	14,285.8	12,502.2
Other deposits (1)	229.6	302.8	219.4
Total	**13,885.6**	**14,588.6**	**12,721.6**
Total domestic deposits	**119,211.7**	**113,702.5**	**110,486.8**
Foreign			
Interest-bearing customer deposits:			
Checking accounts	15,979.1	14,222.1	12,722.2
Time deposits	25,979.9	23,479.0	19,979.3
Savings deposits	10,929.8	9,637.1	8,524.7
Total	**52,888.7**	**47,338.2**	**41,226.2**
Non-interest-bearing customer deposits:			
Checking accounts	3,156.8	3,039.4	2,918.8
Other deposits (1)	234.2	279.3	253.4
Total	**3,391.0**	**3,318.7**	**3,172.2**
Total foreign customer deposits	**56,279.7**	**50,656.9**	**44,398.4**
Total customer deposits	**175,491.4**	**164,359.5**	**154,885.2**

(1) Consists of deposits from correspondent banks, cashier checks and collection services.

The following table presents time deposits, by amount and maturity at December 31, 2019.

	At December 31, 2019		
	Peso-denominated	Foreign currency-denominated	Total
	(in Ps billions)		
Domestic			
Up to 3 months (> USD 100,000)	5,243.1	7,319.6	12,562.7
From 3 to 6 months (> USD 100,000)	3,803.4	1,302.9	5,106.2
From 6 to 12 months (> USD 100,000)	8,473.6	1,248.5	9,722.1
More than 12 months (> USD 100,000)	14,841.5	232.7	15,074.2
Time deposits less than U.S.$100,000 (1)	4,596.3	183.9	4,780.1
Total domestic	**36,957.8**	**10,287.5**	**47,245.3**
Foreign	—	**25,979.9**	**25,979.9**
Total	**36,957.8**	**36,267.4**	**73,225.2**

(1) U.S.$100,000 is the equivalent of Ps 327,714,000 (translated at the representative market rate of Ps 3,277.14 to U.S.$1.00 at December 31, 2019).

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Return on equity and assets

The following table presents certain selected financial ratios for the periods indicated.

	At December 31, 2019	2018	2017
	(in percentages)		
ROAA: Return on average assets(1)	2.0	2.2	1.4
ROAE: Return on average equity attributable to owners of the parent(2)	16.4	17.8	12.6
Period-end equity as a percentage of period-end total assets	12.0	11.4	10.9
Dividend payout ratio(3)	44.1	45.9	54.5

(1) For methodology used to calculate ROAA, see note (2) to the table under "Item 3. Key Information—A. Selected financial data—Other financial and operating data".

(2) For methodology used to calculate ROAE, see note (3) to the table under "Item 3. Key Information—A. Selected financial data—Other financial and operating data".

(3) Dividend payout ratio is calculated as dividend declared divided by net income upon which the dividend was declared. Since March 2017, the Company declares dividends on an annual basis (for the twelve-month period between January 1 and December 31 of the previous year). We do not declare dividends on a quarterly basis.

Short-term borrowings

The following table presents our short-term borrowings, consisting of interbank and overnight funds, for the periods indicated.

	At and for the years ended 2019		2018		2017	
	Amount	Nominal weighted average rate	Amount	Nominal weighted average rate	Amount	Nominal weighted average rate
	(in Ps billions, except percentages)					
Short-term borrowings						
Interbank borrowings and overnight funds						
End of period	9,240.5	—	6,814.1	—	4,970.4	—
Average during period	7,898.2	4.8 %	6,916.0	3.8 %	6,751.3	4.3 %
Maximum amount of borrowing at any month-end	10,903.3	—	9,686.6	—	8,823.3	—
Interest paid during the period	380.9	—	266.1	—	287.4	—

Supervision and regulation

Colombian Banking Regulators

Pursuant to the Colombian Constitution, the Colombian Congress has the power to prescribe the general legal framework within which the government and other authorities may regulate the financial system. The Colombian Constitution also permits the Colombian Congress to authorize government intervention in the economy by statute. The agencies vested with the authority to regulate the financial system are the Board of Directors of the Colombian Central Bank, the Colombian Ministry of Finance, the Superintendency of Finance, the Superintendency of Industry and Commerce and the Securities Market Self-Regulatory Organization.

Central Bank

The Colombian Central Bank exercises the customary functions of a central bank, including price stabilization, legal currency issuance, regulation of currency circulation, credit and exchange rate monitoring and administration of international reserves. Its Board of Directors is the regulatory authority for monetary, currency exchange and credit policies, and is responsible for the direction and execution of the Colombian Central Bank duties. The Colombian Central Bank also acts as a lender of last resort to financial institutions.

Pursuant to the Colombian Constitution, the Colombian Central Bank is autonomous and independent from the government in the formulation of monetary policy and currency exchange and credit policies. Specifically, the Constitution provides administrative, technical, budgetary and legal autonomy for the Colombian Central Bank and its Board of Directors with respect to monetary, credit and foreign exchange matters. The Colombian Central Bank reports to the Colombian Congress. Its Board of Directors has seven members: one member is the Minister of Finance and Public Credit, one member is the General Manager of the Colombian Central Bank, and the other five members, who are full-time employees, are appointed two at a time by the President of Colombia for four-year terms that can be extended.

Ministry of Finance

The Ministry of Finance designs, coordinates, regulates and executes economic policy, seeking to create an optimal administration of public finances for the economic and social development of the country. The Ministry of Finance regulates all aspects of finance, securities and insurance activities, pursuant to powers conferred by the Colombian Constitution. As part of its duties, the Ministry of Finance issues decrees mainly related to financial, taxation, customs, public credit and budgetary matters that may affect banking transactions in Colombia. In particular, the Ministry of Finance is responsible for regulations relating to financial institutions' capital adequacy, risk limitations, authorized transactions, disclosure of information and accounting.

According to Decree 4172 of 2011, the "*Unidad Administrativa Especial, Unidad de Proyección Normativa y Estudios de Regulación Financiera*", an independent unit of the Ministry of Finance is responsible for preparing and drafting any new financial, monetary, credit, securities, foreign exchange and insurance regulation to be issued by the Colombian government.

Superintendency of Finance

The Superintendency of Finance is the resulting entity of the merger between the Superintendency of Banking and the Superintendency of Securities in 2005. The authority and responsibilities of the former Superintendency of Banking and Superintendency of Securities were assigned to the resulting Superintendency of Finance.

The Superintendency of Finance is a technical entity affiliated with the Ministry of Finance that acts as the inspection, supervision and control authority of persons involved in financial, insurance and securities exchange activities, and any other operations related to the management, use or investment of resources collected from the public. The Superintendency of Finance is responsible for supervising the Colombian financial system with the purpose of preserving its stability and trustworthiness, as well as promoting, organizing and developing the Colombian securities market and protecting the users of financial and insurance services and investors in general.

Financial institutions must obtain the authorization of the Superintendency of Finance before commencing operations. In addition, all public offerings of securities require the prior approval of the Superintendency of Finance.

Violations of the financial system rules and regulations are subject to administrative, and in some cases, criminal sanctions. The Superintendency of Finance may inspect Colombian financial institutions on a discretionary basis and has the authority to impose sanctions including admonitions, fines, removals, or administrative takeovers on such institutions and their directors and officers for violations of Colombian laws or regulations, or such financial institutions' by-laws.

The Superintendency of Finance exerts its supervisory powers over the financial sector on a consolidated and comprehensive basis. The consolidated supervision extends to all financial institutions including banks operating in Colombia and their subsidiaries abroad, in the latter case to the extent permitted by the laws of the respective country of incorporation. For these purposes, the Superintendency of Finance has executed several memorandums of understanding with foreign financial sector regulators, including the Superintendency of Banks of Panamá, the Superintendency of the Financial System of El Salvador, the Superintendency of Banks and other Financial Institutions of Nicaragua, the

Superintendency of Banks of Guatemala, and the National Commission of Banks and Insurance of Honduras. Additionally, the Superintendency of Finance permanently evaluates the possibility of entering into additional memorandums of understanding with other financial regulators to promote an exchange of information and enhance its consolidated and comprehensive supervision.

According to Decree 2555 of 2010 and External Circular 100 of 1995 ("Basic Accounting and Financial Circular") as amended, and in order to facilitate the Superintendency of Finance's supervision, financial institutions are required to consolidate the results of operations of all of their subsidiaries in order to present consolidated financial statements of the controlling entity and its subsidiaries, consolidated solvency ratios and capital adequacy requirements of the group.

The Superintendency of Finance may also conduct onsite inspections of Colombian financial institutions, financial holdings and even their subsidiaries located abroad, in the latter case, subject to the applicable laws of the subsidiary's country of incorporation.

According to Article 48 of Decree 2080 of 2000 (as amended by Decree 4800 of 2010), when granting authorizations relating to foreign investment transactions made by direct shareholders of Colombian financial institutions in foreign financial entities, the Superintendency of Finance must take into account the possibility of exercising comprehensive and consolidated supervision. In addition, according to Law 1328 of 2009 and Decree 2555 of 2010: (1) direct capital investments by Colombian financial institutions in foreign financial, brokerage or insurance companies, branches or agencies, require the prior authorization by the Superintendency of Finance, and (2) indirect capital investment (i.e., through a subsidiary) in foreign financial, brokerage or insurance companies, branches or agencies, require the prior authorization by the Superintendency of Finance if: (a) the initial investment equals or exceeds 10% of the investor's paid-in capital, (b) additional investments equal or exceed 5% of the investor's paid-in capital or (c) the financial regulatory authority of the country where the investment is to be made has not executed a memorandum of understanding with the Superintendency of Finance. Other indirect investments do not require the approval of the Superintendency of Finance but must be reported to such entity prior to the respective investment.

As a financial holding and an issuer of securities traded on the Colombian Stock Exchange, Grupo Aval is subject to the inspection and surveillance of the Superintendency of Finance. Additionally, Grupo Aval's financial and stock brokerage subsidiaries located in Colombia (including banks, merchant banks, financing companies, trust companies, managers of pensions and severance payment funds, bonded warehouses and stock brokerage firms) are each subject to the regulatory supervision of the Superintendency of Finance. The level of supervision and regulation is different, though, taking into account that Grupo Aval is not a financial institution. Since February 6, 2019, Grupo Aval became subject to the supervision and regulation of the Superintendency of Finance as the financial holding of the Aval Financial Conglomerate and is required to comply with capital adequacy and additional regulations applicable to financial conglomerates. See "Item 4. Information on the Company—B. Business overview—Supervision and regulation.—Regulatory framework for Colombian Financial Conglomerates".

Fondo de Garantías de Instituciones Financieras

The *Fondo de Garantías de Instituciones Financieras* ("FOGAFIN") was created pursuant to Law 117 of 1985. The primary function of FOGAFIN is to administer the deposit insurance system, with the objective of guaranteeing the deposits and savings held by the general public in Colombian financial institutions. See "—Troubled Financial Institutions—Deposit Insurance". The other primary purposes for which FOGAFIN was formed were to support the banking industry, to facilitate the privatization of financial institutions by the Colombian government, and to liquidate financial institutions under receivership.

FOGAFIN has tools and mechanisms that enable it to administer and temporarily take equity stakes in troubled financial institutions in order to allow it to determine whether a financial institution is viable or requires liquidation.

Securities Market Self-Regulatory Organization

Self-regulation in the capital markets was formally introduced in Colombia by Law 964 of 2005, and the securities market self-regulatory organization (*Autoregulador del Mercado de Valores de Colombia*), or "SRO", was created on June 12, 2006.

The SRO is a private entity that has the power to supervise, sanction and regulate the entities subject to self-regulation (i.e., including securities intermediaries and any entity that voluntarily submits itself to self-regulation).

The SRO's supervisory powers entitle it to review compliance with applicable laws and regulations and impose sanctions in the case of violations. The SRO may also propose regulation aimed at various matters, including conflicts of interest and improving the integrity and quality of the capital markets.

Superintendency of Industry and Commerce

According to Law 1340 of 2009, the Superintendency of Industry and Commerce is the competent national authority for all antitrust, intellectual property and data protection matters in every sector of the economy, including the financial sector.

As such, the Superintendency of Industry and Commerce is responsible for advancing administrative investigations of antitrust violations by financial and non-financial corporations and has the power to impose corresponding sanctions.

The Superintendency of Industry and Commerce is responsible for approving economic mergers, acquisitions and integrations between and among enterprises, except for mergers, acquisitions or integrations between financial entities. However, pursuant to Law 1340 of 2009, the Superintendency of Finance is the authority responsible for approving mergers, acquisitions and integrations between financial institutions. For such approvals, the Superintendency of Finance must obtain a prior written opinion by the Superintendency of Industry and Commerce.

Regulatory framework for Colombian Financial Conglomerates

On September 21, 2017, the Colombian Congress enacted Law 1870 to strengthen the regulation and supervision of the financial conglomerates, also known as Law of Financial Conglomerates (*Ley de Conglomerados Financieros*). This Law sets out the scope of supervision and regulation of financial conglomerates in Colombia with the purpose of ensuring the stability of the financial system and providing the Colombian government (Ministry of Finance) with regulatory powers to obtain complete and timely information that guarantees the transparency of the operations of the conglomerates and facilitates the exercise of consolidated supervision.

This law defines a financial conglomerate as a set of two or more local or foreign financial entities with a common controller requiring that at least one of these entities conduct financial activities in Colombia. Law 1870 also establishes the criteria for identifying the holding company of each financial conglomerate. Accordingly, any legal person or investment vehicle that exerts the first level of *control* or *significant influence* over the members of the financial conglomerate will be identified as the holding company. The Superintendency of Finance is in charge of identifying each financial conglomerate and its respective holding company.

As a result of Law 1870 of 2017, which became effective February 6, 2019, holding companies, such as Grupo Aval, became subject to the supervision of the Superintendency of Finance and are required to comply with this law. Law 1870 also granted the Colombian government (Ministry of Finance) the authority to enact regulations regarding:

- Rules of capital adequacy applicable to financial conglomerates,
- Criteria pursuant to which the Superintendency of Finance will be allowed to exclude certain entities and investment companies from the scope of these regulations,

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- Criteria for determining whether certain entities must be identified as members of the financial conglomerate for the purpose of identifying, administering, monitoring and revealing conflicts of interest, and

- Limits of exposure and concentration of risk applicable to the financial conglomerate.

The Law of Financial Conglomerates also provides the Superintendency of Finance with the authority to:

- Instruct holding companies with respect to risk management, internal control, disclosure of information, conflicts of interest and corporate governance of the financial conglomerate,

- Require changes in the organizational structure of the financial conglomerate when the existing structure does not allow adequate disclosure of information, a comprehensive and consolidated supervision and the identification of its beneficial owner,

- Authorize the holding company to effect direct or indirect equity investments in financial entities, insurance companies and securities intermediaries,

- Request information and conduct on-site visits, and

- Cancel operating licenses of members of the financial conglomerate in cases where the controlling entity is domiciled in non-cooperative jurisdictions.

Financial conglomerates that have holding companies incorporated abroad may be exempted from the scope of these regulations if their holding company provides satisfactory evidence that the members of its financial conglomerate are subject to a regime of prudential regulation and comprehensive and consolidated supervision similar to the one established in Colombia. Otherwise, the Superintendency of Finance will have the power to request information that it deems appropriate to exercise a comprehensive and consolidated supervision of the member(s) of the financial conglomerate established in Colombia. If the Superintendency of Finance considers that the information received does not allow the proper exercise of its supervisory functions, it may revoke the operating license of the supervised entity(ies).

Pursuant to Law 1870, the Ministry of Finance enacted the following regulatory decrees:

- Decree 246, issued on February 2, 2018, set the criteria under which the Superintendency of Finance may exclude from the scope of its supervision, entities or investment vehicles of a financial conglomerate. The exclusion criteria are the following: (i) when the size of the entity is not significant in relation to the financial conglomerate to which it belongs, or (ii) when the level of interconnection and risk exposure of the entity has no significant impact on the financial conglomerate.

- Decree 774, issued on May 8, 2018, established capital adequacy levels applicable to financial conglomerates as a whole, considering the activities conducted by the entities that compose the conglomerate and the risks to which they are exposed. In terms of capital adequacy, this Decree requires that the technical capital (as defined therein) of financial conglomerates shall not fall below adequate capital (as defined therein). This decree came into force on November 8, 2019.

- Decree 1486, issued on August 6, 2018, which established obligations for members of a financial conglomerate, with respect to: (i) identifying the entities and individuals that need to be considered as related parties to the financial conglomerate *(vinculados)*, (ii) policies regarding identification, disclosure, management and control of conflicts of interests, and (iii) policies and limits of exposure and concentration of risks for operations between entities of the conglomerate and between these and their related entities or individuals *(vinculados)*. This Decree came into force on February 6, 2020.

See “Item 3. Key Information—D. Risk factors—Risks relating to our businesses and industry—Risks relating to our banking business”.

Decree 774 of 2018, established the following criteria for the calculation of the capital adequacy applicable to financial conglomerates:

- Technical capital should not be lower than adequate capital.
- The financial holding is responsible for the compliance of the capital adequacy applicable to the financial conglomerate.
- In order to determine the adequate and technical capital applicable to a financial conglomerate, financial holdings shall select a calculation basis using: (i) consolidated information, (ii) separate information, or (iii) a combination of consolidated and separate information. For these purposes, Grupo Aval selected a combination of consolidated and separate information.

See "Item 11. Quantitative and Qualitative Disclosures About Risk".

Regulatory framework for Colombian financial institutions

Basic Framework: Decree 663 of 1993

The basic regulatory framework for the operations of the Colombian financial sector is set forth in the Financial System Organic Statute or "EOSF", as amended by Laws 510 of 1999, 546 of 1999, 795 of 2003, 964 of 2005, 1328 of 2009 and 1555 of 2012. Decree 2555 of 2010 as well as in External Resolution 8 of 2000 (exchange control regulation statute) and External Resolution 4 of 2006 issued by the Board of Directors of the Colombian Central Bank.

The EOSF defines the structure of the Colombian financial system and establishes various business entities, including (1) credit institutions (which are further categorized into banks, merchant banks, financing companies and finance cooperatives), (2) financial services entities, (3) capitalization corporations, (4) insurance companies and (5) insurance intermediaries.

The EOSF also provides that no financial, banking or credit institution may operate in Colombia without the prior approval of the Superintendency of Finance. Subject to prior approval of the Superintendency of Finance, foreign banks may operate in Colombia through their subsidiaries established and incorporated in Colombia. Under Law 1328 of 2009, foreign banks, as of July 15, 2013, are permitted to operate through their "branches" and are not obligated to incorporate a Colombian subsidiary. Operations through these branches will be subject to prior approval by the Superintendency of Finance. Among other legal requirements, branches have to meet the same minimum capital requirements as independent entities do.

The main role of banks, merchant banks and financing companies is to receive deposits. Banks place funds back into circulation by means of loans or any active credit operation; merchant banks place funds into circulation by means of active credit operations or investments, with the purpose of promoting the creation or expansion of enterprises; and financing companies place funds back into circulation by means of active credit operations, with the purpose of fostering the sale of consumer goods and services, including leasing operations.

Each credit institution must be separately authorized by the Superintendency of Finance before it may develop and provide financial services. Furthermore, the activities of credit institutions are subject to limitations and restrictions, including limitations and restrictions relating to the extension of credit, risk concentration, investments, conditional operations, foreign currency loans and negotiations, and the administration of third-party funds. One of the principal restrictions on financial activities is that banks may not acquire or hold products, merchandise, equity shares of corporations operating in non-financial activities, income bonds, or other similar securities, except: (i) when the bank has received those goods or securities as collateral for loans it has made or (ii) with respect to shares, when they are issued by companies where banks are permitted to hold investments (mainly financial affiliates). Banks are also subject to other limitations, including limitations on lending activities.

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Modifications to Framework

Laws 510 of 1999, 546 of 1999, 795 of 2003 and 1328 of 2009 have substantially modified the control, regulation and surveillance powers of the Superintendency of Finance. In addition, Law 510 of 1999 and Law 1328 of 2009 streamlined the procedures and powers for FOGAFIN.

The main purpose of Law 510 of 1999 was to increase the solvency and stability of Colombia's financial institutions by establishing rules regarding their incorporation, as well as the permitted investments of credit institutions, insurance companies and investment companies. Law 546 of 1999 was enacted in order to regulate the system of long-term home loans.

Law 795 of 2003 was enacted with the purpose of broadening the scope of activities to be performed by financial institutions and to update Colombian regulations with the latest principles of the Basel Committee at that time. Law 795 of 2003 also increased the minimum capital requirements needed to incorporate a financial institution and authorized the Superintendency of Finance to take precautionary measures with respect to financial institutions whose capital falls below certain thresholds. For example, in order to avoid a temporary taking of possession by the Superintendency of Finance, troubled financial institutions must submit a restructuring program to the Superintendency of Finance.

Law 1328 of 2009, as amended by Law 1748 of 2014, provided a new set of rights and responsibilities for customers of the financial system and a set of obligations for financial institutions, in order to minimize disputes. This law also broadened the scope of permitted business activities by regulated entities: following its adoption, banks were allowed to operate leasing businesses under certain circumstances and to extend loans to third parties so that borrowers may acquire control of other companies.

In order to implement and enforce the provisions related to Colombia's financial system, the Superintendency of Finance has issued periodic circulars and resolutions. The External Circular 029 of 2014, known as the Basic Legal Circular, as amended, consolidates all of the rules and regulations applicable to financial institutions, including rules and regulations relating to the management, operations, investments, lending activities and money-laundering prevention activities of financial institutions. The External Circular 100 of 1995, known as the Basic Accounting and Financial Circular, consolidates all of the regulations applicable to the accounting and financial rules of financial institutions. Furthermore, the Basic Accounting and Financial Circular regulates the assessment of credit institutions' investments, risk management, financial statements, information disclosure and inter-banking credits.

Violations of Laws 510 of 1999, 546 of 1999, 795 of 2003 or 1328 of 2009, as well as of specific provisions of Decree 663 of 1993 and their relevant regulations, are subject to administrative sanctions and, in some cases, criminal sanctions.

Key interest rates

Colombian commercial banks, merchant banks (c*orporaciones financieras*) and financing companies are required to report data to the Colombian Central Bank on a weekly basis regarding the total volume (in pesos) of certificates of deposit issued during the prior week and the average interest rates paid for certificates of deposit with maturities of 90 days. Based on such reports, the Colombian Central Bank calculates the DTF rate, which is published at the beginning of the following week for use in calculating interest rates payable by financial institutions. 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.

The Colombian Central Bank also calculates the interbank rate (*Interés Bancario de Referencia*), or "IBR", which acts as a reference of overnight, one-month and three-month interbank loans, based on quotations submitted each business day by eight participating banks to the Colombian Central Bank. Using the median of the quotations submitted, the Colombian Central Bank calculates the overnight IBR each business day. The one-month and three-month IBRs are also calculated using the median of the quotations submitted each business day, based on the prices of interest rate swaps for each of these periods.

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Article 884 of the Colombian Commercial Code provides for a limit on the amount of interest that may be charged in commercial transactions. The limit is 1.5 times the current banking interest rate (*Interés Bancario Corriente*), calculated as the average of the interest ordinarily charged by banks within a set period of time. The current banking interest rate is certified by the Superintendency of Finance.

Capital Adequacy Requirements

Decree 2555 of 2010 (as modified by Decree 1771 of 2012, Decree 1648 of 2014, Decree 2392 of 2015, Decrees 1477 of 2018 and 1421 of 2019) sets forth capital adequacy requirements for Colombian credit institutions. Since August 1, 2013, technical capital for Colombian credit institutions consists of the sum of basic capital (patrimonio básico) or primary capital (Tier I), and secondary capital (patrimonio adicional) or secondary capital (Tier II). In addition, primary capital (Tier I) consist of the sum of ordinary basic capital (patrimonio básico ordinario) and additional basic capital (patrimonio básico adicional). Tier I and Tier II, as defined herein, may differ to the manner in which those terms are used in other jurisdictions.

The total solvency ratio is defined as the value of the technical capital calculated in the terms of the Decree 2555 of 2010, divided by risk-weighted assets by level of credit and market risk. Credit institutions technical capital must be at least 9.0% of that institution's total risk-weighted assets and must also comply with a measure of "core solvency" for Tier I, which requires higher-quality capital set at a minimum of 4.5% of total risk-weighted assets.

Pursuant to Decree 2555 of 2010 (as amended), the Superintendency of Finance must grant prior approval of the eligibility of a debt, equity or hybrid instrument in order to be classified as Tier I, Additional Tier I or Tier II.

The Decrees 1477 of 2018 and 1421 of 2019 introduced Basel III principles to estimate adequate capital in credit establishments. The main changes contained in these Decrees, which will come into effect on January 1, 2021, are as follows:

- Total solvency ratio is defined as the value of the technical capital (CET1, AT1 and T2) calculated under the terms of the Decree 1477 of 2018 and the Decree 1421 of 2019, divided by risk-weighted assets by level of credit, market and operational risk, at a minimum of 9%;
- A minimum Core Equity Tier 1 (CET1) of 4.5%;
- A minimum Core Tier 1 plus Additional Tier 1 (AT1) of 6%;
- A capital conservation buffer of 1.5% consisting of CET1;
- A systemic risk buffer of 1.0% for systemically important financial institutions (SIFIS) consisting of CET1; and
- Includes an operational risk component in risk weighted assets;
- In addition, these Decrees established a maximum leverage ratio of 3%.

The following chart presents the statutory transition period as set forth in the Decrees 1477 of 2018 and 1421 of 2019 (we refer to (E) as expected):

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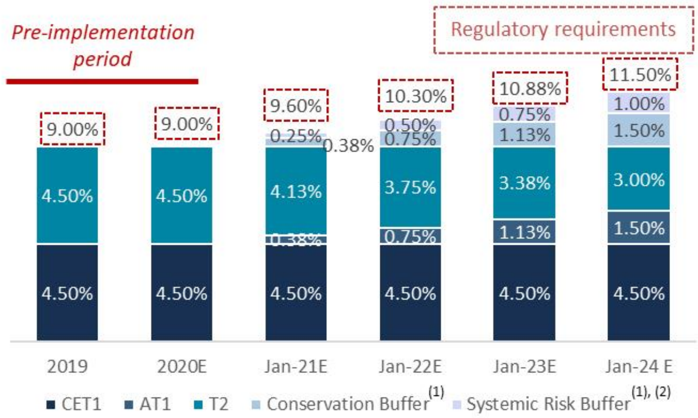

(1) Requires highest quality of capital.

(2) Will only apply to SIFIs as defined by the Superintendency of Finance.

The Circular Letter 088 of December of 2019 issued by the Superintendency of Finance (SFC), published the list of SIFIs for the year 2020, which only included Banco of Bogotá among our Colombian banking subsidiaries, in accordance with the methodology defined for the identification of entities with systemic importance (External Circular 030 of 2019 issued by the same Superintendency).

The following tables set forth the consolidated capital adequacy information, in compliance with the Superintendency of Finance's guidelines, for each of our Colombian banking subsidiaries and Corficolombiana at December 31, 2019 and 2018. Each of our subsidiaries subject to capital adequacy requirements presents technical capital levels above the minimum regulatory capital adequacy requirements established in their respective jurisdictions.

Banco de Bogotá

	At December 31, 2019	At December 31, 2018
	(in Ps billions)	
Subscribed capital	3	3
Reserves and retained earnings	15,966	14,783
Non-controlling interests	—	—
Unconsolidated financial sector investments	(3,799)	(3,656)
Plus/minus others:		
Goodwill and other intangibles	(2,941)	(2,871)
Foreign currency translation adjustments	3,979	3,741
Others	(126)	(345)
Primary capital (Tier I)	**13,083**	**11,656**
Reserves and retained earnings	792	848
Non-controlling interests	—	—
Unrealized gains/losses on debt securities available for sale(1)	110	(85)
Unrealized gains on equity securities available for sale(1)	—	—
Subordinated bonds	4,482	5,275
Minus:		
Unrealized losses on equity securities available for sale(1)	—	—
Plus/minus others	42	37
Secondary capital (Tier II)	**5,426**	**6,075**
Technical capital	**18,509**	**17,731**
Risk-weighted assets	129,836	120,604
Value at risk	1,280	925
Regulatory value at risk(2)	14,223	10,275
Risk-weighted assets including regulatory value at risk	144,059	130,879
Primary capital (Tier I) to risk-weighted assets including regulatory value at risk	**9.1%**	**8.9%**
Secondary capital (Tier II) to risk-weighted assets including regulatory value at risk	**3.8%**	**4.6%**
Solvency ratio(3)	**12.8%**	**13.5%**

(1) Unrealized gains/losses on securities available for sale do not flow through the statement of income until such securities are disposed of and the gain or loss is realized.

(2) Regulatory value at risk consists of value at risk multiplied by (100/9) as required by the Superintendency of Finance. See "—Capital Adequacy Requirements".

(3) Solvency ratio is calculated as technical capital to risk-weighted assets, including regulatory value at risk.

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Banco de Occidente

	At December 31, 2019	2018
	(in Ps billions)	
Subscribed capital	5	5
Reserves and retained earnings	3,616	3,521
Non-controlling interests	10	9
Unconsolidated financial sector investments	(177)	(158)
Plus/minus others:		
Goodwill and other intangibles	(240)	(183)
Foreign currency translation adjustments	(2)	(2)
Others	(11)	(24)
Primary capital (Tier I)	**3,202**	**3,167**
Reserves and retained earnings	—	—
Non-controlling interests	8	4
Unrealized gains/losses on debt securities available for sale(1)	20	15
Unrealized gains on equity securities available for sale(1)	18	14
Subordinated bonds	646	733
Minus:		
Unrealized losses on equity securities available for sale(1)	(2)	(30)
Plus/minus others	16	14
Secondary capital (Tier II)	**706**	**750**
Technical capital	**3,908**	**3,917**
Risk-weighted assets	31,807	29,405
Value at risk	126	158
Regulatory value at risk(2)	1,401	1,755
Risk-weighted assets including regulatory value at risk	33,209	31,160
Primary capital (Tier I) to risk-weighted assets including regulatory value at risk	**9.6%**	**10.2%**
Secondary capital (Tier II) to risk-weighted assets including regulatory value at risk	**2.1%**	**2.4%**
Solvency ratio(3)	**11.8%**	**12.6%**

(1) Unrealized gains/losses on securities available for sale do not flow through the statement of income until such securities are disposed of and the gain or loss is realized.

(2) Regulatory value at risk consists of value at risk multiplied by (100/9) as required by the Superintendency of Finance. See "—Capital Adequacy Requirements".

(3) Solvency ratio is calculated as technical capital to risk-weighted assets, including regulatory value at risk.

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Banco Popular

	At December 31, 2019	At December 31, 2018
	(in Ps billions)	
Subscribed capital	77	77
Reserves and retained earnings	2,262	1,979
Non-controlling interests	31	33
Unconsolidated financial sector investments	(243)	(243)
Plus/minus others:		
Goodwill and other intangibles	(166)	(134)
Foreign currency translation adjustments	—	—
Others	(63)	(64)
Primary capital (Tier I)	**1,898**	**1,648**
Reserves and retained earnings	205	234
Non-controlling interests	—	—
Unrealized gains/losses on debt securities available for sale(1)	23	9
Unrealized gains on equity securities available for sale(1)	16	9
Subordinated bonds	243	270
Minus:		
Unrealized losses on equity securities available for sale(1)	(0)	(0)
Plus/minus others	—	—
Secondary capital (Tier II)	**486**	**522**
Technical capital	**2,384**	**2,170**
Risk-weighted assets	21,015	19,624
Value at risk	128	163
Regulatory value at risk(2)	1,426	1,810
Risk-weighted assets including regulatory value at risk	22,441	21,434
Primary capital (Tier I) to risk-weighted assets including regulatory value at risk	**8.5%**	**7.7%**
Secondary capital (Tier II) to risk-weighted assets including regulatory value at risk	**2.2%**	**2.4%**
Solvency ratio(3)	**10.6%**	**10.1%**

(1) Unrealized gains/losses on securities available for sale do not flow through the statement of income until such securities are disposed of and the gain or loss is realized.

(2) Regulatory value at risk consists of value at risk multiplied by (100/9) as required by the Superintendency of Finance. See "—Capital Adequacy Requirements".

(3) Solvency ratio is calculated as technical capital to risk-weighted assets, including regulatory value at risk.

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Banco AV Villas

	At December 31, 2019	2018
	(in Ps billions)	
Subscribed capital	22	22
Reserves and retained earnings	1,169	1,104
Non-controlling interests	—	—
Unconsolidated financial sector investments	(22)	(20)
Plus/minus others:		
Goodwill and other intangibles	—	—
Foreign currency translation adjustments	—	—
Others	6	—
Primary capital (Tier I)	**1,175**	**1,107**
Reserves and retained earnings	95	48
Non-controlling interests	—	—
Unrealized gains/losses on debt securities available for sale(1)	(0)	(0)
Unrealized gains on equity securities available for sale(1)	—	—
Subordinated bonds	—	—
Minus:		
Unrealized losses on equity securities available for sale(1)	—	—
Plus/minus others	24	22
Secondary capital (Tier II)	**119**	**70**
Technical capital	**1,294**	**1,176**
Risk-weighted assets	11,488	10,759
Value at risk	58	38
Regulatory value at risk(2)	645	421
Risk-weighted assets including regulatory value at risk	12,133	11,181
Primary capital (Tier I) to risk-weighted assets including regulatory value at risk	**9.7%**	**9.9%**
Secondary capital (Tier II) to risk-weighted assets including regulatory value at risk	**1.0%**	**0.6%**
Solvency ratio(3)	**10.7%**	**10.5%**

(1) Unrealized gains/losses on securities available for sale do not flow through the statement of income until such securities are disposed of and the gain or loss is realized.

(2) Regulatory value at risk consists of value at risk multiplied by (100/9) as required by the Superintendency of Finance. See "—Capital Adequacy Requirements".

(3) Solvency ratio is calculated as technical capital to risk-weighted assets, including regulatory value at risk.

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Corficolombiana

	At December 31, 2019	At December 31, 2018
	(in Ps billions)	
Subscribed capital	3	3
Reserves and retained earnings	4,277	3,883
Non-controlling interests	1	1
Unconsolidated financial sector investments	(38)	(39)
Plus/minus others:		
Goodwill and other intangibles	(9)	—
Foreign currency translation adjustments	—	—
Others	(472)	(466)
Primary capital (Tier I)	**3,761**	**3,382**
Reserves and retained earnings	—	—
Non-controlling interests	—	—
Unrealized gains/losses on debt securities available for sale(1)	9	(16)
Unrealized gains on equity securities available for sale(1)	542	399
Subordinated bonds	—	—
Minus:		
Unrealized losses on equity securities available for sale(1)	(280)	(133)
Plus/minus others	—	—
Secondary capital (Tier II)	**272**	**250**
Technical capital	**4,033**	**3,632**
Risk-weighted assets	10,103	7,835
Value at risk	173	220
Regulatory value at risk(2)	1,927	2,441
Risk-weighted assets including regulatory value at risk	12,030	10,275
Primary capital (Tier I) to risk-weighted assets including regulatory value at risk	**31.3%**	**32.9%**
Secondary capital (Tier II) to risk-weighted assets including regulatory value at risk	**2.3%**	**2.4%**
Solvency ratio(3)	**33.5%**	**35.3%**

(1) Unrealized gains/losses on securities available for sale do not flow through the statement of income until such securities are disposed of and the gain or loss is realized.

(2) Regulatory value at risk consists of value at risk multiplied by (100/9) as required by the Superintendency of Finance. See "—Capital Adequacy Requirements".

(3) Solvency ratio is calculated as technical capital to risk-weighted assets, including regulatory value at risk.

Mandatory Investments

Colombian banking institutions are required to invest in agricultural development bonds (Títulos de Desarrollo Agropecuario, or "TDAs") issued by Finagro, a government entity, according to External Resolution 3 of 2000 of the Colombian Central Bank, as amended by External Resolution 5 of 2000, External Resolution 1 of 2002, External Resolution 2 of 2005, External Resolutions 2, 8, 9 and 17 of 2007, External Resolutions 2, 6, 8 and 14 of 2008, External Resolution 15 of 2012, External Resolution 7 of 2014, External Resolution 19 of 2015, External Resolution 10 of 2016 and External Resolution 6 of 2019. The Colombian Central Bank requires that each bank maintains a total investment in these bonds equal to 5.8% of its checking and savings deposits minus legal reserves, plus 4.3% of its time deposits minus legal reserves with a maturity of up to 18 months. Finagro may issue two different types of agricultural development bonds:

1. Class A with an interest rate of four percentage points below the DTF effective annual rate (DTF 4%) or with an interest rate of three-point sixty-seven percentage points below the IBR 3-month nominal rate (IBR-3.67%).

2. Class B with an interest rate of two percentage points below the DTF effective annual rate (DTF 2%) or with an interest rate of one point seventy one percentage points below the IBR 3-month nominal rate (IBR-1.71%) .

If the DTF interest rate falls to 4% or less, the profitability of the Class A TDAs will be 0%, and if the DTF rate falls to 2% or less, the profitability of the Class B TDAs will be 0%. The same applies to IBR rate. Banks are required to invest 37% of the total mandatory investment in Class A TDAs and 63% in Class B TDAs; however, in accordance with the External Resolution 6 of 2019, starting on the third quarter of 2019, financial institutions are required to invest 50% of the total mandatory investment in Class A TDAs and 50% in Class B TDAs.

Under government discretion, authorities may extend the scope of current regulations or require additional disbursements on current or new types of mandatory investments.

Pursuant to Decree 562 issued on April 15, 2020, Colombian credit institutions are required to invest in solidarity notes, these notes will be public debt notes issued by the Colombian Government with a maturity date of one year (extendable for additional terms) to address COVID-19 effects in Colombia. Each credit institution will have to invest:

1. 3% of its checking and savings deposits, minus the mandatory reserves, based on the financial statements reported as of March 31, 2020, and

2. 1% of its time deposits subject to mandatory reserves, minus the mandatory reserves, based on the financial statements reported as of March 31, 2020.

Colombia's Central Bank lowered reserve requirements as a measure to mitigate the negative impact of coronavirus on credit institutions on April 14, 2020 effective on April 22, 2020. These changes were made to support the acquisition of the solidarity notes with the excess liquidity generated through lower reserve requirements.

Minimum Capital Requirements

The Decree 2555 of 2010 establishes minimum incorporation capital requirements for different financial institutions. When a financial institution fails to comply with the minimum required capital after a cure period granted by law, the Superintendency of Finance may intervene, causing the financial institution to be liquidated, merged with another institution or its corporate form may be converted into another category of financial institution, notwithstanding the fact that the institution may be subject to fines imposed by the Superintendency of Finance.

The minimum incorporation capital requirement for banks on a separate basis for 2019 was Ps 96.813 million. Through the date hereof, all our banks have consistently satisfied this incorporation capital requirement.

Capital Investment Limit

All investments in subsidiaries and other authorized capital investments, other than those carried out in order to fulfill legal provisions, may not exceed 100% of the total aggregate of the capital, equity reserves and the equity reappraisal account of the respective bank, financial corporation or financing company, excluding unadjusted fixed assets and including deductions for accumulated losses.

Foreign Currency Position Requirements

According to External Resolution No. 1 of 2018 and External Regulatory Circular DODM-398 issued by the Board of Directors of the Colombian Central Bank on March 22, 2019, which modified the foreign currency position requirements of Colombian banks, the foreign currency position (defined as the difference between rights and obligations denominated in foreign currencies) based on a three-business-day average, cannot exceed 20% of the bank's technical capital. If the foreign currency position is negative, it cannot exceed 5% of the bank's technical capital.

Currency exchange intermediaries such as Banco de Bogotá, with controlling interest of its overseas investments, are required to exclude those investments and any declared and approved hedging instruments (derivatives or debt) from their foreign currency positions starting on March 26, 2019. At December 31, 2019, Banco de Bogotá, Banco de Occidente, Banco Popular and Banco AV Villas had unconsolidated net foreign currency positions of U.S.$(11.2) million, U.S.$(9.5) million, U.S.$38.9 million and U.S.$0.2 million, respectively, which fell within these regulatory guidelines.

Lending Limits

Decree 2555 of 2010 provides that a financial institution may not lend, individually or in the aggregate, to a single borrower an amount in excess of 10% of their technical capital (*Patrimonio Técnico*) if the only security for such operation is the borrower's equity. Nevertheless, commercial banks can lend to a single person an amount equivalent to 25% of their technical capital (*Patrimonio Técnico*), as long as such loan is secured by eligible collateral and sufficient to secure a risk exceeding 5% of such equity.

Notwithstanding the general rule set above regarding the lending limit of 10%, Decree 816 of 2014 was issued to promote the financing of 4G concessions and establishes that commercial banks can lend to a single borrower for the purpose of financing fourth generation concessions, a sum up to 25% of its technical capital (*Patrimonio Técnico*).

Fourth generation concessions are a governmental program issued under the administration of Former President Juan Manuel Santos, aiming to execute the construction of road infrastructure projects in association with private entities.

Decree 2555 of 2010 sets a maximum limit for risk concentrated in one single party, equivalent to 30% of a bank's technical capital, the calculation of which includes loans, leasing operations and equity and debt investments.

Pursuant Decree 2555 of 2010, a credit institution may not make a loan to any shareholder that holds directly more than 10% of its share capital for one year after such shareholder reaches the 10% threshold. In no event may a loan to a shareholder that holds, directly or indirectly, 20% or more of a bank's share capital exceed 20% of a bank's capital requirements. In addition, this Decree establishes no loan to a single financial institution may exceed 30% of a bank's technical capital, with the exception of loans funded by Colombian development banks for which no limit exists.

If a financial institution exceeds these limits, the Superintendency of Finance may impose a fine equal to up to twice the amount by which any such loan exceeded the limit. No concentration limits apply to Grupo Aval on a consolidated basis, however, since February 6, 2020, pursuant to the Law of Financial Conglomerates, and in particular, Decree 1486 of 2019, Grupo Aval has in place policies and limits of exposure and concentration of risks for operations between entities belonging to its financial conglomerate and between these and their related entities or individuals *(vinculados)*.

The Colombian Central Bank also has the authority to establish maximum limits on the interest rates that commercial banks and other financial institutions may charge on loans.

At December 31, 2019, pursuant to Decree 2555 of 2010, our banks were subject to the following lending limits for unsecured and secured loans: Banco de Bogotá's lending limit per borrower on a separate basis was Ps 1.65 billion for unsecured loans and Ps 4.12 billion for secured loans, Banco de Occidente's lending limit per borrower on a separate basis was Ps 0.39 billion for unsecured loans and Ps 0.97 billion for secured loans, Banco Popular's lending limit per borrower on a separate basis was Ps 0.23 billion for unsecured loans and Ps 0.59 billion for secured loans, and Banco AV Villas' lending limit per borrower on a separate basis was 0.13 billion for unsecured loans and Ps 0.32 billion for secured loans.

Reserve Requirements

Credit institutions are required by the Board of Directors of the Colombian Central Bank to satisfy reserve requirements with respect to deposits and other cash demands. These reserves are held by the Colombian Central Bank in the form of cash deposits. According to External Resolution 5 of 2008, as amended by External Resolution 9 of 2016, the reserve requirements for Colombian banks are measured bi-weekly and the amounts depend on the class of deposits.

Prior to April 22, 2020 reserve requirements for credit institutions presented a range between 0% and 11.0%. For example, credit institutions must maintain reserves of 11.0% for checking accounts and savings deposits, reserves of 4.5% for time deposits with a maturity of less than 540 days, and no reserves for time deposits with a maturity equal or greater than 540 days. Starting on April 22, 2020, and as a measure to mitigate the negative impact of coronavirus on credit institutions, the Central Bank lowered these requirements to 8% on checking and savings deposits, and 3.5% for time deposits with a maturity of less than 540 days. For time deposits with a maturity equal or greater than 540 days, the reserve requirement remained at 0%.

Credit institutions must maintain these reserves in their accounts at the Colombian Central Bank or in cash.

Foreign Currency Loans

Colombian residents may only obtain foreign currency loans from foreign entities that obtain a code from the Colombian Central Bank. Such code has to be requested from the foreign exchange intermediary by the resident that wishes to obtain a loan from foreign entities or foreign individuals. Foreign currency loans must be either channeled through foreign exchange intermediaries (such as Colombian financial institutions) or deposited in offshore compensation accounts (i.e., specially designated accounts at foreign banks held by Colombian residents and registered before the Colombian Central Bank).

Under regulations issued by the Colombian Central Bank, every Colombian resident and institution borrowing funds in foreign currency is generally required to post with the Colombian Central Bank non-interest-bearing deposits for a specified term; however, the percentage of the required deposit is currently zero. No such deposits would be required for foreign currency loans aimed at financing Colombian investments abroad or for short-term export loans (provided the loan is disbursed against the funds of Banco de Comercio Exterior—Bancoldex).

In addition, pursuant to Law 9 of 1991, the Board of Directors of the Colombian Central Bank is entitled to impose conditions and limitations on the incurrence of foreign currency indebtedness in order to avoid pressure in the foreign exchange market.

Restrictions on Foreign Investment in Colombia

Colombia's foreign investment statute regulates the manner in which non-residents are permitted to invest in Colombia and participate in the Colombian securities market. Among other requirements, Colombian law requires foreign investors to register certain foreign exchange transactions with the Colombian Central Bank and obtain authorization for certain types of investments. Certain foreign exchange transactions, including those between residents and non-residents, must be made through authorized foreign exchange intermediaries.

Non-residents are permitted to hold portfolio investments in Colombia, through a registered stock brokerage firm, a trust company or an investment firm. Investors would only be allowed to transfer dividends abroad after the foreign investment registration procedure with the Colombian Central Bank has been completed. The failure of a non-resident investor to report or register foreign exchange transactions with the Colombian Central Bank relating to investments in Colombia on a timely basis may prevent the investor from remitting dividends, or an investigation that may result in a fine may be commenced.

Loss Allowance

According to consolidated financial statements of Colombian credit institutions, the following rules about loan loss allowances apply:

Regarding the entire loan portfolio, in accordance with IFRS 9, financial institutions must evaluate at the end of each accounting period if there is or has been a significant increase in the credit risk (SICR) of a loan measured in accordance with the amortized cost methodology. Impairment indicators include significant economic difficulties faced by the borrower, payment default and the probability that the borrower will seek protection from creditors. If impairment is determined, a loan loss provision charged to income is calculated as follows:

- For loans deemed individually significant and impaired, an individual analysis is carried out in accordance with IFRS 9, which takes into consideration expected cash flows, interest rates, the amortization schedule, collateral and information from credit bureaus. A loan is considered impaired when, based on historic and current information and events, including forward-looking information such as macroeconomic indicators, it is concluded that a there is a probability that the lender will be unable to collect in full the amounts owed as per the loan agreement, including interest and commissions. When a loan has been identified as impaired, the value of the loss is measured as: (i) the difference between the book value of the loan and the present value of expected future flows (taking into consideration the condition of the borrower), discounted by the interest rate initially established on the loan, or (ii) the present value of the collateral that guarantees the loan (after deducting the estimated selling costs of the collateral) when it is concluded that the fundamental source of repayment is the sale of the collateral. For the calculation of loss allowances considered individually significant, which are based on their guarantee, estimates of the fair value of such guarantee are established using independent expert appraisers.

- For those loans which are not individually significant and for loans individually significant but not impaired, a collective assessment is effected, with loans grouped together by segments having similar characteristics, using statistical assessment techniques based on the analysis of historical losses to determine an estimate of percentage of expected losses in such assets as of the date of the financial statements, but which have not been identified on an individual basis.

For the calculation of expected losses of loan portfolios analyzed collectively, statistical models are utilized which take into consideration three fundamental factors: exposure, probability of default and loss given default.

The calculation process includes analyses of specific, historical and qualitative components. The methodologies used include the following elements: a) detailed periodical analysis of the loan portfolio, b) credit classification system by risk levels, c) periodic review of the summary of loss allowances, d) identification of loans to be evaluated individually due to impairment, e) consideration of internal factors, such as our size, organizational structure, loan portfolio structure, loan administration process, analysis of overdue portfolio and experiences of historical losses, f) consideration of risks inherent to different types of loans, and g) consideration of external factors, including local, regional and national, as well as economic factors.

As of January 1, 2018, IASB adopted the expected credit loss ("ECL") model according to IFRS 9. For more information regarding loss allowance calculations see "Item 11. Quantitative and Qualitative Disclosures About Risk".

Public Tender Offer Rules

Pursuant to Colombian law, the acquisition of the beneficial ownership of 25.0% or more of the outstanding shares with voting rights of a listed company, or the purchase of 5.0% or more of the outstanding shares with voting rights by a shareholder or group shareholders beneficially owning 25.0% or more of such outstanding shares of a listed company, should be made pursuant to the public tender offer rules. The preferred shares are not shares with voting rights for purposes of this requirement.

Under Article 6.15.2.1.1 of Decree 2555 of 2010, any entity or group of entities ultimately representing the same beneficial owner, directly or through one or more intermediaries, may only become the beneficial owner of more than 25.0% of the outstanding shares with voting rights of a company that is publicly traded in Colombia by making a public tender offer directed to all holders of such shares of that company, following the procedures established by the Superintendency of Finance as per the applicable law.

Moreover, any beneficial owner of more than 25.0% of the outstanding shares with voting rights of a company who wants to acquire additional shares of the company representing more than 5.0% of the company's outstanding shares with voting rights may only do so by making a public tender offer directed to all holders of such company's shares, following the procedures established by the Colombian Superintendency of Finance as per the applicable.

These requirements do not need to be met in certain circumstances described in Article 6.15.2.1.2 of Decree 2555 of 2010, including: (i) if the purchase is approved by 100% of the holders of the outstanding shares of the company, (ii) if the purchaser acquires the percentages indicated above through an offer in a privatization process, (iii) if the company reacquires its own shares or (iv) if the company issues voting shares, among others.

Sales of Publicly Traded Stock

Any transaction involving the sale of publicly traded stock of any Colombian company, including any sale of our preferred shares for the peso equivalent of 66,000 UVRs (approximately U.S.$ 5,452.0) or more must be effected through the Colombian Stock Exchange. At December 31, 2019, one UVR equaled Ps 270.7 and 66,000 UVRs equal Ps 17,867,071.2.

Intervention Powers of the Superintendency of Finance – Bankruptcy Considerations

Pursuant to Colombian banking regulations, the Superintendency of Finance has the power to intervene in the operations of a bank in order to prevent it from, or to control and reduce the effects of, a bank failure.

The Superintendency of Finance may intervene in a bank's business: (i) prior to the liquidation of the bank, by taking precautionary measures in order to take remedial actions and prevent the bank from being taken over by the Superintendency of Finance, or (ii) to take possession of the bank to either administer the bank or order its liquidation, depending on the severity of the situation.

The purpose of taking possession is to allow the Superintendency of Finance to decide: (i) whether the entity should be liquidated, (ii) whether it is possible to place it in a position to continue doing business in the ordinary course, or (iii) whether other measures may be adopted to secure better conditions so that depositors, creditors and investors may obtain the full or partial payment of their credits.

If the Superintendency of Finance takes possession of a bank, FOGAFIN must appoint a special agent (who must be accepted by the Superintendency of Finance) to administer the affairs of the bank during such process and until the bank is ordered to be liquidated or the entity is reestablished to continue doing business in the ordinary course.

During the period of the Superintendency of Finance's possession (which ends when the liquidation process begins), Colombian banking laws prevent any creditor of the bank from (i) initiating any procedure for the collection of any amount owed by the bank, (ii) enforcing any judicial decision rendered against the bank to secure payment of any of its obligations, (iii) placing a lien or attachment on any of the assets of the bank to secure payment of any of its obligations, or (iv) making any payment, advance or compensation or assuming any obligation on behalf of the bank, with the funds or assets that may belong to it and are held by third parties, except for payments that are made by way of set-off between regulated entities of the Colombian financial and insurance systems.

In the event that the bank is liquidated, the Superintendency of Finance must, among other measures, provide that all term obligations of the bank are due and payable at the date when the order to liquidate becomes effective.

During the liquidation process, bank deposits and other types of saving instruments will be excluded from the liquidation process and, claims of creditors, as a general rule, rank as follows: (i) the first class of credits includes the court expenses incurred in the interest of all creditors, wages and other obligations related with employment contracts and tax obligations owed to tax authorities regarding national and local taxes; (ii) the second class of credits comprises the credits secured by a security interest on movable assets; (iii) the third class of credits includes the credits secured by real estate collateral, such as mortgages; (iv) the fourth class of credits contains some other obligations before the tax authorities against the debtor that are not included in the first class of credits and debts owed to suppliers of raw materials and other inputs; and (v) finally, the fifth class of credits includes all other obligations without any priority or privilege; provided however, which among credits of the fifth class, subordinated debt shall be ranked junior to the external liabilities (*pasivos externos*), senior only to capital stock. Each category of creditors will collect in the order indicated above, whereby distributions in one category will be subject to completing full distribution in the prior category.

Troubled Financial Institutions – Deposit Insurance

Subject to specific limitations, FOGAFIN is authorized to provide equity and/or secured loans to troubled financial institutions and to insure deposits of commercial banks and certain other financial institutions. In 1998 and 1999, to address the adverse effects of the economic crisis, certain regulations were adopted, among others, Law 546 of 1999 (*Ley de Vivienda*) and Law 550 of 1999 (*Ley de Reactivación Económica*).

To protect the customers of commercial banks and certain financial institutions, Resolution No. 1 of 1988 of FOGAFIN, as amended by Resolutions 1, 3 and 4 of 2012, Resolution 1 of 2013, Resolutions 1, 2, 3 and 5 of 2014, Resolution 1 of 2015, Resolution 2 of 2016, Resolution 2 of 2017 and Resolution 3 of 2018, requires mandatory deposit insurance. Under this resolution, banks must pay an annual premium of 0.3% of total funds received on savings accounts, checking accounts, certificates of deposit, special savings deposits, mortgage bonds, special accounts, bank collection services and electronic deposits. If a bank is liquidated, the deposit insurance will cover the funds deposited by an individual or corporation with such bank, up to a maximum of Ps 50 million, regardless of the number of accounts held.

Anti-Money-Laundering Provisions

The regulatory framework to prevent and control money laundering is contained in, among others, the EOSF, Part I, Title IV, Chapter IV of Legal Basic Circular (*Circular Básica Jurídica*), as amended, issued by the Superintendency of Finance, as well as the Colombian Criminal Code.

Colombian laws adopt the latest guidelines related to anti-money laundering and other terrorist activities established by the Financial Action Task Force on Money Laundering, or "FATF". Colombia, as a member of the GAFI-SUD (a FATF-style regional body) follows all of FATF's 40 recommendations and nine special recommendations.

Anti-money laundering provisions have been complemented with provisions aimed at deterring terrorism financing. For that purpose, by means of the Circular Básica Jurídica, the Superintendency of Finance has issued regulations requiring the implementation by financial institutions of a system of controls for money laundering and terrorism financing.

The requirements include "know your customer" rules and procedures to protect financial institutions from being used directly by shareholders and executives in money-laundering activities, for channeling funds for terrorist activities, or for the concealment of assets from such activities; these rules and procedures set forth detailed instructions for monitoring these risks.

Part III, Title I, Chapter VII of Legal Basic Circular, as amended, issued by the Superintendency of Finance and applicable to issuers of securities in the capital markets, provides rules and guidelines regarding the prevention of money laundering and terrorism financing.

Finally, the Colombian Criminal Code includes criminal rules and regulations to prevent, control, detect, eliminate and prosecute all matters related to financing terrorism and money laundering. The criminal rules and regulations cover the omission of reports on cash transactions, mobilization or storage of cash, and the lack of controls.

Pension Fund Solvency Measures

On March 2, 2018, Decree 415 of 2018, which amended Decree 2555 of 2010, introduced a new solvency measure for pension fund administrators of minimum 9% of the value of the technical capital requirements (patrimonio técnico) divided by:

- Summation of assets weighted by risk level;
- Operational risk exposure value multiplied by 100/9; and

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- Market risk exposure value multiplied by 100/9;

Furthermore, Decree 1895 of September 11, 2012 included 13% of the fee income from the administration of funds belonging to the Fondo Nacional de Pensiones de las Entidades Territoriales - FONPET to the sum that must be multiplied by 100/9 to determine a pension fund administrator's "Exposure to operational risk".

On August 6, 2019, the decree 1420, established additional rules for pension fund administrators related to percentage of exposure applicable to operational risks.

Insolvency Law

On July 12, 2012, the Colombian Congress enacted Law 1564, which provides insolvency protection for non-merchant individuals. Under the new insolvency regulation, which came into effect on October 1, 2012, once a non-merchant individual has ceased paying his or her debts, such individual can initiate a voluntary insolvency proceeding before a notary public or mediator to reach an agreement with his or her creditors. The terms of any agreement reached with two or more creditors that represent more than 50% of the total amount of the claims against such individual will be mandatorily applicable to all relevant creditors. The law also provides for increased debtor protections, including an automatic stay for a maximum of 90 days.

Prepayment of Credit Operations without Penalty

On July 9, 2012, the Colombian Congress enacted Law 1555, allowing consumers of financial services to prepay obligations denominated in pesos owed to financial institutions, without incurring in any penalty. Law 1555 also requires that financial institutions disclose the possibility of such prepayment to borrowers prior to the extension of any loan.

Law 1555 does not apply to (i) mortgage loans, for which prepayment is always allowed according to Law 546 of 1999, (ii) loans having a balance that exceeds 880 times the legal monthly minimum wages, or (iii) to financial obligations acquired prior this law's effective date (July 9, 2012), and for which prepayments are governed by the relevant contractual provisions, or absent an agreement by the parties, by the laws in force at the time when the relevant agreement was executed.

Data Protection Law

On October 17, 2012, Law 1581 of 2012 introduced a new data protection regime that applies to any person that administers databases in Colombia, and this Law was regulated on June 27, 2013 by Decree 1377 of 2013 and Decree 886 of 2014. Although it does not apply in its entirety to financial institutions, it provides a set of principles (legality, freedom, truthfulness, quality, transparency, access, confidentiality, among others) that apply to us in the administration of our databases. Additionally, there is a general prohibition of transferring personal data to other countries that do not provide adequate levels of data protection according to the standards set by the Superintendency of Industry and Commerce. This prohibition does not apply to transfers of data that are inherent to banking and securities activities under the applicable law.

Regulation on Liens over Movable Assets

On August 20, 2013, the Colombian Congress enacted Law 1676 with the purpose of increasing the public access to credit by providing a new regulation on liens over movable assets. Law 1676 introduced substantial modifications to Colombian regulation on liens over movable assets, including: (a) the creation of a single unified lien public registry, (b) the ability for creditors to directly foreclose on the secured assets for a value determined in an appraisal conducted by an independent expert appointed by the Superintendency of Companies, (c) the ability for creditors to enforce the security upon insolvency of the debtor, provided that the movable assets are not essential for the continuing of business of the insolvent debtor, and (d) an upgrade of priority upon liquidation.

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Regulation on Payroll Loans

On April 27, 2012, the Colombian Congress enacted Law 1527, as amended by Law 1607 of 2012 and by Law 1902 of 2018, which consolidated the then existing regulatory framework on payroll deduction loans. Under Law 1527 of 2012, payroll loans are secured by an irrevocable order or authorization from the clients to their respective employers or to the entity that pays their salary or other financial benefits arising from their employment to directly pay the loan. As opposed to the prior regulatory regime, employees may currently freely determine the financial institution granting the relevant financial product or service. Similarly, Law 1527 of 2012 provides that the employer is jointly and severally liable for the employee's payment obligation if the employer fails to effect the deductions required for the debt service of its employee's obligation.

Regulatory Framework for Non-Financial Subsidiaries

Our Colombian subsidiaries that are not part of the financial sector are governed by the laws and regulations of the Colombian Civil Code and the Colombian Code of Commerce, as well as any regulations issued by the Colombian Superintendency of Industry and Commerce and the Superintendency of Corporations or any other type of special regulations that may be applicable to corporations, and the commercial and industrial activities carried out by these subsidiaries.

Service of Process and Enforcement of Judgments

Grupo Aval is incorporated under the laws of Colombia. All of our directors and officers reside outside the United States. Substantially all of our assets are located outside the United States, primarily in Colombia. As a result, it may not be possible, or it may be difficult, for you to effect service of process upon us or these other persons within the United States or to obtain recognition and enforcement of judgments obtained in U.S. courts against us or them, including those predicated upon the civil liability provisions of the U.S. federal securities laws or otherwise.

The Colombian Supreme Court will determine whether to recognize a U.S. judgment predicated on the U.S. securities laws through a proceeding known under Colombian law as "exequatur". Enforcement of U.S. judgments may require a separate court procedure in Colombia. After the exequatur has been granted, if the judicial decision imposes an obligation to pay a sum of money or to comply with certain obligations, an executive judicial proceeding (*proceso ejecutivo)* before a local court is available. Such proceeding would follow the same rules applicable for the enforcement of local judicial decisions.

The Colombian Supreme Court will recognize a foreign judgment, without reconsideration of the merits, only if the judgment satisfies the requirements of Articles 605, 606 and 607 of Law 1564 of 2012 (*Código General del Proceso*), provided that the parties affected by the judgment were summoned in the exequatur proceedings in accordance with applicable rules. Law 1564 of 2012 provides that the foreign judgment will be recognized if:

- a treaty or convention exists between Colombia and the country where the judgment was granted relating to the recognition and enforcement of foreign judgments or, in the absence of such treaty or convention, there is reciprocity in the recognition of foreign judgments between the courts of the relevant jurisdiction and the courts of Colombia;

- the foreign judgment does not refer to "in rem" rights vested in assets that were located in Colombia at the time the suit was filed in the foreign court which issued the judgment;

- the foreign judgment does not contravene or conflict with Colombian laws relating to public order (i.e., provision considered to be international public policy) other than those governing judicial procedures;

- the foreign judgment is final and not subject to appeal in accordance with the laws of the country in which it was obtained. The copy of the judgment provided to the Colombian Supreme Court must be authenticated and legalized by a Colombian Consul and translated into Spanish by an authorized translator, duly registered at the Ministry of Foreign Affairs;

- the foreign judgment does not refer to any matter upon which Colombian courts have exclusive jurisdiction;
- no proceedings are pending in Colombia with respect to the same cause of action, and no final judgment has been awarded in any proceeding in Colombia on the same subject matter and between the same parties;
- in the proceedings commenced in the foreign court that issued the judgment, the defendant was served properly in accordance with the applicable laws in such jurisdiction, and was given a reasonable opportunity to defend itself against the action; and
- the Colombian Supreme Court has granted exequatur upon the foreign judgment.

The United States and Colombia do not have a bilateral treaty providing for automatic reciprocal recognition and enforcement of judgments in civil and commercial matters. The Colombian Supreme Court, which is the only Colombian court that can recognize foreign judgments, has generally accepted that reciprocity exists when it has been proven that either a U.S. court has recognized a Colombian judgment or that a U.S. court would recognize a foreign judgment, including a judgment issued by a Colombian court. However, the Colombian legal system is not based on precedents and exequatur decisions are made on a case-by-case basis.

We have appointed Banco de Bogotá S.A., New York Agency as our authorized agent upon whom process may be served in any action instituted in any U.S. federal or state court having subject matter jurisdiction in the Borough of Manhattan in New York, New York, arising out of or based upon the ADSs or the underwriting agreement related to the ADSs.

Notwithstanding the foregoing, we cannot assure you that a Colombian court would recognize or enforce a judgment issued by a state or federal court in the United States with respect to the preferred shares or ADSs based on U.S. securities laws. We have been advised by our Colombian counsel that there is no legal basis for a Colombian court to exert jurisdiction over original actions to be brought against us or our directors and executive officers predicated solely upon the provisions of U.S. securities laws. In addition, certain remedies available under U.S. securities laws may not be admitted or enforced by Colombian courts.

Grupo Aval's articles of incorporation and by-laws contain an arbitration clause that provides for the exclusive jurisdiction of an arbitral tribunal to be seated in Bogotá, D.C., Colombia. The arbitration provision provides that any conflict arising among shareholders, or between shareholders and Grupo Aval in connection with the by-laws, must be resolved by an arbitral tribunal.

Risk Management Framework (MGR)

In order to comply with Law 1870 of 2017, the Superintendency of Finance issued External Circular 013 of 2019, through which the financial conglomerate Risk Management Framework was established. The implementation period of this External Circular expires on June 20, 2021.

Grupo Aval has designed a work plan that will allow it to comply with the External Circular 013 of June 2019 within the period indicated. The implementation of the MGR will include the following considerations:

- The design of a Risk Appetite Framework for the financial conglomerate.
- The management of the inherent risks in the financial conglomerate: contagion, concentration and strategic risk.
- The risk governance structure of the financial holding.
- The technological infrastructure and information systems.
- The requirements of the MGR documentation.

C. Organizational structure

Our operations

We conduct our operations through our four banks (Banco de Bogotá, Banco de Occidente, Banco Popular and Banco AV Villas), a pension and severance fund manager (Porvenir), our merchant bank (Corficolombiana) and our Central American banking group, BAC Credomatic. For more information on our organizational structure, please see the chart presented in "Item 4. Information on the Company—B. Business overview—Our operations".

D. Property, plant and equipment

We have listed below the carrying amount of property, plant and equipment of each of our operating segments at December 31, 2019.

	Buildings and land(1)	Machinery	Equipment	Bearer plants	Other properties	Total
			(Ps billions)			
Banco de Bogotá	1,225.7	6.4	679.1	—	188.5	2,099.7
Banco de Occidente	357.4	0.0	95.8	—	11.3	464.6
Banco Popular	444.0	0.7	69.8	—	13.2	527.7
Banco AV Villas	248.3	—	36.7	—	13.3	298.3
Corficolombiana	955.5	1,118.9	39.0	224.1	51.9	2,389.3
Other segments	—	—	1.8	—	1.4	3.2
Eliminations and adjustments	(0.0)	0.5	(0.0)	0.0	0.0	0.5
Grupo Aval	**3,231.0**	**1,126.5**	**922.1**	**224.1**	**279.6**	**5,783.2**

(1) Includes ongoing constructions.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating results

The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017, and the related notes thereto, and with the other financial information included in this annual report. The preparation of our audited consolidated financial statements requires the adoption of assumptions and estimates that affect the amounts recorded as assets, liabilities, revenue and expenses in the years and periods addressed and are subject to certain risks and uncertainties. Our future results may vary substantially from those indicated because of various factors that affect our business, including, among others, those identified under "Forward-Looking Statements" and "Item 3. Key Information—D. Risk factors", "Item 5. Operating and Financial Review and Prospects—D. Trend information", and other factors discussed in this annual report. Our audited consolidated financial statements at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017 included in this annual report have been prepared in accordance with IFRS.

Volume and rate variances have been calculated based on variances in average balances over the period and changes in interest rates on average interest-earning assets and average interest-bearing funding as follows: (a) changes in volume (change in volume times new rate) and (b) changes in rates (change in rate times old volume). Net changes attributable to changes in both volume and interest rate have been allocated to changes in volume. Calculations are done on a line-by-line basis to account for changes in mix when analyzing each group of interest-earning assets (gross loans, total gross loans and total interest-earning assets) and interest-bearing funding (customer deposits, other funding and total funding). In Item 5, we refer to “N.A.” as not applicable.

Principal factors affecting our financial condition and results of operations

Colombian Economic Conditions

Colombian GDP grew at annual rate of 3.3% in 2019, the best result in 5 years, as compared to 2.5% in 2018. Inflation remained within the Central Bank’s target range of 2% to 4%, closing the year at 3.80%, and private domestic consumption was stronger than a year ago. All amidst a scenario of a generalized global slowdown both in developed and emerging economies.

Private domestic consumption remained as the main driver of the Colombian economy in 2019 growing at 4.6% in 2019, well above the 3.0% of 2018 and 2.1% of 2017. This component of GDP was favored by the stability of slightly expansive reference rates (unaltered at 4.25% since April 2018), the increase of remittances from workers abroad, the increase in consumption from Venezuelan migrants and strong growth in wages of the formally employed population.

Similarly, private investment continued to recover reflecting: (i) the pro-investment measures included in the Financing Law (Law 1943) approved at the end of 2018, such as the reduction in corporate taxes and the tax credits for the VAT paid in the acquisition of fixed assets and (ii) lower interest rates for commercial credit. Public spending and investment, on the contrary, slowed down as a result of the fiscal consolidation and the sluggish execution of spending during the last fiscal year.

Net exports continued to drag economic growth in 2019. Colombian exports remain heavily dependent on oil (40.4% of exports) and has struggled to substitute Venezuela as a trading partner, which used to be one Colombia’s most important trade partners before its economic collapse. Exports and imports denominated in U.S.$ decreased by 5.7% and increased by 2.7%, respectively. Under this scenario, Colombia’s trade balance deficit for 2019 was 3.8% of GDP. In consequence, the current account deficit has continued to widen, reaching 4.3% of GDP in 2019. Positive economic forecasts, along a strengthened regulatory framework, favor the overall outlook for our domestic operation in Colombia under ordinary circumstances.

In 2019, the Government continued adjusting its fiscal accounts as required by the Law of Fiscal Rule. It achieved the sovereign rating ratification from the three main global rating agencies and maintained confidence from international investors in its fiscal management. The National Central Government deficit as a percentage of GDP decreased to 2.5% in 2019 from 3.1% in 2018, and was better than the 2.7% threshold established by the Fiscal Rule Consultive Comitee (*Comité Consultivo de la Regla Fiscal*), without any sale of state assets. A strong 9.0% growth of gross tax collections to Ps 157.4 trillion contributed to this result.

The Colombian peso remained materially stable at Ps 3,277.14 per dollar as of December 31, 2019, depreciating 0.8% as compared to the Ps 3,249.75 per dollar as of December 31, 2018. However, the currency was impacted by volatility during 2019, driving the exchange rate to a low of Ps 3,072.01 per dollar and a high of Ps 3,522.48 per dollar. Given this situation, the average exchange rate for the year ended December 31, 2019 was 3,282.39 per dollar, 11.0% higher than the 2,956.55 per dollar of 2018. The following graph shows the evolution of the Colombian peso exchange rate as certified by the Superintendency of Finance starting on December 31, 2018, showing the close of year-end 2019, and the lowest and highest levels for 2019.

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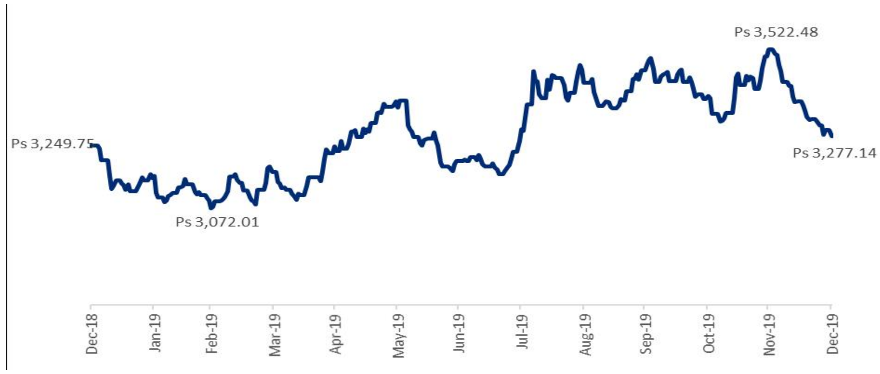

We continue to be subject to impacts on our statement of income and/or statement of financial position derived from fluctuations in the rate of exchange of the Colombian peso, in particular, against the U.S. dollar, the currency in which most of our foreign long-term debt is denominated, and between the U.S. dollar and each of the currencies in our Central American operations, as 40.2% of our average consolidated assets and 43.9% of our average consolidated liabilities are denominated in foreign currency for the year ended December 31, 2019. On a consolidated basis, we have U.S.$3.9 billion (Ps 12.7 trillion) of long-term debt denominated in U.S. dollars at December 31, 2019.

Labor Markets

The monthly average national unemployment rate for the year ended December 31, 2019 was 10.5% as compared to 9.7% a year earlier. There are important factors that explain the relatively high unemployment rate of the economy, most of them structural in nature. The effect of the minimum wage on labor market outcomes and the relatively high non-salary labor costs can be distortive and help explain the sluggish performance of the labor market.

The recent upsurge in unemployment is explained by sluggish job creation and not by an increase in the participation rate, which is surprisingly declining despite the inflow of immigrants from Venezuela. Employment and labor force participation figures remain puzzling given the pickup in economic activity and the fact that the increase of migration in the last years seems to be captured only partially by official statistics. The participation rate (i.e., economically active population divided by working age population), a measure of labor supply, slightly declined to an annual average of 63.3% at December 31, 2019, compared to 64.0% for 2018. The employment rate (i.e., employed population divided by working age population), a measure of labor demand, also fell to an annual average of 56.6% for 2019 from 57.8% for 2018.

The weaker pace of job creation in 2019 could be attributed to three factors: (i) the large increase in the statutory minimum wage approved by the Government last year, (ii) substitution of labor by capital because of the incentives to machinery and equipment investment included in the Financing Law approved at the end of 2018, and (iii) tighter labor markets for skilled labor that prevents firms from hiring workers in the largest cities in the country to expand, while favoring some technological reconversion.

Interest Rates and Inflation

Since the implementation of an inflation-targeting regime in 1999, the Colombian Central Bank has used its overnight lending rate as a mechanism to control inflation and inflation expectations. The Central Bank has managed to keep inflation within its target range of 2% to 4%, with only few exceptions. The Central Bank’s rate remained stable throughout 2019 at 4.25% after being cut to that level in April 2018.

In the first half of 2019, annual inflation remained relatively stable at around 3.3%, but during the last few months of 2019 it trended up, moving closer to the upper limit of the target range. Inflation rose to 3.8% at the end of last year from a bottom low of 3.0% in February 2019. This pickup in consumer prices was primarily explained by food prices, affected by adverse climate conditions such as El Niño Phenomenon on the first quarter of 2019 and heavy rainfall on the second quarter, as well as road closures caused by blockades and landslides. These shocks brought annual food inflation up to 5.6% in September, a figure not seen since the beginning of 2017. Tradable prices also added some pressure since they incorporated the exchange rate devaluation from late 2018.

Credit Volumes

At December 31, 2019, gross loans for the banking system grew 7.9%, while at December 31, 2018, growth was 6.1% and 5.9% when adjusted for securitized mortgage loan data. We believe that Colombia offers significant opportunities to expand our business due to the country's strong economic fundamentals and low penetration rates of domestic credit to the private sector as a percentage of GDP of 50.0% as compared to 44.0% for Perú, 61.8% for Brazil and 116.6% for Chile, as reported in the World Bank Development Indicators for 2018.

At December 31, 2019, Colombia's bank loans (adjusted for securitized mortgage loans) to GDP slightly increased to 45.1% from 45.0% at December 31, 2018. Banking penetration in Colombia remained relatively stable due to a slow dynamic of commercial loans that has been partially offset by the dynamics of consumer and mortgage loans. Commercial loans as a percentage of GDP in 2019 decreased to 23.6% in 2019 from 24.7% in 2018, while consumer and mortgage loans as a percentage of GDP increased to 13.9% and 6.8% from 12.8% and 6.7%, respectively.

Central American Economic Conditions

According to the IMF's October 2019 WEO, for the year ended December 31, 2019, Central America was expected to post a combined GDP of U.S.$274.7 billion, ranking as the sixth largest economy in Latin America after Brazil (nominal GDP of U.S.$1,847.0 billion), Mexico (nominal GDP of U.S.$1,274.2 billion), Argentina (nominal GDP of U.S.$445.5 billion), Colombia (nominal GDP of U.S.$327.9 billion) and Chile (nominal GDP of U.S.$294.2 billion).

Because BAC's and our other Central American businesses' operations are concentrated in Central America, their results are linked to the region's economic performance. According to the IMF, Central America's GDP grew 2.5% in 2019, and is expected to contract by 2.8% in 2020, in connection with the coronavirus pandemic and recover in 2021 with a 4.1% growth.

The recent slowdown in the region's growth has been a result of a 3.9% expected contraction of the Nicaraguan economy and a slowdown of the other countries in the region as a result of those countries being net importers of oil and having economies closely linked to the U.S. economy, via remittances among others. Similar to the discussion above for the Colombian economic conditions, any shift in the Central American economy will have an impact on our growth rates and could drive our delinquency ratios and impairment losses.

In recent years, countries in Central America have increased their efforts to promote fiscal prudence and foreign investment. Countries such as Costa Rica, El Salvador, Guatemala and Nicaragua have signed agreements with the IMF under which their respective governments receive credit, subject to adopting fiscal discipline in their economic policies.

Critical Accounting Policies

Critical accounting policies are those that require us to exercise judgment or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations. The accounting estimates we make in these contexts require us to calculate variables and make assumptions about matters that are highly uncertain. In each case, if we had made other estimates, or if changes in the estimates occur from period to period, our financial condition and results of operations could be materially affected.

Significant accounting policies, including those affected by critical accounting estimates and judgements, are described in Note 2 of our audited consolidated financial statements. See Note 3 to our audited consolidated financial statements for a complete list of the critical accounting judgments and estimates. There are many other areas in which we use estimates about uncertain matters, but we believe the reasonably likely effect of changed or different estimates would not be material to our financial statements.

The following are the critical accounting policies that have the most significant effects on the amounts recognized in our audited consolidated financial statements:

- Impairment of amortized cost financial assets and financial assets measured at FVOCI: the most significant judgments relate to establishing the criteria for determining whether credit risk on a 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. A high degree of uncertainty is involved in making estimations using assumptions that are highly subjective and very sensitive to the risk factors. See Note 4 (4.1.5) of our audited consolidated financial statements.

- Revenue recognition and fair value of concession arrangements: the most significant judgments relate to establishing the criteria for recognizing revenues from concessions in the construction phase and measuring the fair value of concession arrangements. See Note 16 of our audited consolidated financial statements.

- Recognition of deferred tax assets: the most significant judgments relate to availability of future taxable profit against which carry-forward tax losses can be used. See Note 19 of our audited consolidated financial statements.

- Fair value of financial instruments: a variety of valuation techniques are used, some of which are determined using significant unobservable inputs. See Note 5 of our audited consolidated financial statements.

- Impairment testing for CGUs containing goodwill: a high degree of uncertainty is involved in estimating the recoverable amounts resulting from future cash flows of the cash-generating units (CGU) and discount rates. See Note 17 of our audited consolidated financial statements.

- Recognition and measurement of provisions and contingencies: significant judgment may be required due to the high degree of uncertainty associated with the likelihood and magnitude of an outflow of resources that may arise. See Note 23 of our audited consolidated financial statements.

- Defined benefit obligations: the most significant judgments relate to key assumptions involved in the measurement, including discount rate, inflation rate and mortality, among other. See Note 22 of our audited financial statements.

- Classification of financial assets: the most significant judgments relate to the 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. See Note 2 (2.5) (ii) of our audited financial statements.

- Determination of control over investees. See Note 2 (2.1) of our audited financial statements.

Results of Operations for the Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

After the slow economic recovery evidenced in Colombia in 2018, 2019 was a strong year for us, driven by a combination of the following factors:

- First, the Colombian economy (where close to 70% of our consolidated business is located) grew at a faster pace in 2019 than the year before (3.3% versus 2.5% in 2018). Stronger private consumption and investment drove the demand side, while commerce and financial services drove the supply side. Sectors such as commerce, financial services and professional services grew at a stronger pace than average GDP, while sectors such as construction, industry, oil & mining, and communications grew at a slower pace.

- Second, global fixed income and equity markets posted strong gains that translated into higher than average returns on our investment portfolios. A large portion of these returns were recognized through Porvenir's portfolios related to its stabilization reserves and our banks' fixed income portfolios. Additionally, performance fees charged to non-contributing mandatory pension fund clients and third-party sponsored pension liability funds were also higher than in 2018.

- Third, both our Colombian and Central American operations continued their digital transformation, paired with a cost optimization strategy that resulted in the shrinking of our traditional branch network and a faster migration to cost-effective digital channels. We believe that by continuing the digitalization of our operations, by offering new products and services to our clients digitally and further implementing business analytics, we will improve our customers' experience and loyalty. Continued cost control strategies resulted in other expenses growth of 3.5% in our Colombian operation and 17.4% in our Central American operation (5.7% in U.S. dollars, which is the functional currency of this operation).

- Fourth, all of our Colombian subsidiaries, both financial and non-financial, incorporated the positive effect of the decrease in the statutory corporate income tax rate to 33% from 37% in 2019 as compared to 2018. For more information on taxes refer to "Item 10. Additional Information—E. Taxation".

- Fifth, we continue leveraging our strong operational result on our strong balance sheet. As evidence of this strength, at December 31, 2019 our total deposits to net loans ratio was 101% (measured as Customer deposits divided by Total loans, net), our liquidity position (measured as Cash and cash equivalents divided by Customer deposits) was 17.2% and our tangible equity ratio was 9.2%.

- Finally, 2019 was a year of increased price competition in Colombia. Even though the average Central Bank rate declined only 10 basis points to 4.25% in 2019 from 4.35% in 2018, interest rates for loans across the system were pressed down as the credit quality improvement was priced into new originations, especially in consumer loans. Although this translated into lower spreads and NIM on loans for Aval (as we have net asset sensitivity position), it was partially offset by improving retail vintages over the year as evidenced, both in improving asset quality measured by stages (as required by IFRS 9) and declining cost of risk.

Our results for the year should be read in conjunction with our audited consolidated financial statements. For information on the effects of the adoption of IFRS 16 on Grupo Aval, please refer to "Note 2.4 Basis of preparation of the consolidated financial statements and summary of significant accounting policies Changes in Accounting Policies—A. IFRS 16 Leases" of our audited consolidated financial statements.

Grupo Aval

Overview

The following discussion describes the main drivers of Grupo Aval's results of operations for the year ended December 31, 2019 compared to the year ended December 31, 2018. Further detail is provided in the discussion of the results of Grupo Aval's subsidiaries.

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Grupo Aval's net income attributable to owners of the parent for the year ended December 31, 2019 increased by 4.2%, or Ps 121.7 billion, to Ps 3,034.4 billion compared to the year ended December 31, 2018.

Grupo Aval's financial results for the year ended December 31, 2019 were positively impacted as compared to the year ended December 31, 2018 by:

(i) a 12.7% or Ps 615.7 billion increase in net income from commissions and fees;

(ii) a 3.8% or Ps 413.7 billion increase in net interest income;

(iii) a 30.8% or Ps 179.2 billion increase in net trading income;

(iv) a 2.9% or Ps 63.3 billion decrease in income tax expense,

(v) a 1.1% or Ps 42.2 billion decrease in net impairment loss on financial assets; and

(vi) a 5.7% or Ps 11.8 billion increase in net income from other financial instruments at mandatorily at FVTPL.

The positive impacts on Grupo Aval's financial results detailed above were partially offset by:

(i) a 8.5% or Ps 800.3 billion increase in other expense;

(ii) a 10.2% or Ps 269.1 billion decrease in gross profit from sales of goods and services. Such decrease resulted from Grupo Aval's non-financial entities, mainly those controlled by Corficolombiana;

(iii) a 5.6% or Ps 75.7 billion decrease in other income; and

(iv) a 2.6% or Ps 59.2 billion increase in income attributable to non-controlling interest as one of the main drivers of the results for the year was Porvenir, which had a 24.3% non-controlling interest at Grupo Aval as of December 31, 2019.

	Grupo Aval Consolidated			
	For the year ended December 31,		Change 2019 vs 2018	
	2019	2018	#	%
	(in Ps billions)			
Total interest income	19,552.7	18,356.6	1,196.1	6.5
Total interest expense	(8,267.2)	(7,484.8)	(782.4)	10.5
Net interest income	**11,285.5**	**10,871.8**	**413.7**	**3.8**
Impairment loss on loans and other accounts receivable	(4,194.0)	(4,150.0)	(44.0)	1.1
Impairment (loss) recovery on other financial assets	60.0	32.5	27.5	84.6
Recovery of charged-off financial assets	378.9	320.1	58.7	18.3
Net impairment loss on financial assets	**(3,755.1)**	**(3,797.3)**	**42.2**	**(1.1)**
Net income from commissions and fees	5,455.3	4,839.6	615.7	12.7
Gross profit from sales of goods and services	2,374.8	2,643.9	(269.1)	(10.2)
Net trading income	761.9	582.7	179.2	30.8
Net income from other financial instruments mandatorily at fair value through profit or loss	217.6	205.8	11.8	5.7
Other income	1,283.0	1,358.7	(75.7)	(5.6)
Other expenses	(10,171.3)	(9,371.0)	(800.3)	8.5
Income before income tax expense	**7,451.7**	**7,334.1**	**117.6**	**1.6**
Income tax expense	(2,086.3)	(2,149.6)	63.3	(2.9)
Net income for the year	**5,365.5**	**5,184.6**	**180.9**	**3.5**
Net income for the year attributable to:				
Owners of the parent	**3,034.4**	**2,912.7**	**121.7**	**4.2**
Non-controlling interest	**2,331.0**	**2,271.9**	**59.2**	**2.6**

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Net interest income

	Year ended December 31, 2019	Year ended December 31, 2018	Change, 2019 vs. 2018 #	Change, 2019 vs. 2018 %
	(in Ps billions)			
Interest income using the effective interest method:				
Commercial loans	7,271.6	7,216.3	55.3	0.8
Consumer loans	8,935.8	8,280.1	655.7	7.9
Mortgage loans	1,658.1	1,442.6	215.5	14.9
Microcredit loans	106.1	108.5	(2.4)	(2.2)
Interbank and overnight funds	519.6	343.1	176.5	51.4
Interest on loan portfolio	**18,491.2**	**17,390.6**	**1,100.6**	**6.3**
Interest on investments in debt securities	**1,061.6**	**966.0**	**95.5**	**9.9**
Total interest income	**19,552.7**	**18,356.6**	**1,196.1**	**6.5**
Interest expense:				
Checking accounts	(413.9)	(350.2)	(63.8)	18.2
Time deposits	(3,595.6)	(3,296.5)	(299.1)	9.1
Savings deposits	(1,503.3)	(1,497.0)	(6.2)	0.4
Total interest expense on deposits	**(5,512.8)**	**(5,143.7)**	**(369.1)**	**7.2**
Interbank borrowings and overnight funds	(380.9)	(266.1)	(114.8)	43.1
Borrowings from banks and others	(1,014.3)	(769.2)	(245.1)	31.9
Bonds issued	(1,220.4)	(1,162.7)	(57.7)	5.0
Borrowings from development entities	(138.8)	(143.2)	4.4	(3.1)
Total interest expense	**(8,267.2)**	**(7,484.8)**	**(782.4)**	**10.5**
Net interest income	**11,285.5**	**10,871.8**	**413.7**	**3.8**

Grupo Aval's net interest income increased by 3.8%, or Ps 413.7 billion to Ps 11,285.5 billion in 2019 while its average total interest-earning assets increased by 6.3%, or Ps 12,005.9 billion, to Ps 201,269.8 billion in 2019. Consequently, net interest margin decreased 14 basis points to 5.6% in 2019 from 5.7% in 2018. The interest spread between the average yield on gross loans and the average rate paid on interest-bearing deposits decreased by 14 basis points to 6.7%.

The following table shows the impact on interest income on interest-earning assets derived from changes in the average balance and the average yield per type of interest-earning asset. Interbank and overnight funds are shown separate from gross loans due to their characteristics and short-term nature.

	Average balance for the years ended December 31,		Change, 2019 vs. 2018		Average yield for the years ended December 31,		Impact on interest income due to changes in		
	2019	2018	#	%	2019	2018	Balance	Yield	Total
	(in Ps billions)						(in Ps billions)		
Commercial loans	96,219.7	92,259.4	3,960.3	4.3	7.6%	7.8%	299.3	(243.9)	55.3
Consumer loans	57,382.9	51,865.1	5,517.7	10.6	15.6%	16.0%	859.2	(203.5)	655.7
Mortgage loans	19,384.2	16,907.6	2,476.6	14.6	8.6%	8.5%	211.8	3.6	215.5
Microcredit loans	414.7	415.8	(1.0)	(0.3)	25.6%	26.1%	(0.3)	(2.1)	(2.4)
Gross loans	**173,401.5**	**161,447.9**	**11,953.5**	**7.4**	**10.4%**	**10.6%**	**1,238.9**	**(314.8)**	**924.1**
Interbank and overnight funds	4,614.3	6,013.0	(1,398.7)	(23.3)	11.3%	5.7%	(157.5)	333.9	176.5
Total gross loans	**178,015.8**	**167,460.9**	**10,554.8**	**6.3**	**10.4%**	**10.4%**	**1,096.4**	**4.2**	**1,100.6**
Interest on investments in debt securities	23,254.0	21,802.9	1,451.1	6.7	4.6%	4.4%	66.2	29.3	95.5
Total interest-earning assets	**201,269.8**	**189,263.8**	**12,005.9**	**6.3**	**9.7%**	**9.7%**	**1,166.3**	**29.8**	**1,196.1**

Despite a 10 basis points decrease in the average Central Bank rate to 4.25% in 2019 from 4.35% in 2018, Grupo Aval's average yield on gross loans decreased more than proportionally. Interest rates for loans across the Colombian banking system were increasingly competitive, particularly during the second half of the year, as the improvement in credit quality was priced into new originations, especially in consumer loans. Although this is a scenario that translates into lower spreads and net interest margins on gross loans for Grupo Aval, it was partially offset by improving retail vintages over the year as evidenced in improving asset quality as measured by stages (as required by IFRS 9), delinquency, and declining cost of risk.

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The following table shows the impact on interest expense derived from changes in the average balance and the average rate paid per type of interest-bearing funding.

	Average balance for the years ended December 31,		Change, 2019 vs. 2018		Average rate paid for the years ended December 31,		Impact on interest expense due to changes in		
	2019	2018	#	%	2019	2018	Balance	Rate	Total
	(in Ps billions)						(in Ps billions)		
Checking accounts	23,364.9	20,532.7	2,832.3	13.8	1.8%	1.7%	(50.2)	(13.6)	(63.8)
Time deposits	71,258.5	64,074.3	7,184.3	11.2	5.0%	5.1%	(362.5)	63.4	(299.1)
Savings accounts	57,296.3	55,090.4	2,205.9	4.0	2.6%	2.7%	(57.9)	51.6	(6.2)
Total deposits	**151,919.8**	**139,697.4**	**12,222.4**	**8.7**	**3.6%**	**3.7%**	**(443.5)**	**74.4**	**(369.1)**
Interbank borrowings and overnight funds	7,898.2	6,916.0	982.2	14.2	4.8%	3.8%	(47.4)	(67.4)	(114.8)
Borrowings from banks and others	20,934.8	17,805.3	3,129.4	17.6	4.8%	4.3%	(151.6)	(93.5)	(245.1)
Bonds issued	20,720.2	19,253.0	1,467.2	7.6	5.9%	6.0%	(86.4)	28.7	(57.7)
Borrowings from development entities	3,580.7	3,227.0	353.8	11.0	3.9%	4.4%	(13.7)	18.1	4.4
Other funding	**53,133.9**	**47,201.3**	**5,932.6**	**12.6**	**5.2%**	**5.0%**	**(307.5)**	**(105.7)**	**(413.3)**
Total funding	**205,053.7**	**186,898.6**	**18,155.0**	**9.7**	**4.0%**	**4.0%**	**(732.0)**	**(50.4)**	**(782.4)**

The 10.5% or Ps 782.4 billion increase in total interest expense for Grupo Aval was driven by an increase in the average balance of interest-bearing funding. The average rate paid on interest-bearing deposits decreased, in line with the repricing of time deposits and savings accounts in tandem with the Central Bank rate. In contrast, the average rate paid on other funding increased due to a shift in mix towards borrowings from banks and others, which is mainly explained by the lease liabilities arising as a result of the adoption of IFRS 16. These liabilities have longer maturities and higher average interest rates than the existing average borrowings from banks and others in 2018.

Net impairment loss on financial assets

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Impairment loss on loans and other accounts receivable	(4,194.0)	(4,150.0)	(44.0)	1.1
Impairment (loss) recovery on other financial assets	60.0	32.5	27.5	84.6
Recovery of charged-off financial assets	378.9	320.1	58.7	18.3
Net impairment loss on financial assets	**(3,755.1)**	**(3,797.3)**	**42.2**	**(1.1)**

The following table shows the delinquency ratios for each of Grupo Aval's gross loans:

	Year ended December 31,				Change, 2019 vs. 2018	
	2019		2018		Loans at least 91 days past due	Delinquency Ratio
	Loans at least 91 days past due	Delinquency Ratio(1)	Loans at least 91 days past due	Delinquency Ratio(1)	#	%
	(in Ps billions)					
Commercial loans	3,537.4	3.6%	3,240.3	3.4%	297.1	0.2
Consumer loans	1,648.6	2.8%	1,477.7	2.7%	171.0	0.1
Mortgage loans	600.0	3.0%	418.1	2.2%	182.0	0.7
Microcredit loans	55.8	13.6%	52.4	12.3%	3.4	1.3
Gross loans	**5,841.9**	**3.3%**	**5,188.4**	**3.1%**	**653.5**	**0.2**

(1) Calculated as loans past due more than 90 days divided by gross loans.

Recovery of charged-off financial assets increased Ps 58.7 billion, driven by improvements in the group's collection processes.

Impairment loss on loans and other accounts receivable increased by Ps 44.0 billion, driven by a Ps 71.3 billion increase in impairment loss on consumer loans, a Ps 10.3 billion increase in impairment loss on microcredit loans, and a Ps 2.1

billion increase in impairment loss on mortgage loans, that were partially offset by a Ps 25.0 billion decrease in impairment loss on other accounts receivable and a Ps 14.8 billion decrease in impairment loss on commercial loans.

The increase in impairment loss on consumer loans of Ps 71.3 billion was mainly a result of a 7.9% increase in the end of period balance of loans between December 31, 2019 and December 31, 2018. This was accompanied by an improvement in asset quality as measured by consumer loans classified as Stage 2 and Stage 3 over total consumer loans to 10.5% from 11.9% in the same periods. Nonetheless, the delinquency ratio deteriorated by 9 basis points to 2.8% from 2.7%.

The Ps 10.3 billion increase in impairment loss on microcredit loans was mainly driven by deterioration of asset quality as measured by microcredit loans classified as Stage 2 and Stage 3 over total microcredit loans which deteriorated to 19.6% in 2019 from 19.0% in 2018.

The Ps 2.1 billion increase in impairment loss on mortgage loans was driven by Central America, reflecting a deterioration in the delinquency ratio of the mortgage loans portfolio in that region and a deterioration of loss given default (LGD). This increase was offset by an improvement in LGD of the Colombian mortgage loans, resulting from an improvement of the banks' recoverability of troubled loans. Mortgage loans classified as Stage 2 and Stage 3 over total mortgage loans remained stable at 9.7% for both years.

The Ps 14.8 billion decrease in impairment loss on commercial loans was driven by a Ps 115.9 billion decrease in impairments recorded for the Electricaribe, Concesionaria Ruta del Sol (CRDS) and SITP (Bogotá's Mass Transportation System)2 corporate loans, that was partially offset by a Ps 82.2 billion increase in impairment of other commercial loans.

The exposure and allowance coverage ratio (measured as the loan loss allowance of each client divided by the total credit exposure) of each of the specific corporate clients were as follows at December 31, 2019, 2018 and 2017 (i) charged-off, Ps 712.1 billion at 100% and Ps 625.9 billion at 68.8% for Electricaribe, (ii) Ps 762.0 billion at 100%, Ps 1,004.5 billion at 31.2% and Ps 923.3 billion at 12.9% for CRDS, and (iii) Ps 414.6 billion at 25.4%, Ps 518.9 billion at 36.4% and Ps 492.3 billion at 12.9% for SITP. The Ps 82.2 billion increase in impairment of other commercial loans was driven by a deterioration of commercial loans classified as Stage 2 and Stage 3, different from the specific corporate loans mentioned above.

The delinquency ratio of commercial loans was affected by the CRDS loan, which as of December 31, 2019 became past due more than 90 days. This loan was classified as Stage 3 both at December 31, 2019 and 2018.

Grupo Aval's cost of risk[3] improved by 15 basis points to 2.4% in 2019 from 2.6% for 2018. Grupo Aval's cost of risk net of recoveries of charged-off financial assets[4] improved by 17 basis points to 2.2% in 2019 from 2.4% in 2018.

Grupo Aval's consolidated charge-offs increased by Ps 1,568.0 billion to Ps 4,716.9 billion in 2019 from Ps 3,149.0 billion in 2018. The ratio of charge-offs to average balance of gross loans increased to 2.7% in 2019 from 1.9% in 2018. Grupo Aval charged-off the Ps 804.3 billion total exposure to Electricaribe and the Ps 103.5 billion total exposure to Tranzit S.A.S. during 2019.

[2] SITP (Bogotá's Mass Transportation System) for this purpose includes three companies: Consorcio Express S.A.S., ETIB S.A.S and Transporte Zonal Integrado S.A.S (Tranzit S.A.S.).The latter was charged-off as of December 31, 2019.
[3] Calculated as impairment loss on loans and other accounts receivable divided by the average balance of gross loans.
[4] Calculated as impairment loss on loans and other accounts receivable, net of recoveries of charged-off assets divided by the average balance of gross loans.

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Grupo Aval's consolidated delinquency as measured by loans past due more than 90 days was 3.3% in 2019 and 3.1% in 2018. Coverage ratio, as measured by loss allowance divided by past due loans more than 90 days, for these loans was 140.1% in 2019 and 158.0% in 2018. Gross loans classified as Stage 2 over gross loans improved to 4.5% in 2019 as compared to 4.6% in 2018, while gross loans classified as Stage 3 over gross loans improved to 5.5% from 6.0% between the same dates. The coverage ratio for Stage 2 and Stage 3 gross loans slightly decreased to 35.3% in 2019 from 35.6% in 2018.

The Ps 27.5 billion increase in impairment recovery on other financial assets was driven by the recovery of Ps 76.3 billion of impaired fixed income instruments at FVOCI as Grupo Aval sold these investments at a higher value than it had impaired in previous periods. The remaining loss on the sale of these investments was recognized in Net gain on sale of debt and equity securities explained in the Other income section.

For more information on loss allowance calculations under IFRS 9, please refer to Note 4 of our audited consolidated financial statements.

Net income from commissions and fees

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Banking fees	4,457.7	3,996.5	461.2	11.5
Bonded warehouse services	161.3	156.6	4.7	3.0
Trust activities and portfolio management services	334.9	312.9	22.0	7.0
Pension and severance fund management	1,129.4	987.3	142.1	14.4
Income from commissions and fees	**6,083.3**	**5,453.4**	**630.0**	**11.6**
Expenses from commissions and fees	(628.0)	(613.8)	(14.2)	2.3
Net income from commissions and fees	**5,455.3**	**4,839.6**	**615.7**	**12.7**

The Ps 461.2 billion increase in banking fees was driven by a Ps 288.0 billion increase in fees from banking services and a Ps 176.5 billion increase in debit and credit card fees that were offset in part by a Ps 5.6 billion decrease in branch network fees (in line with our distribution channel optimization).

The Ps 142.1 billion increase in fees from pension and severance fund management was primarily driven by (i) a Ps 114.5 billion increase in fee income from the administration of mandatory pension funds driven by an increase in the number of clients and to higher commissions charged to non-contributing clients due to a higher return on assets under management, (ii) a Ps 17.6 billion increase in fee income from severance fund management driven by an increase in the number of clients, (iii) a Ps 5.6 billion increase in revenues received from the administration of third-party liability pension funds due to an increase in the balance of managed funds and to higher performance-based commissions charged on higher returns on assets under management, and (iv) a Ps 4.4 billion increase in revenues received from the administration of voluntary pension funds mainly due to an increase in the balance of managed funds.

Gross profit from sales of goods and services

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Income from sales of goods and services	9,156.6	8,126.0	1,030.6	12.7
Costs and expenses of sales of goods and services	(6,781.8)	(5,482.1)	(1,299.7)	23.7
Gross profit from sales of goods and services	**2,374.8**	**2,643.9**	**(269.1)**	**(10.2)**

The decrease in gross profit from sales of goods and services was mainly driven by lower gross profit in infrastructure companies in 2019 as compared to the particularly high results of 2018. Under IFRS 15, when the contractual start of construction is signed, income related to pre-construction progress up to that date is recognized immediately through profit or loss, further income is subsequently recognized as work progresses. In the case of the Villavicencio - Yopal (Covioriente) and Pacífico 1 (Covipacífico) concession projects, income recognized was higher in 2018 as both projects started construction (contractual) in the fourth and third quarters of 2018 respectively. In addition, work progress in

Chirajara-Fundadores (Coviandina) was lower in 2019 than in 2018. For more information on our concession arrangements rights please refer to Note 16 of our audited consolidated financial statements.

Income from sales of goods and services increased 12.7% or Ps 1,030.6 billion to Ps 9,156.6 billion in 2019 as compared to 2018. Promigas contributed with the majority of that increase due to (i) Ps 416.1 billion resulting from growth in gas distribution and transportation activities and (ii) Ps 645.6 billion that are recognized in an equal amount of income and expenses related to construction and expansion of gas pipelines under concession, mainly in Promigas and Gases del Pacífico.

Costs and expenses of sales of goods and services showed a Ps 1,299.7 billion increase to Ps 6,781.8 billion in 2019. The increase is mainly explained by the aforementioned Ps 645.6 billion Promigas effect and increases in production costs and acquisition of raw materials mainly in Corficolombiana's infrastructure concessions and Promigas.

Net trading income

Grupo Aval's net trading income[5] was Ps 761.9 billion in 2019, Ps 179.2 billion or 30.8% higher than 2018, resulting from a Ps 464.3 billion increase in income from investment securities at fair value through profit or loss and a Ps 285.1 billion decrease in net trading income from derivatives.

The increase in net trading income from investment securities at fair value through profit or loss was seen across all our operating segments but was particularly strong in Porvenir's equity and fixed income securities related to its stabilization reserve (see Note 8.2 of Financial Statements).

Total income from investment securities

Grupo Aval's securities portfolio is classified in the following categories: (i) equity and fixed income investments at FVTPL, (ii) fixed income investments at FVOCI and (iii) fixed income investments at AC (results from (ii) and (iii) are included in the net interest income as interest income on investments in debt securities). Grupo Aval manages its investment portfolio in a comprehensive and integral manner that considers individual return of each one of these three categories and the total return of the investment securities portfolio.

Total income from investment securities for Grupo Aval (comprised of interest income on investments in debt securities and net trading income from investment securities at FVTPL) was Ps 1,681.4 billion for 2019, 49.9% or Ps 559.9 billion more than in 2018. This was primarily driven by a 132 basis points increase in the average yield on total investment securities to 5.5% in 2019 from 4.2% in 2018, generating a Ps 354.2 billion increase in interest income. Also contributing to the increase in interest income was a Ps 3,752.1 billion increase in the average balance of total investment securities to Ps 30,670.6 billion in 2019, resulting in a Ps 205.7 billion increase in interest income. Global fixed income and equity markets posted strong gains that translated into higher returns on Grupo Aval's investment portfolios.

Net income from other financial instruments mandatorily at FVTPL

Net income from financial instruments mandatorily at FVTPL reflect the fair value of concession arrangements entered between Promigas and the Colombian government, and increased by Ps 11.8 billion to Ps 217.6 billion in 2019 as compared to 2018.

[5] Includes (i) net trading income from investment securities at FVTPL, which reflects the interest and gains/losses from mark-to-market valuation, in each case from equity and fixed income investment securities at FVTPL, and (ii) net trading income from derivatives, which reflects the gains/losses from mark-to-market valuation on derivatives which are not part of qualifying hedge relationships.

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Other income

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Foreign exchange gains (losses), net	312.3	283.4	28.8	10.2
Share of profit of equity accounted investees, net of tax (Equity method)	229.6	197.7	31.9	16.1
Net gain on sale of debt and equity securities	198.6	1.1	197.5	N.A.
Dividends	84.7	71.5	13.2	18.5
Gain (loss) on the sale of non-current assets held for sale	23.4	20.1	3.3	16.5
Gain on sale of property, plant and equipment	24.4	390.5	(366.1)	(93.8)
Net gain in asset valuation	14.2	37.3	(23.2)	(62.1)
Other	395.9	357.1	38.8	10.9
Other income	**1,283.0**	**1,358.7**	**(75.7)**	**(5.6)**

Other income for Grupo Aval decreased by 4.1% or Ps 63.9 billion in 2019 as compared to 2018 explained by (i) a Ps 327.3 billion decrease in gain on sale of property, plant and equipment driven by the recognition in 2018 of a Ps 372.8 billion gain in transactions associated with PP&E structure optimizations (see Note 30 of our audited consolidated financial statements) in Banco de Bogotá and Banco Popular and (ii) a Ps 23.2 billion decrease in net gain on asset valuation, which were partially offset by (i) a Ps 197.5 billion increase in net gain on sale of debt and equity securities (which includes a Ps 48.0 billion loss arising from the sale of impaired fixed income investments previously described), (ii) a Ps 31.9 billion increase in equity method mainly from Gases del Caribe and Cálidda, (iii) a Ps 28.8 billion increase in in foreign exchange gains (losses), net, and (iv) a Ps 13.2 billion increase in dividend income mainly because of a Ps 15.6 billion increase in dividend income from Grupo Energía de Bogotá (GEB).

Other expenses

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Losses from sales of noncurrent assets held for sale	(4.4)	(5.2)	0.8	(15.5)
Personnel expenses	(4,085.4)	(3,877.6)	(207.8)	5.4
Administrative and other expenses	(4,954.3)	(4,640.5)	(313.8)	6.8
Depreciation and amortization	(901.5)	(539.8)	(361.7)	67.0
Impairment loss on other assets	(20.8)	(166.3)	145.5	(87.5)
Other	(205.0)	(141.7)	(63.3)	44.6
Other expenses	**(10,171.3)**	**(9,371.0)**	**(800.3)**	**8.5**

The Ps 361.7 billion increase in depreciation and amortization was mainly due to the adoption of IFRS 16 in 2019, which changed the accounting methodology for leases. As a result, some of our rent expenses previously accounted under administrative expenses are now accounted under depreciation and amortization expense. Depreciation and amortization expenses for right-of-use in 2019 were Ps 292.8 billion (for further information on the adoption of IFRS 16 see Note 2 to our consolidated financial statements).

The Ps 313.8 billion increase in administrative and other expenses is explained by (i) a Ps 156.5 billion increase in taxes and surcharges due to (i.i) a Ps 59.1 billion non-income tax expense incurred by Banco de Occidente and Banco Popular in order to increase the fiscal cost of certain fixed assets, which will enable the banks to sell them in the future with a lower income tax expense, (i.ii) a Ps 51.1 billion increase in non-income taxes in Central America explained by the introduction of a value added tax (VAT) on services in Costa Rica as part of the country's structural tax reforms to curb fiscal deficit, (ii) a Ps 153.0 billion increase in contributions and affiliations, (iii) a Ps 92.4 billion increase in fees, which include consulting and legal fees among others, (iv) a Ps 86.4 billion increase in service expenses, which include marketing, staffing and temp, utilities, and supplies and stationery, among others, (v) a Ps 83.2 billion increase in maintenance and adequation. These increases were offset in part by a Ps 301.6 billion decrease in rent expenses associated with the adoption of IFRS 16 in 2019.

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The Ps 207.8 billion increase in personnel expenses was driven by a Ps 208.2 billion or 13.3% increase in Central America (2.0% in U.S. dollars, which is the functional currency of this operation) which was heavily influenced by the 11.4% depreciation of the average translation exchange rate and a Ps 0.3 billion reduction in Colombia.

The impairment loss on other assets in 2018 includes a Ps 111.8 billion impairment carried out by Episol of its investment in Concesionaria Ruta del Sol (for more information see Note 14 of our audited consolidated financial statements).

The Ps 63.3 billion increase in other was driven by a Ps 84.2 billion increase in Porvenir related to emerging costs of legal proceedings related to individual civil lawsuits originated from a large number of mandatory pension fund clients, that are looking to transfer from the private to the public pension fund system outside the regulatory terms. This was partially offset by a Ps 26.9 billion decrease in provisions related to contingent loans (e.g., loan commitments, financial guarantees and unused credit card balances) measured by expected credit loss (ECL).

Given that Grupo Aval's other expenses increased by 8.5% and its income increased by 4.3%, the efficiency ratio[6] deteriorated to 47.6% in 2019 from 45.7% in 2018. The ratio of other expenses as a percentage of average assets improved by 8 basis points to 3.8% in 2019 from 3.9% in 2018.

Income tax expense

Income tax expense for Grupo Aval decreased by 2.9%, or Ps 63.3 billion, to Ps 2,086.3 billion in 2019. Grupo Aval's effective tax rate[7] was 29.2% in 2019 and 30.4% in 2018.

The change in the effective tax rate and income tax expense was mainly driven by (i) a lower statutory corporate income tax rate of 33% in 2019 (on October 29, 2019, the Constitutional Court declared the Financial Institutions surtax on the corporate income tax unconstitutional due to procedural faults. Therefore, for the year 2019 no surtax applied on Grupo Aval's financial entities) as compared to 37% in 2018 (according to Law 1819, 2016, for the year 2018 a 4% surtax on the corporate income tax rate applied to taxpayers that obtained a taxable income in excess of eight hundred million pesos) and (ii) a Ps 86.3 billion deferred and current income tax recovery associated with the increase of the fiscal cost of certain fixed assets described above. 2018 included a positive impact of the Financing Law on deferred taxes, which resulted in a Ps 153.0 billion decrease in income tax expense.

Net income attributable to non-controlling interest

Net income attributable to non-controlling interest increased by 2.6%, or Ps 59.2 billion, to Ps 2,331.0 billion in 2019 compared with 2018. The ratio of net income attributable to non-controlling interest to net income decreased to 43.4% in 2019 from 43.8% in 2018. The decrease in this ratio is mainly attributable to the decrease in results from Corficolombiana that was partially offset by improving results in Porvenir (58.2% increase in net income), subsidiaries in which Grupo Aval holds 38.6% and 75.7% economic interests respectively.

[6] Calculated as other expenses divided by the sum of net interest income, net income from commissions and fees, gross profit from sales of goods and services, net trading income, net income from other financial instruments at mandatorily at FVTPL and other income.
[7] Calculated as income tax expense divided by income before income tax expense excluding dividends and the equity method, as both are non-taxable income.

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Management Discussion and Analysis of Operating Segments

In the following section we will refer to the consolidated results of our main operating segments. The presentation format in the following tables follows the structure of the Consolidated Statement of Income in our audited consolidated financial statements and may differ from the presentation of our operating segments in Note 31 of our audited consolidated financial statements in the following aspects:

(i) The following tables aggregate intersegment and external income.

(ii) "Impairment (loss) recovery on other financial assets" and "Recovery of charged-off financial assets" presented under "Net impairment loss on financial assets" in the Consolidated Statement of Income are recognized in "Other expenses" in Note 31.

(iii) "Net trading income" and "Net income from other financial instruments mandatorily at FVTPL" presented as single line items in the Consolidated Statement of Income are recognized in "Other income" in Note 31.

Net income attributable presented in the following section refers to net income attributable to the owners of each of the subsidiaries presented herein. Grupo Aval's ownership in each subsidiary is described in "Item 4. Information on the company—B. Business overview—Our operations".

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Banco de Bogotá

Overview

Banco de Bogotá's net income attributable to owners of the parent for the year ended December 31, 2019 decreased by 5.8%, or Ps 170.8 billion, to Ps 2,766.4 billion compared to the year ended December 31, 2018. This decrease is attributable to a Ps 804.6 billion increase in other expenses, a Ps 311.8 billion decrease in other income, a Ps 133.5 billion increase in net impairment loss on financial assets, and a Ps 113.3 billion increase in non-controlling interest. Partially offsetting the above, is a Ps 629.2 billion increase in net interest income, a Ps 531.5 billion increase in net income from commissions and fees, and a Ps 83.3 billion increase in net trading income.

The following discussion describes the principal drivers of Banco de Bogotá's results of operations for the year ended December 31, 2019 compared to the year ended December 31, 2018.

	Banco de Bogotá Consolidated			
	For the year ended December 31,		Change 2019 vs 2018	
	2019	2018	#	%
	(in Ps billions)			
Total interest income	12,375.2	11,195.4	1,179.9	10.5
Total interest expense	(4,879.5)	(4,328.8)	(550.7)	12.7
Net interest income	**7,495.7**	**6,866.5**	**629.2**	**9.2**
Impairment loss on loans and other accounts receivable	(2,767.8)	(2,610.9)	(156.9)	6.0
Impairment (loss) recovery on other financial assets	(11.0)	(5.1)	(5.9)	114.4
Recovery of charged-off financial assets	153.2	123.9	29.2	23.6
Net impairment loss on financial assets	**(2,625.6)**	**(2,492.1)**	**(133.5)**	**5.4**
Net income from commissions and fees	4,569.6	4,038.2	531.5	13.2
Gross loss from sales of goods and services	(126.9)	(124.3)	(2.6)	2.1
Net trading income	495.3	412.1	83.3	20.2
Other income	1,275.0	1,586.7	(311.8)	(19.6)
Other expenses	(7,010.4)	(6,205.8)	(804.6)	13.0
Income before income tax expense	**4,072.7**	**4,081.3**	**(8.6)**	**(0.2)**
Income tax expense	(999.0)	(950.0)	(49.0)	5.2
Net income for the year	**3,073.7**	**3,131.2**	**(57.6)**	**(1.8)**
Net income for the year attributable to:				
Owners of the parent	**2,766.4**	**2,937.3**	**(170.8)**	**(5.8)**
Non-controlling interest	**307.2**	**194.0**	**113.3**	**58.4**

The following tables differentiate the results between those obtained in Banco de Bogotá's Colombian operation and those obtained in its Central American operation[8]. At December 31, 2019, 52.6% of the consolidated total assets were in Colombia, and 47.4% in Central America.

[8] Banco de Bogotá's Central American operation refers to Leasing Bogotá S.A. Panamá operation expressed in Colombian pesos, at the exchange rate of the period.

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	Banco de Bogotá's Colombian Operation			
	For the year ended December 31,		Change 2019 vs 2018	
	2019	2018	#	%
	(in Ps billions)			
Total interest income	6,070.7	5,845.4	225.3	3.9
Total interest expense	(2,723.1)	(2,474.9)	(248.2)	10.0
Net interest income	**3,347.6**	**3,370.5**	**(22.9)**	**(0.7)**
Impairment loss on loans and other accounts receivable	(1,516.3)	(1,492.6)	(23.6)	1.6
Impairment (loss) recovery on other financial assets	(1.6)	1.7	(3.2)	(193.5)
Recovery of charged-off financial assets	153.2	123.9	29.2	23.6
Net impairment loss on financial assets	**(1,364.7)**	**(1,367.0)**	**2.4**	**(0.2)**
Net income from commissions and fees	2,107.8	1,915.7	192.1	10.0
Gross loss from sales of goods and services	(126.9)	(124.3)	(2.6)	2.1
Net trading income	475.2	409.4	65.8	16.1
Other income	843.2	1,021.1	(177.9)	(17.4)
Other expenses	(3,032.3)	(2,817.6)	(214.7)	7.6
Income before income tax expense	**2,249.9**	**2,407.8**	**(157.9)**	**(6.6)**
Income tax expense	(521.5)	(456.4)	(65.1)	14.3
Net income for the year	**1,728.5**	**1,951.5**	**(223.0)**	**(11.4)**
Net income for the year attributable to:				
Owners of the parent	**1,421.2**	**1,757.6**	**(336.4)**	**(19.1)**
Non-controlling interest	**307.1**	**193.8**	**113.2**	**58.4**

As described above, Banco de Bogotá's net income attributable to owners of the parent from its Colombian operation decreased by 19.1% or Ps 336.4 billion, driven by a Ps 214.7 billion increase in other expense, a Ps 177.9 billion decrease in other income, a Ps 113.2 billion increase in non-controlling interest, a Ps 65.1 billion increase in income tax expense, and a Ps 22.9 billion decrease in net interest income. These were partially offset by a Ps 192.1 billion increase in net income from commissions and fees and a Ps 65.8 billion increase in net trading income.

	Banco de Bogotá's Central American Operation			
	For the year ended December 31,		Change 2019 vs 2018	
	2019	2018	#	%
	(in Ps billions)			
Total interest income	6,304.5	5,349.9	954.6	17.8
Total interest expense	(2,156.4)	(1,853.9)	(302.5)	16.3
Net interest income	**4,148.1**	**3,496.0**	**652.1**	**18.7**
Impairment loss on loans and other accounts receivable	(1,251.5)	(1,118.3)	(133.3)	11.9
Impairment (loss) recovery on other financial assets	(9.4)	(6.8)	(2.6)	38.7
Net impairment loss on financial assets	**(1,261.0)**	**(1,125.0)**	**(135.9)**	**12.1**
Net income from commissions and fees	2,461.8	2,122.5	339.4	16.0
Net trading income	20.1	2.6	17.5	667.9
Other income	431.7	565.6	(133.9)	(23.7)
Other expenses	(3,978.1)	(3,388.2)	(589.9)	17.4
Income before income tax expense	**1,822.8**	**1,673.4**	**149.4**	**8.9**
Income tax expense	(477.6)	(493.7)	16.1	(3.3)
Net income for the year	**1,345.2**	**1,179.7**	**165.5**	**14.0**
Net income (loss) from discontinued operations	0.2	—	0.2	N.A.
Net income for the year from continued operations	**1,345.4**	**1,179.7**	**165.6**	**14.0**
Net income for the year attributable to:				
Owners of the parent	**1,345.3**	**1,179.6**	**165.6**	**14.0**
Non-controlling interest	**0.1**	**0.1**	**0.0**	**6.3**

Banco de Bogotá's net income derived from its Central American operation grew 14.0% or Ps 165.6 billion, driven by a Ps 652.1 billion increase in net interest income, a Ps 339.4 billion increase in net income from commissions and fees, and

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a Ps 17.5 billion increase in net trading income. These were partially offset by a Ps 589.9 billion increase in other expenses, a Ps 135.9 billion increase in net impairment loss on financial assets, and a Ps 133.9 billion decrease in other income.

Net income attributable to owners of the parent in Central America, which incorporates a mixture of local currencies and local U.S. dollars, is impacted when translated into Colombian pesos due to a 11.4% depreciation of the average translation exchange rate to Ps 3,294.73 per dollar for 2019 from Ps 2,958.31 pesos per dollar for 2018.

Net interest income

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Interest income using the effective interest method:				
Commercial loans	4,783.7	4,530.1	253.6	5.6
Consumer loans	5,264.6	4,786.6	478.0	10.0
Mortgage loans	1,212.7	1,051.0	161.7	15.4
Microcredit loans	104.9	107.6	(2.7)	(2.5)
Interbank and overnight funds	387.8	267.2	120.7	45.2
Interest on loan portfolio	**11,753.7**	**10,742.5**	**1,011.2**	**9.4**
Interest on investments in debt securities	**621.5**	**452.8**	**168.7**	**37.2**
Total interest income	**12,375.2**	**11,195.4**	**1,179.9**	**10.5**
Interest expense:				
Checking accounts	(401.9)	(338.1)	(63.8)	18.9
Time deposits	(2,357.4)	(2,112.0)	(245.4)	11.6
Savings deposits	(720.7)	(704.9)	(15.8)	2.2
Total interest expense on deposits	**(3,480.1)**	**(3,155.1)**	**(325.0)**	**10.3**
Interbank borrowings and overnight funds	(133.7)	(81.7)	(52.0)	63.6
Borrowings from banks and others	(697.2)	(575.5)	(121.7)	21.1
Bonds issued	(482.8)	(434.3)	(48.5)	11.2
Borrowings from development entities	(85.6)	(82.2)	(3.4)	4.2
Total interest expense	**(4,879.5)**	**(4,328.8)**	**(550.7)**	**12.7**
Net interest income	**7,495.7**	**6,866.5**	**629.2**	**9.2**

Banco de Bogotá's net interest income increased by 9.2%, or Ps 629.2 billion to Ps 7,495.7 billion in 2019 and its average total interest-earning assets increased by 8.0%, or Ps 9,560.7 billion, to Ps 128,810.4 billion in 2019. Consequently, net interest margin decreased by 6 basis points to 5.8% in 2019. The interest spread between the average yield on gross loans and the average rate paid on interest-bearing deposits increased by 3 basis points to 6.7% in 2019. As it will be explained in detail, the stability in the net interest margin and spread was mainly driven by the bank's Central American operation.

The following table shows the impact on interest income on interest-earning assets derived from changes in the average balance and the average yield per type of interest-earning asset. Interbank and overnight funds are shown separate from gross loans due to their characteristics and short-term nature.

	Average balance for the years ended December 31,		Change, 2019 vs. 2018		Average yield for the years ended December 31,		Impact on interest income due to changes in		
	2019	2018	#	%	2019	2018	Balance	Yield	Total
	(in Ps billions)						(in Ps billions)		
Commercial loans	65,216.2	61,629.7	3,586.5	5.8	7.3%	7.4%	263.1	(9.5)	253.6
Consumer loans	32,006.8	28,776.5	3,230.3	11.2	16.4%	16.6%	531.3	(53.4)	478.0
Mortgage loans	14,650.2	12,820.6	1,829.7	14.3	8.3%	8.2%	151.5	10.2	161.7
Microcredit loans	408.1	407.8	0.2	0.1	25.7%	26.4%	0.1	(2.8)	(2.7)
Gross loans	**112,281.3**	**103,634.6**	**8,646.7**	**8.3**	**10.1%**	**10.1%**	**875.3**	**15.2**	**890.5**
Interbank and overnight funds	3,244.5	4,372.3	(1,127.8)	(25.8)	12.0%	6.1%	(134.8)	255.5	120.7
Total gross loans	**115,525.8**	**108,006.9**	**7,518.9**	**7.0**	**10.2%**	**9.9%**	**765.0**	**246.2**	**1,011.2**
Interest on investments in debt securities	13,284.6	11,242.8	2,041.8	18.2	4.7%	4.0%	95.5	73.1	168.7
Total interest-earning assets	**128,810.4**	**119,249.7**	**9,560.7**	**8.0**	**9.6%**	**9.4%**	**918.5**	**261.3**	**1,179.9**

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The 8.5% or Ps 890.5 billion increase in interest income on gross loans for Banco de Bogotá in 2019 as compared to 2018 was a result of (i) an increase in the average balance of gross loans of Ps 8,646.7 billion (Ps 6,350.7 billion of the increase from Banco de Bogotá's Central American operation and Ps 2,295.9 billion from Banco de Bogotá's Colombian operation) that resulted in a Ps 875.3 billion increase in interest income and (ii) a 1 basis point increase in the average yield on gross loans to 10.1% that led to a Ps 15.2 billion increase in interest income.

The following table shows the impact on interest expense derived from changes in the average balance and the average rate paid per type of interest-bearing funding.

	Average balance for the years ended December 31,		Change, 2019 vs. 2018		Average rate paid for the years ended December 31,		Impact on interest expense due to changes in		
	2019	2018	#	%	2019	2018	Balance	Rate	Total
	(in Ps billions)						(in Ps billions)		
Checking accounts	21,730.7	18,805.9	2,924.8	15.6	1.8%	1.8%	(54.1)	(9.7)	(63.8)
Time deposits	47,308.2	42,556.4	4,751.8	11.2	5.0%	5.0%	(236.8)	(8.6)	(245.4)
Savings accounts	32,029.4	29,918.7	2,110.7	7.1	2.3%	2.4%	(47.5)	31.7	(15.8)
Total deposits	**101,068.3**	**91,281.0**	**9,787.3**	**10.7**	**3.4%**	**3.5%**	**(337.0)**	**12.0**	**(325.0)**
Interbank borrowings and overnight funds	3,009.7	2,299.5	710.2	30.9	4.4%	3.6%	(31.6)	(20.4)	(52.0)
Borrowings from banks and others	15,833.5	14,024.5	1,809.0	12.9	4.4%	4.1%	(79.7)	(42.0)	(121.7)
Bonds issued	8,440.8	7,670.6	770.2	10.0	5.7%	5.7%	(44.1)	(4.5)	(48.5)
Borrowings from development entities	1,980.1	1,737.1	243.0	14.0	4.3%	4.7%	(10.5)	7.1	(3.4)
Other funding	**29,264.2**	**25,731.7**	**3,532.5**	**13.7**	**4.8%**	**4.6%**	**(168.9)**	**(56.7)**	**(225.7)**
Total funding	**130,332.5**	**117,012.8**	**13,319.7**	**11.4**	**3.7%**	**3.7%**	**(498.7)**	**(52.0)**	**(550.7)**

The 12.7% or Ps 550.7 billion increase in total interest expense for Banco de Bogotá is explained by a 11.4% or Ps 13,319.7 billion increase in the average balance of total interest-bearing funding to Ps 130,332.5 billion in 2019, resulting in a Ps 498.7 billion increase in interest expense. Also contributing to the increase of total interest expense, is a 4 basis points increase in the average rate paid to 3.7% in 2019, that led to a Ps 52.0 billion increase in interest expense. The average rate paid on other funding increased due to a shift in mix towards borrowings from banks and others, which is mainly explained by the lease liabilities arising as a result of the adoption of IFRS 16. These liabilities have longer maturities and higher average interest rates than the existing average borrowings from banks and others in 2018.

Net interest income for Banco de Bogotá's Colombian operations:

Banco de Bogotá's Colombian operations net interest income decreased by 0.7% or Ps 22.9 billion to Ps 3,347.6 billion and its average total interest-earning assets increased by 3.5%, or Ps 2,236.4 billion, to Ps 66,695.5 billion for the year ended December 31, 2019. The above resulted in a 21 basis points decrease in net interest margin to 5.0% in 2019 from 5.2% in 2018. The spread between the yield earned on gross loans and the rate paid on deposits decreased by 11 basis points to 5.8% in 2019 from 5.9% in 2018.

Total interest income for Banco de Bogotá's Colombian operations increased by 3.9% or Ps 225.3 billion to Ps 6,070.7 billion in 2019, driven by an increase of Ps 193.3 billion in interest income on total gross loans (driven by a 2.0% or Ps 110.7 billion increase in interest income on gross loans and a Ps 82.6 billion increase in interest income on interbank and overnight funds) and a 12.5% or Ps 31.9 billion increase in interest on investments in debt securities.

The following table shows the impact on interest income on interest-earning assets for Banco de Bogotá's Colombian operations derived from changes in the average balance and the average yield per type of interest-earning asset.

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	Average balance for the years ended December 31,		Change, 2019 vs. 2018		Average yield for the years ended December 31,		Impact on interest income due to changes in		
	2019	2018	#	%	2019	2018	Balance	Yield	Total
	(in Ps billions)						(in Ps billions)		
Commercial loans	42,323.8	41,650.5	673.3	1.6	7.4%	7.6%	49.7	(102.3)	(52.6)
Consumer loans	12,204.5	11,141.4	1,063.1	9.5	16.2%	16.6%	172.2	(48.1)	124.0
Mortgage loans	3,784.9	3,225.6	559.3	17.3	9.1%	9.4%	51.1	(9.2)	41.9
Microcredit loans	408.1	407.8	0.2	0.1	25.7%	26.4%	0.1	(2.8)	(2.7)
Gross loans	**58,721.2**	**56,425.3**	**2,295.9**	**4.1**	**9.5%**	**9.6%**	**217.0**	**(106.3)**	**110.7**
Interbank and overnight funds	1,364.2	2,006.2	(642.0)	(32.0)	17.1%	7.5%	(109.5)	192.2	82.6
Total gross loans	**60,085.4**	**58,431.5**	**1,653.9**	**2.8**	**9.6%**	**9.6%**	**159.2**	**34.1**	**193.3**
Interest on investments in debt securities	6,610.0	6,027.5	582.5	9.7	4.3%	4.2%	25.3	6.6	31.9
Total interest-earning assets	**66,695.5**	**64,459.0**	**2,236.4**	**3.5**	**9.1%**	**9.1%**	**203.6**	**21.7**	**225.3**

The decrease in the average yield of gross loans in Banco de Bogotá's Colombian operation is a result of (i) a 10 basis points decrease in the average Central Bank rate to 4.25% in 2019 from 4.35% in 2018 and (ii) interest rates for loans across the banking system were increasingly competitive, particularly during the second half of the year, as the improvement in credit quality was priced into new originations, especially in consumer loans. However, the change in mix towards consumer and mortgage loans helped the bank mitigate the yield reduction across all loans, as they have higher interest rates than commercial loans.

The following table shows the impact on interest expense for Banco de Bogotá's Colombian operations derived from changes in the average balance and the average rate paid per type of interest-bearing funding.

	Average balance for the years ended December 31,		Change, 2019 vs. 2018		Average rate paid for the years ended December 31,		Impact on interest expense due to changes in		
	2019	2018	#	%	2019	2018	Balance	Rate	Total
	(in Ps billions)						(in Ps billions)		
Checking accounts	7,184.2	6,333.1	851.1	13.4	3.7%	3.6%	(31.7)	(5.3)	(37.0)
Time deposits	22,648.9	21,277.7	1,371.1	6.4	4.7%	4.8%	(63.8)	28.3	(35.5)
Savings accounts	21,772.4	21,170.6	601.8	2.8	2.7%	2.8%	(16.0)	24.2	8.2
Total deposits	**51,605.4**	**48,781.4**	**2,824.0**	**5.8**	**3.7%**	**3.8%**	**(104.0)**	**39.7**	**(64.4)**
Interbank borrowings and overnight funds	2,120.9	1,361.5	759.3	55.8	5.9%	5.4%	(45.0)	(7.2)	(52.2)
Borrowings from banks and others	5,987.1	4,183.4	1,803.7	43.1	3.2%	2.5%	(58.6)	(29.5)	(88.1)
Bonds issued	7,375.7	6,717.3	658.4	9.8	5.6%	5.6%	(37.2)	(2.9)	(40.1)
Borrowings from development entities	1,980.1	1,737.1	243.0	14.0	4.3%	4.7%	(10.5)	7.1	(3.4)
Other funding	**17,463.8**	**13,999.3**	**3,464.4**	**24.7**	**4.7%**	**4.6%**	**(163.1)**	**(20.7)**	**(183.8)**
Total funding	**69,069.1**	**62,780.7**	**6,288.5**	**10.0**	**3.9%**	**3.9%**	**(247.9)**	**(0.3)**	**(248.2)**

The 10.0% or Ps 248.2 billion increase in total interest expense for Banco de Bogotá's Colombian operations was driven by an increase in the average balance of interest-bearing funding. The average rate paid on interest-bearing deposits decreased, in line with the repricing of time deposits and savings accounts in tandem with the Central Bank rate. In contrast, the average rate paid on other funding increased due to a shift in mix towards borrowings from banks and others, which is mainly explained by the lease liabilities arising as a result of the adoption of IFRS 16.

Net interest income for Banco de Bogotá's Central American operations:

Net interest income for Banco de Bogotá's Central American operations grew by 18.7% or Ps 652.1 billion to Ps 4,148.1 billion while its average total interest-earning assets increased by 13.4%, or Ps 7,324.3 billion, to Ps 62,114.9 billion for the year ended December 31, 2019. The above resulted in a 30 basis points increase in net interest margin to 6.7% in 2019 from 6.4% in 2018. The spread between the yield earned on gross loans and the rate paid on deposits, increased 10 basis points to 7.7% in 2019 from 7.6% in 2018. The volatility of the average exchange rate at which the statement of income is recorded impacted the net interest margin as the devaluation of the Colombian peso at which the net interest income is translated was 11.0% whereas the devaluation at which the average interest earning assets were translated was 9.8%.

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Total interest income for the Central American operations increased by 17.8% or Ps 954.6 billion, driven by an increase of Ps 817.9 billion in interest income on total gross loans (driven by a Ps 779.8 billion increase in interest income on gross loans and Ps 38.0 billion increase in interest income on interbank and overnight funds) and a 69.2% or Ps 136.7 billion increase in interest on investment securities.

The following table shows the impact on interest income on interest-earning assets for Banco de Bogotá's Central American operations derived from changes in the average balance and the average yield per type of interest-earning asset.

	Average balance for the years ended December 31,		Change, 2019 vs. 2018		Average yield for the years ended December 31,		Impact on interest income due to changes in		
	2019	2018	#	%	2019	2018	Balance	Yield	Total
	(in Ps billions)						(in Ps billions)		
Commercial loans	22,892.4	19,979.2	2,913.2	14.6	7.3%	6.8%	211.3	94.9	306.2
Consumer loans	19,802.3	17,635.1	2,167.2	12.3	16.6%	16.6%	359.9	(5.9)	353.9
Mortgage loans	10,865.3	9,595.0	1,270.4	13.2	8.0%	7.8%	101.3	18.4	119.7
Gross loans	**53,560.0**	**47,209.3**	**6,350.7**	**13.5**	**10.9%**	**10.7%**	**689.5**	**90.3**	**779.8**
Interbank and overnight funds	1,880.3	2,366.2	(485.8)	(20.5)	8.2%	4.9%	(40.1)	78.1	38.0
Total gross loans	**55,440.4**	**49,575.4**	**5,864.9**	**11.8**	**10.8%**	**10.4%**	**631.6**	**186.3**	**817.9**
Interest on investments in debt securities	6,674.6	5,215.2	1,459.4	28.0	5.0%	3.8%	73.1	63.6	136.7
Total interest-earning assets	**62,114.9**	**54,790.7**	**7,324.3**	**13.4**	**10.1%**	**9.8%**	**743.4**	**211.2**	**954.6**

The increase in the average yield on gross loans for Banco de Bogotá's Central American operations resulted from an increase in the average yield of commercial loans as growth in the average balances of these loans were driven by countries with higher interest rates such as Honduras, Costa Rica and Guatemala, while Panamá saw a contraction of its average balance and has lower interest rates.

The following table shows the impact on interest expense for Banco de Bogotá's Central American operations derived from changes in the average balance and the average rate paid per type of interest-bearing funding.

	Average balance for the years ended December 31,		Change, 2019 vs. 2018		Average rate paid for the years ended December 31,		Impact on interest expense due to changes in		
	2019	2018	#	%	2019	2018	Balance	Rate	Total
	(in Ps billions)						(in Ps billions)		
Checking accounts	14,546.6	12,472.9	2,073.7	16.6	0.9%	0.9%	(19.2)	(7.7)	(26.8)
Time deposits	24,659.4	21,278.7	3,380.6	15.9	5.3%	5.1%	(178.7)	(31.1)	(209.9)
Savings accounts	10,257.0	8,748.1	1,508.9	17.2	1.4%	1.3%	(20.8)	(3.2)	(24.0)
Total deposits	**49,462.9**	**42,499.7**	**6,963.3**	**16.4**	**3.2%**	**3.1%**	**(222.3)**	**(38.3)**	**(260.7)**
Interbank borrowings and overnight funds	888.9	938.0	(49.1)	(5.2)	0.9%	0.9%	0.4	(0.3)	0.2
Borrowings from banks and others	9,846.4	9,841.0	5.4	0.1	5.1%	4.8%	(0.3)	(33.3)	(33.6)
Bonds issued	1,065.2	953.4	111.8	11.7	6.2%	6.1%	(6.9)	(1.5)	(8.4)
Other funding	**11,800.4**	**11,732.4**	**68.0**	**0.6**	**4.9%**	**4.6%**	**(3.3)**	**(38.5)**	**(41.8)**
Total funding	**61,263.3**	**54,232.1**	**7,031.3**	**13.0**	**3.5%**	**3.4%**	**(247.5)**	**(55.0)**	**(302.5)**

Total interest expense for Banco de Bogotá's Central American operations increased by 16.3%, or Ps 302.5 billion, explained by a 13.0% or Ps 7,031.3 billion increase in the average balance of total interest-bearing funding that resulted in a Ps 247.5 billion increase in interest expense. Also contributing to the increase in interest expense was a 10 basis points increase in the average cost of funding to 3.5% for 2019 from 3.4% for 2018 that led to a Ps 55.0 billion increase in interest expense. The average rate paid on other funding increased due to a shift in mix towards borrowings from banks and others, which is mainly explained by the lease liabilities arising as a result of the adoption of IFRS 16.

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Net impairment loss on financial assets

	Year ended December 31, 2019	2018	Change, 2019 vs. 2018 #	%
	(in Ps billions)			
Impairment loss on loans and other accounts receivable	(2,767.8)	(2,610.9)	(156.9)	6.0
Impairment (loss) recovery on other financial assets	(11.0)	(5.1)	(5.9)	114.4
Recovery of charged-off financial assets	153.2	123.9	29.2	23.6
Net impairment loss on financial assets	**(2,625.6)**	**(2,492.1)**	**(133.5)**	**5.4**

The following table shows the delinquency ratios for each of Banco de Bogotá's gross loans:

	Year ended December 31, 2019 Loans at least 91 days past due	Delinquency Ratio(1)	2018 Loans at least 91 days past due	Delinquency Ratio(1)	Change, 2019 vs. 2018 Loans at least 91 days past due #	Delinquency Ratio %
	(in Ps billions)					
Commercial loans	2,185.7	3.2%	1,938.3	3.0%	247.4	0.2
Consumer loans	894.7	2.7%	825.6	2.6%	69.0	0.0
Mortgage loans	437.6	2.9%	279.2	2.0%	158.4	0.9
Microcredit loans	55.3	13.7%	51.4	12.3%	3.9	1.4
Gross loans	**3,573.3**	**3.1%**	**3,094.5**	**2.8%**	**478.8**	**0.2**
Commercial loans	2,041.9	4.7%	1,776.5	4.3%	265.4	0.4
Consumer loans	469.8	3.6%	470.6	4.0%	(0.8)	(0.4)
Mortgage loans	119.1	2.9%	89.8	2.6%	29.3	0.4
Microcredit loans	55.3	13.7%	51.4	12.3%	3.9	1.4
Colombian Operations	**2,686.1**	**4.4%**	**2,388.3**	**4.2%**	**297.8**	**0.2**
Commercial loans	143.8	0.6%	161.8	0.7%	(18.0)	(0.1)
Consumer loans	424.8	2.1%	355.0	1.8%	69.8	0.3
Mortgage loans	318.5	2.9%	189.4	1.8%	129.1	1.1
Central American Operations	**887.1**	**1.6%**	**706.2**	**1.3%**	**180.9**	**0.3**

(1) Calculated as loans past due more than 90 days divided by gross loans.

Net impairment loss on financial assets for Banco de Bogotá increased by 5.4% or Ps 133.5 billion in 2019 as compared to 2018 (a Ps 135.9 billion increase in the Central American operation and a Ps 2.4 billion decrease in the Colombian operations), driven primarily by a 6.0% or Ps 156.9 billion increase in impairment loss on loans and other accounts receivable resulting mainly from the peso depreciation, and a Ps 5.9 billion increase in impairment (loss) recovery on other financial assets, partially offset by a Ps 29.2 billion increase in recoveries of charged-off financial assets. For more information on loss allowance calculations under IFRS 9, please refer to Note 4 of our audited consolidated financial statements.

Banco de Bogotá's cost of risk[9] improved by 5 basis points to 2.5% in 2019. The cost of risk net of recoveries of charged-off financial assets[10] improved to 2.3% for 2019 from 2.4% for 2018.

Charge-offs for Banco de Bogotá increased by 66.0% or Ps 1,205.8 billion to Ps 3,031.9 billion in 2019 as compared to 2018, and its ratio of charge-offs to average balance of gross loans increased to 2.7% in 2019 from 1.8% in 2018. Banco de Bogotá's Colombian operations charged-off the Ps 528.9 billion total exposure to Electricaribe and the Ps 41.0 billion total exposure to Tranzit S.A., one of the SITP companies, during 2019.

The recovery of charged-off financial assets increased by 23.6% or Ps 29.2 billion, all of which are attributable to Banco de Bogotá's Colombian operations.

[9] Measured as impairment loss on loans and other accounts receivable divided by the average balance of gross loans.
[10] Measured as impairment loss on loans and other accounts receivable, net of recoveries of charged-off assets divided by the average balance of gross loans.

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Banco de Bogotá's coverage ratio for loans past due more than 90 days was 143.9% at December 31, 2019, with a ratio of 128.8% for its Colombian operations and 189.5% for its Central American operations. These ratios compare to 165.9%, 148.8% and 223.6% for the consolidated, Colombian and Central American operations at December 31, 2018, respectively.

Net impairment loss on financial assets for Banco de Bogotá's Colombian operations:

Net impairment loss on financial assets for Banco de Bogotá's Colombian operations decreased by 0.2% or Ps 2.4 billion to Ps 1,364.7 billion in 2019 from Ps 1,367.0 billion in 2018, mainly explained by a Ps 29.2 billion increase in recoveries of charged-off financial assets, partially offset by a Ps 23.6 billion increase in impairment loss on loans and other accounts receivable (driven by a Ps 24.8 billion increase in impairment loss on commercial loans, a Ps 10.3 billion increase in impairment loss on microcredit loans, and partially offset by a Ps 16.9 billion decrease in impairment loss on consumer loans). The increase in impairment loss on commercial loans was mainly driven by a 6.2% or Ps 2,546.4 billion increase of the commercial loan portfolio on a year-on-year basis.

The decrease in impairment loss on consumer loans for the bank's Colombian operations was mainly driven by the improvement in delinquency as measured by consumer loans past due more than 30 and 90 days, which improved to 6.1% and 3.6% in 2019 from 6.6% and 4.0% in 2018, respectively.

The Ps 10.3 billion increase in impairment loss on microcredit loans for the bank's Colombian operations was mainly driven by the deterioration of asset quality as measured by microcredit loans classified as Stage 2 and Stage 3 over total microcredit loans which deteriorated to 19.7% in 2019 from 19.0% in 2018.

The cost of risk for Banco de Bogotá's Colombian operations improved by 6 basis points to 2.6% in 2019. The cost of risk net of recoveries of charged-off financial assets improved by 10 basis points to 2.3% in 2019 from 2.4% for 2018.

Charge-offs for Banco de Bogotá's Colombian operations increased by Ps 956.2 billion to Ps 1,861.1 billion in 2019 as compared to 2018, and its ratio of charge-offs to average balance of gross loans increased to 3.2% in 2019 from 1.6% in 2018. Banco de Bogotá's Colombian operations charged-off the Ps 528.9 billion total exposure to Electricaribe and the Ps 41.0 billion total exposure to one of the SITP companies during 2019.

The delinquency of commercial loans was affected by the CRDS loan, which as of December 31, 2019 was past due more than 90 days with a Ps 449.2 billion total exposure. This loan was classified as Stage 3 both at December 31, 2019 and 2018.

Net impairment loss on financial assets for Banco de Bogotá's Central American operations:

The Ps 135.9 billion or 12.1% increase in net impairment loss on financial assets resulting from the bank's Central American operations is mainly explained by a Ps 133.3 billion increase in impairment loss on loans and other accounts receivable to Ps 1,251.5 billion in 2019 from Ps 1,118.3 billion in 2018, and by a Ps 2.6 billion increase in impairment (loss) on other financial assets. The strong increase is partly explained depreciation of the average translation exchange rate between 2019 and 2018, as previously mentioned.

The increase in impairment loss on loans and other accounts receivable of Ps 133.3 billion was driven by (i) a Ps 68.2 billion or 7.5% increase in impairment loss on consumer loans partly explained by the depreciation of the Colombian peso, (ii) a Ps 42.9 billion or 61.7% increase in impairment loss on mortgage loans mainly driven by Costa Rica and Panamá and by the depreciation of the Colombian peso, and (iii) a Ps 19.0 billion or 13.9% increase in impairment loss on commercial loans, mainly driven by the depreciation of the Colombian peso.

The cost of risk for Banco de Bogotá's Central American operations improved to 2.3% in 2019 from 2.4% in 2018.

Net income from commissions and fees

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Banking fees	3,548.9	3,150.9	398.0	12.6
Bonded warehouse services	98.3	99.0	(0.8)	(0.8)
Trust activities and portfolio management services	178.3	165.8	12.4	7.5
Pension and severance fund management	1,127.2	985.2	142.0	14.4
Income from commissions and fees	**4,952.6**	**4,401.0**	**551.6**	**12.5**
Expenses from commissions and fees	(383.0)	(362.8)	(20.2)	5.6
Net income from commissions and fees	**4,569.6**	**4,038.2**	**531.5**	**13.2**

Net income from commissions and fees for Banco de Bogotá increased by 13.2% or Ps 531.5 billion in 2019 as compared to 2018, with Ps 339.4 billion resulting from Banco de Bogotá's Central American operations and Ps 192.1 billion resulting from Banco de Bogotá's Colombian operations.

The Ps 192.1 billion or 10.0% increase resulting from Banco de Bogotá's Colombian operations was mainly driven by a Ps 132.8 billion or 13.9% increase in fees from pension and severance fund management (since the bank consolidates Porvenir), a Ps 32.9 billion or 9.9% increase in fees from debit and credit cards, a Ps 12.4 billion or 7.5% increase in fees from trust activities and portfolio management services and a Ps 4.2 billion decrease in expenses from commissions and fees.

The increase in fees from pension and severance fund management was primarily driven by a Ps 105.3 billion, or 15.2%, increase in fee income from the administration of mandatory pension funds to Ps 798.8 billion in 2019 from Ps 693.5 billion in 2018. Such results are explained by higher performance-based fees charged to non-contributing clients linked to higher returns on assets under management and to an increase of 0.6 million in the number of clients to 9.6 million as of December 31, 2019 from 8.9 million as of December 31, 2018.

Fee income from severance fund management increased by Ps 17.6 billion, or 10.3%, to Ps 187.8 billion in 2019 from Ps 170.2 billion in 2018. This increase was mainly due to an increase of 0.2 million in the number of severance funds clients to 4.4 million as of December 31, 2019 from 4.2 million as of December 31, 2018.

Revenues received from the administration of voluntary pension funds increased by Ps 4.3 billion or 5.2%, to Ps 86.8 billion in 2019 from Ps 82.5 billion in 2018. This increase was mainly due to an increase in the balance of managed funds to Ps 4.5 trillion as of December 31, 2019 from Ps 4.0 trillion as of December 31, 2018.

Revenues received from the administration of third-party liability pension funds increased by Ps 5.6 billion or 73.6% to Ps 13.2 billion in 2019 from Ps 7.6 billion in 2018 derived from performance-based commissions linked to higher returns on assets under management.

The Ps 339.4 billion or 16.0% increase in net income from commissions and fees from Banco de Bogotá's Central American operations, was mainly driven by a Ps 227.1 billion increase in banking fees, and a Ps 127.5 billion increase in debit and credit card commissions, partially offset by a Ps 24.3 billion increase in commissions and fee expenses. The increase is also explained by the depreciation of the average translation exchange rate between 2019 and 2018, as previously mentioned.

Gross loss from sales of goods and services

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Income from sales of goods and services	109.0	130.6	(21.6)	(16.5)
Costs and expenses of sales of goods and services	(235.9)	(254.9)	19.0	(7.4)
Gross loss from sales of goods and services	**(126.9)**	**(124.3)**	**(2.6)**	**2.1**

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Gross loss from sales of goods and services increased by Ps 2.6 billion to a gross loss of Ps 126.9 billion in 2019 from a gross loss of Ps 124.3 billion in 2018. Income from sales of goods and services decreased Ps 21.6 billion to Ps 109.0 billion in 2019 from Ps 130.6 billion in 2018, mainly driven by a Ps 17.2 billion decrease in income from transportation and storage services in Almaviva due to the termination of three non-profitable contracts, that were recognized in costs and expenses materially in the same magnitude, and a Ps 3.6 billion decrease in income from Megalínea; both are subsidiaries of Banco de Bogotá.

Costs and expenses of sales of goods and services showed a Ps 19.0 billion decrease to Ps 235.9 billion in 2019 from Ps 254.9 billion in 2018. Of that, Ps 17.2 billion correspond to Almaviva's termination of non-profitable contracts as mentioned above.

The gross loss from sales of goods and services is normal as the subsidiaries provide services to Banco de Bogotá and its subsidiaries, and thus have part of their income eliminated in the consolidation process.

Net trading income

During 2019, Banco de Bogotá's net trading income[11] was Ps 495.3 billion, 20.2% or Ps 83.3 billion higher than the Ps 412.1 billion for 2018. Colombian operations accounted for a Ps 65.8 billion increase in net trading income, and Banco de Bogotá's Central American operations contributed with a Ps 17.5 billion increase in net trading income. The Ps 83.3 billion increase in net trading income was driven by a Ps 382.3 billion increase in net trading income from investment securities at FVTPL, partially offset by a Ps 299.0 billion decrease in net trading income from derivatives.

The Ps 382.3 billion increase in net trading income from investment securities at FVTPL, for Banco de Bogotá, was mainly driven by a Ps 305.0 billion increase in the Colombian operations to Ps 341.6 billion in 2019. The increase in the return of this portfolio was driven by higher returns on the bank's and Porvenir's equity and fixed income securities at FVTPL, which for the latter were related to its stabilization reserve (see "Item 4. Information on the Company—A. History and development of the company—Pension Fund Management—Porvenir"). For the Central American operation net trading income from investment securities at FVTPL increased Ps 77.3 billion to a net gain of Ps 55.8 billion in 2019 from a net loss of Ps 21.5 billion in 2018 as this operation benefited from a recovery of some debt instruments driven by positive global financial markets during the year.

Total income from valuation on trading and hedging derivatives decreased Ps 299.0 billion to Ps 98.0 billion in 2019 from Ps 397.0 billion in 2018, driven by the fluctuation of the Colombian peso during 2019. Of the Ps 299.0 billion decrease, Ps 239.3 billion are explained by the Colombian operations and Ps 59.8 billion by the Central American operations.

Total income from investment securities

Banco de Bogotá's securities portfolio is classified in the following categories: (i) equity and fixed income investments at FVTPL (described in this section as net trading income in investment securities at FVTPL), (ii) fixed income investments at FVOCI and (iii) fixed income investments at AC (results from (ii) and (iii) are included in the net interest income section as interest income on investments in debt securities). Banco de Bogotá manages its investment portfolio in a comprehensive and integral manner that considers individual return of each one of these three categories and the total return of the investment securities portfolio.

Total income from investment securities for Banco de Bogotá (comprised of interest income on investments in debt securities and net trading income from investment securities at FVTPL) was Ps 1,018.8 billion for 2019, Ps 551.0 billion higher than in 2018. This was primarily driven by an increase of 274 basis points in the average return on total investment securities to 6.2% in 2019 from 3.4% in 2018, generating a Ps 375.1 billion increase in interest income.

[11] Includes (i) net trading income from investment securities at FVTPL, which reflects the interest and gains/losses from mark-to-market valuation, in each case from equity and fixed income investment securities at FVTPL, and (ii) net trading income from derivatives, which reflects the gains/losses from mark-to-market valuation on derivatives which are not part of qualifying hedge relationships.

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The average balance of total investment securities increased by Ps 2,858.6 billion to Ps 16,561.3 billion in 2019, resulting in a Ps 175.9 billion increase in interest income. Global fixed income and equity markets posted strong gains that translated into higher returns on Banco de Bogotá's investment portfolios.

Total income from investment securities for Banco de Bogotá's Colombian operations:

Total income from investment securities for Banco de Bogotá's Colombian operations was Ps 628.6 billion for 2019, Ps 337.0 billion higher than in 2018. This was primarily driven by an increase of 297 basis points in the average return on total investment securities to 6.5% in 2019 from 3.5% in 2018, generating a Ps 248.1 billion increase in interest income. Moreover, there was a Ps 1,374.7 billion increase in the average balance of total investment securities to Ps 9,722.6 billion in 2019 , resulting in a Ps 88.9 billion increase in interest income. As mentioned before, derivatives operations partially offset the better returns from investment securities.

Total income from investment securities for Banco de Bogotá's Central American operations:

Total income from investment securities for Banco de Bogotá's Central American operations was Ps 390.2 billion for 2019, Ps 214.0 billion higher than in 2018. This was primarily driven by an increase of 242 basis points in the average return on total investment securities to 5.7% in 2019 from 3.3% in 2018, generating a Ps 129.4 billion increase in interest income. Furthermore, the average balance of total investment securities increased Ps 1,483.9 billion or 27.7% to Ps 6,838.7 billion in 2019, resulting in a Ps 84.7 billion increase in interest income.

Other income

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Foreign exchange gains (losses), net	277.3	302.8	(25.5)	(8.4)
Share of profit of equity accounted investees, net of tax (Equity method)	524.4	568.2	(43.8)	(7.7)
Net gain on sale of debt and equity securities	131.8	24.8	107.0	431.2
Dividends	10.2	17.7	(7.6)	(42.7)
Gain (loss) on the sale of non-current assets held for sale	20.2	18.8	1.5	7.8
Gain on sale of property, plant and equipment	7.7	314.8	(307.1)	(97.5)
Net gain in asset valuation	5.4	29.3	(23.9)	(81.5)
Other	298.1	310.3	(12.3)	(4.0)
Other income	**1,275.0**	**1,586.7**	**(311.8)**	**(19.6)**

Total other income for Banco de Bogotá decreased by Ps 311.8 billion to Ps 1,275.0 billion in 2019, resulting from a Ps 177.9 billion decrease from Banco de Bogotá's Colombian operations and Ps 133.9 billion decrease from Banco de Bogotá's Central American operations.

The Ps 177.9 billion decrease from Banco de Bogotá's Colombian operations was mainly driven by (i) a Ps 307.1 billion decrease in gain on sale of property, plant and equipment related to the recognition in 2018 of a Ps 312.3 billion gain in non-monetary transactions associated with PP&E structure optimizations and (ii) a Ps 123.4 billion gain from the dilution resulting from Corficolombiana's capitalization process in August 2018. In addition, equity method decreased by Ps 43.8 billion driven by Corficolombiana's decrease in net income (for further details see Corficolombiana's MD&A), and net gain on asset valuation decreased by Ps 23.9 billion. Partially offsetting these decreases, was a Ps 198.5 billion increase in foreign exchange gains, net and a Ps 73.2 billion increase in net gain on sales of debt and equity securities. Given that prevailing market conditions during most part of 2019 were positive, Banco de Bogotá's Colombian operations realized gains on a portion of its fixed income portfolio.

The Ps 133.9 billion decrease from Banco de Bogotá's Central American operations was mainly driven by a Ps 224.0 billion decrease in foreign exchange gains (losses), net, associated with the fluctuation of the Costa Rican Colón, partially offset by a Ps 56.9 billion increase in other income and a Ps 33.8 billion increase in net gain on sales of debt and equity securities.

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Other expenses

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Losses from sales of noncurrent assets held for sale	(3.9)	(4.6)	0.7	(15.5)
Personnel expenses	(2,786.6)	(2,547.1)	(239.5)	9.4
Administrative and other expenses	(3,406.1)	(3,171.1)	(234.9)	7.4
Depreciation and amortization	(631.8)	(363.3)	(268.6)	73.9
Impairment loss on other assets	(1.7)	(32.6)	30.9	(94.9)
Other	(180.3)	(87.1)	(93.2)	107.0
Other expenses	**(7,010.4)**	**(6,205.8)**	**(804.6)**	**13.0**

Other expenses for Banco de Bogotá increased by Ps 804.6 billion, or 13.0%, in 2019 as compared to 2018. This increase was driven by a Ps 268.6 billion increase in depreciation and amortization, a Ps 239.5 billion increase in personnel expenses, a Ps 234.9 billion increase in administrative and other expenses, and a Ps 93.2 billion increase in other, which were partially offset by a Ps 30.9 billion decrease in impairment loss on other assets and a Ps 0.7 billion decrease in losses from sales of noncurrent assets held for sale.

The Ps 268.6 billion increase in depreciation and amortization was mainly due to the adoption of IFRS 16 in 2019, which changed the accounting methodology for leases. As a result, some of our rent expenses previously accounted under administrative expenses are now accounted under depreciation and amortization expense. Depreciation and amortization expenses for right-of-use in 2019 were Ps 205.8 billion.

The Ps 234.9 billion increase in administrative and other expenses is explained by (i) a Ps 109.1 billion increase in contributions and affiliations, mainly in Central America and impacted by the devaluation previously mentioned, (ii) a Ps 93.5 billion increase in service expenses, which include marketing, staffing and temp, utilities, and supplies and stationery, among others (iii) a Ps 77.3 billion increase in taxes and surcharges mainly due to the introduction of a value added tax (VAT) on services in Costa Rica as part of the country's structural tax reforms to curb fiscal deficit, (iv) a Ps 44.3 billion increase in maintenance and adequation, and (iv) a Ps 32.5 billion increase in fees, which include consulting and legal fees among others. These increases were offset in part by a Ps 185.2 billion decrease in rent expenses associated with the adoption of IFRS 16 in 2019.

The increase in personnel expenses for Banco de Bogotá resulted from a 10.2% or Ps 239.9 billion increase in salaries and employee benefits and a Ps 14.0 billion increase in labor severances. Partially compensating the above was a Ps 14.4 billion decrease in bonus plan payments.

Given that Banco de Bogotá's other expenses increased by 13.0% and its income increased by 7.3%, its efficiency ratio[12] deteriorated to 51.1% in 2019 from 48.6% in 2018. The ratio of other expenses as a percentage of average assets deteriorated by 6 basis points to 4.2% in 2019 from 4.1% in 2018.

Of the Ps 804.6 billion increase in other expenses for Banco de Bogotá, Ps 589.9 billion was driven by the Central American operations and Ps 214.7 billion by the Colombian operations.

Other expenses for Banco de Bogotá's Colombian operations:

The Ps 214.7 billion or 7.6% increase in other expenses resulting from the Colombian operations was mainly driven by a Ps 90.2 billion increase in depreciation and amortization expense, a Ps 89.2 billion increase in other, a 3.2% or Ps 31.3 billion increase in personnel expenses, and a 0.8% or Ps 13.0 billion increase in administrative and other expenses. Partially offsetting this increase was a Ps 10.3 billion decrease in impairment loss on other assets.

[12] Calculated as other expenses divided by the sum of net interest income, net income from commissions and fees, gross loss from sales of goods and services, net trading income and other income.

The Ps 90.2 billion increase in depreciation and amortization was mainly due to the adoption of IFRS 16 in 2019. Depreciation and amortization expenses for right-of-use in 2019 were Ps 85.6 billion. The Ps 89.2 billion increase in other is related to a Ps 84.2 billion increase in Porvenir related to emerging costs of legal proceedings related to individual civil lawsuits originated from a large number of mandatory pension fund clients, that are looking to transfer from the private to the public pension fund system outside the regulatory terms. The Ps 13.0 billion increase in administrative and other expenses was driven by (i) a Ps 59.5 billion increase in other expenses related to internal incentives and outsourcing of specialized services, (ii) a Ps 26.2 billion increase in taxes and surcharges, and (iii) a Ps 12.8 billion increase in contributions and affiliations. These increases were offset in part by a Ps 87.4 billion decrease in rent expenses associated with the adoption of IFRS 16 in 2019.

The increase in personnel expenses for Banco de Bogotá's Colombian operation was mainly driven by a 2.6% increase in salaries and employee benefits, which was lower than the 3.18% inflation rate for 2018.

Given that other expenses for Banco de Bogotá's Colombian operations increased by 7.6% and its income increased by 0.8%, its efficiency ratio deteriorated to 45.6% in 2019 from 42.7% in 2018. The ratio of other expenses as a percentage of average assets improved by 5 basis points to 3.49% in 2019 from 3.54% in 2018.

Other expenses for Banco de Bogotá's Central American operations:

The Ps 589.9 billion or 17.4% increase in other expenses resulting from Central American operations is mainly explained by a 14.2% or Ps 221.9 billion increase in administrative and other expenses, a 13.3% or Ps 208.2 billion increase personnel expenses, and a Ps 178.3 billion increase in depreciation and amortization expense, partially offset by a Ps 20.6 billion decrease in impairment loss on other assets. The increase is partly explained by the depreciation of the average translation exchange rate between 2019 and 2018, as previously mentioned.

The Ps 221.9 billion increase in administrative and other expenses is related to (i) a Ps 97.8 billion increase in service expenses, (ii) a Ps 96.3 billion increase in contributions and affiliations, (iii) a Ps 51.1 billion increase in taxes and surcharges, that was driven by the introduction of a value added tax (VAT) on services in Costa Rica, (iv) a Ps 38.5 billion increase in maintenance and adequation, and (v) a Ps 29.1 billion increase in fees, which include consulting and legal fees among others. These increases were offset in part by a Ps 97.7 billion decrease in rent expenses associated with the adoption of IFRS 16 in 2019. The Ps 178.3 billion increase in depreciation and amortization was mainly due to the adoption of IFRS 16 in 2019. Depreciation and amortization expenses for right-of-use in 2019 were Ps 120.2 billion.

The increase in personnel expenses for Banco de Bogotá's Central American operation resulted from a Ps 214.9 billion or 15.3% increase in salaries and employee benefits and a Ps 7.0 billion or 13.9% increase in labor severances expenses. The increase is partly explained by the 11.0% depreciation of the average translation exchange rate between 2019 and 2018, as previously mentioned.

Given that other expenses for Banco de Bogotá's Central American operations increased by 17.4% and its income increased by 14.1%, its efficiency ratio deteriorated to 56.3% in 2019 from 54.8% in 2018. The ratio of other expenses as a percentage of average assets deteriorated by 15 basis points to 5.0% in 2019 from 4.8% in 2018.

Income tax expense

Income tax expense for Banco de Bogotá increased by 5.2%, or Ps 49.0 billion, to Ps 999.0 billion in 2019. The increase in income tax expense can be explained by not having the positive impact from the Financing Law in 2018 on deferred taxes that resulted in a Ps 23.2 billion recovery of income tax expense, which was partially offset a lower statutory corporate income tax rate in Colombia to 33% in 2019 from 37% in 2018.

Banco de Bogotá's effective tax rate[13] was 28.2% in 2019 compared to 27.2% in 2018. The effective tax rate for Banco de Bogota's Colombian operations increased to 30.3% in 2019 from 25.0% in 2018, while the effective tax rate for Banco de Bogota's Central American operations decreased to 26.3% in 2019 from 29.6% in 2018.

[13] Net income before income tax expense minus equity method, minus dividends.

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Net income attributable to non-controlling interest

Net income attributable to non-controlling interest increased by Ps 113.3 billion or 58.4%, to Ps 307.2 billion in 2019 as compared to Ps 194.0 billion in 2018. This increase was primarily driven by the 58.2% increase in Porvenir's net income. The ratio of net income attributable to non-controlling interest to net income was 10.0% in 2019 compared to 6.2% in 2018.

Banco de Occidente

Net income

	For the year ended December 31,		Change 2019 vs 2018	
	2019	2018	#	%
	(in Ps billions)			
Total interest income	3,120.4	3,098.5	21.9	0.7
Total interest expense	(1,228.4)	(1,135.2)	(93.2)	8.2
Net interest income	**1,892.0**	**1,963.3**	**(71.3)**	**(3.6)**
Impairment loss on loans and other accounts receivable	(867.1)	(1,014.4)	147.3	(14.5)
Impairment (loss) recovery on other financial assets	(0.5)	1.8	(2.2)	(126.1)
Recovery of charged-off financial assets	147.1	118.1	29.0	24.5
Net impairment loss on financial assets	**(720.5)**	**(894.5)**	**174.1**	**(19.5)**
Net income from commissions and fees	346.6	337.6	9.0	2.7
Gross loss from sales of goods and services	(82.3)	(67.1)	(15.2)	22.6
Net trading income	117.0	104.8	12.3	11.7
Other income	404.0	252.0	152.0	60.3
Other expenses	(1,327.7)	(1,315.2)	(12.5)	1.0
Income before income tax expense	**629.2**	**380.8**	**248.3**	**65.2**
Income tax expense	(61.1)	35.5	(96.6)	(272.3)
Net income for the year	**568.1**	**416.3**	**151.8**	**36.5**
Net income for the year attributable to:				
Owners of the parent	**563.4**	**413.4**	**150.0**	**36.3**
Non-controlling interest	**4.7**	**2.9**	**1.8**	**62.0**

Banco de Occidente's net income attributable to owners of the parent increased by 36.3%, or Ps 150.0 billion, to Ps 563.4 billion in 2019 as compared to Ps 413.4 billion in 2018. The increase in net income attributable to owners of the parent was driven by a Ps 174.1 billion decrease in net impairment loss on financial assets, a Ps 152.0 billion increase in other income, a Ps 12.3 billion increase in net trading income, and a Ps 9.0 billion increase in net income from commissions and fees. Partially offsetting the above, there was a Ps 96.6 billion increase in income tax expense, a Ps 71.3 billion decrease in net interest income, a Ps 15.2 billion increase in gross loss from sales of goods and services, and a Ps 12.5 billion increase in other expenses.

Net interest income

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Interest income using the effective interest method:				
Commercial loans	1,760.8	1,708.9	51.9	3.0
Consumer loans	1,000.3	1,015.7	(15.5)	(1.5)
Mortgage loans	142.4	123.7	18.7	15.1
Interbank and overnight funds	40.6	38.5	2.1	5.4
Interest on loan portfolio	**2,944.1**	**2,886.9**	**57.2**	**2.0**
Interest on investments in debt securities	**176.3**	**211.6**	**(35.3)**	**(16.7)**
Total interest income	**3,120.4**	**3,098.5**	**21.9**	**0.7**
Interest expense:				
Checking accounts	(10.7)	(10.7)	0.1	(0.8)
Time deposits	(446.2)	(403.6)	(42.6)	10.6
Savings deposits	(372.6)	(380.1)	7.5	(2.0)
Total interest expense on deposits	**(829.4)**	**(794.4)**	**(35.0)**	**4.4**
Interbank borrowings and overnight funds	(63.7)	(9.9)	(53.7)	540.6
Borrowings from banks and others	(66.2)	(51.1)	(15.0)	29.4
Bonds issued	(224.8)	(233.0)	8.2	(3.5)
Borrowings from development entities	(44.4)	(46.7)	2.4	(5.1)
Total interest expense	**(1,228.4)**	**(1,135.2)**	**(93.2)**	**8.2**
Net interest income	**1,892.0**	**1,963.3**	**(71.3)**	**(3.6)**

Banco de Occidente's net interest income decreased by 3.6%, or Ps 71.3 billion, to Ps 1,892.0 billion in 2019 while its average total interest earning assets increased by 3.6%, or Ps 1,186.6 billion, to Ps 34,483.7 billion in 2019. This resulted in a 41 basis points contraction of its net interest margin to 5.5% in 2019 from 5.9% in 2018. The interest spread between the average rate on gross loans and the average rate paid on interest-bearing deposits decreased 56 basis points to 6.2% in 2019 from 6.8% in 2018.

The following table shows the impact on interest income on interest-earning assets derived from changes in the average balance and the average yield per type of interest-earning asset. Interbank and overnight funds are shown separate from gross loans due to their characteristics and short-term nature.

	Average balance for the years ended December 31,		Change, 2019 vs. 2018		Average yield for the years ended December 31,		Impact on interest income due to changes in		
	2019	2018	#	%	2019	2018	Balance	Yield	Total
	(in Ps billions)						(in Ps billions)		
Commercial loans	20,836.1	19,187.7	1,648.3	8.6	8.5%	8.9%	139.3	(87.4)	51.9
Consumer loans	7,010.4	6,729.1	281.3	4.2	14.3%	15.1%	40.1	(55.6)	(15.5)
Mortgage loans	1,505.1	1,264.8	240.3	19.0	9.5%	9.8%	22.7	(4.0)	18.7
Gross loans	**29,351.5**	**27,181.6**	**2,169.9**	**8.0**	**9.9%**	**10.5%**	**214.7**	**(159.5)**	**55.1**
Interbank and overnight funds	628.2	975.1	(346.9)	(35.6)	6.5%	3.9%	(22.4)	24.5	2.1
Total gross loans	**29,979.7**	**28,156.7**	**1,823.0**	**6.5**	**9.8%**	**10.3%**	**179.0**	**(121.8)**	**57.2**
Interest on investments in debt securities	4,504.0	5,140.4	(636.5)	(12.4)	3.9%	4.1%	(24.9)	(10.4)	(35.3)
Total interest-earning assets	**34,483.7**	**33,297.1**	**1,186.6**	**3.6**	**9.0%**	**9.3%**	**107.4**	**(85.5)**	**21.9**

Despite a 10 basis points decrease in the average Central Bank rate, to 4.25% in 2019 from 4.35% in 2018, Banco de Occidente's average yield on gross loans decreased more than proportionally. Interest rates for loans across the banking system were increasingly competitive, particularly during the second half of the year, as the improvement in credit quality was priced into new originations, especially in consumer loans.

The following table shows the impact on interest expense derived from changes in the average balance and the average rate paid per type of interest-bearing funding.

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	Average balance for the years ended December 31,		Change, 2019 vs. 2018		Average rate paid for the years ended December 31,		Impact on interest expense due to changes in		
	2019	2018	#	%	2019	2018	Balance	Rate	Total
	(in Ps billions)						(in Ps billions)		
Checking accounts	1,446.7	1,640.5	(193.8)	(11.8)	0.7%	0.7%	1.4	(1.3)	0.1
Time deposits	9,436.6	8,444.0	992.6	11.8	4.7%	4.8%	(46.9)	4.3	(42.6)
Savings accounts	11,763.4	11,435.2	328.2	2.9	3.2%	3.3%	(10.4)	17.9	7.5
Total deposits	**22,646.7**	**21,519.6**	**1,127.0**	**5.2**	**3.7%**	**3.7%**	**(41.3)**	**6.3**	**(35.0)**
Interbank borrowings and overnight funds	1,058.9	469.5	589.4	125.5	6.0%	2.1%	(35.4)	(18.3)	(53.7)
Borrowings from banks and others	1,639.4	1,384.0	255.4	18.5	4.0%	3.7%	(10.3)	(4.7)	(15.0)
Bonds issued	3,215.6	3,225.9	(10.3)	(0.3)	7.0%	7.2%	0.7	7.5	8.2
Borrowings from development entities	1,273.9	1,162.7	111.3	9.6	3.5%	4.0%	(3.9)	6.2	2.4
Other funding	**7,187.8**	**6,242.0**	**945.8**	**15.2**	**5.6%**	**5.5%**	**(52.5)**	**(5.7)**	**(58.2)**
Total funding	**29,834.5**	**27,761.7**	**2,072.8**	**7.5**	**4.1%**	**4.1%**	**(85.3)**	**(7.9)**	**(93.2)**

The average rate paid on other funding increased due to a shift in mix towards borrowings from banks and others, which is mainly explained by the lease liabilities arising as a result of the adoption of IFRS 16. These liabilities have longer maturities and higher average interest rates than the existing average borrowings from banks and others in 2018.

Net impairment loss on financial assets

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Impairment loss on loans and other accounts receivable	(867.1)	(1,014.4)	147.3	(14.5)
Impairment (loss) recovery on other financial assets	(0.5)	1.8	(2.2)	(126.1)
Recovery of charged-off financial assets	147.1	118.1	29.0	24.5
Net impairment loss on financial assets	**(720.5)**	**(894.5)**	**174.1**	**(19.5)**

The following table shows the delinquency ratios for each of Banco de Occidente's gross loans:

	Year ended December 31,				Change, 2019 vs. 2018	
	2019		2018		Loans at least 91 days past due	Delinquency Ratio
	Loans at least 91 days past due	Delinquency Ratio(1)	Loans at least 91 days past due	Delinquency Ratio(1)	#	%
	(in Ps billions)					
Commercial loans	1,025.3	4.8%	866.5	4.4%	158.9	0.4
Consumer loans	197.8	2.7%	202.4	3.0%	(4.5)	(0.2)
Mortgage loans	41.2	2.5%	35.1	2.5%	6.1	(0.0)
Gross loans	**1,264.4**	**4.2%**	**1,103.9**	**3.9%**	**160.5**	**0.2**

(1) Calculated as loans past due more than 90 days divided by gross loans.

Net impairment loss on financial assets decreased by 19.5%, or Ps 174.1 billion, in 2019 as compared to 2018. This improvement was primarily driven by a Ps 147.3 billion decrease in impairment loss on loans and other accounts receivable, and a Ps 29.0 billion increase in recoveries of charged-off financial assets (driven by improvements in collection processes), partially offset by a Ps 2.2 billion increase in impairment (loss) recovery on other financial assets. For more information on loss allowance calculations under IFRS 9, please refer to Note 4 of our audited consolidated financial statements.

The decrease in impairment loss on loans and other accounts receivable of Ps 147.3 billion was mainly driven by improvements in LGD and probability of default (PD) across all loans. Impairment loss on consumer loans decreased by Ps 82.9 billion, which in turn, was mainly driven by a lower LGD, resulting from an improvement of the bank's recoverability of troubled loans and improving delinquency as measured by loans past due more than 90 days. Impairment

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loss on mortgage loans decreased by Ps 18.3 billion due to a lower LGD, resulting from an improvement of the bank's recoverability of troubled loans. Impairment loss on commercial loans decreased by Ps 11.3 billion resulting from an improvement in asset quality as measured by commercial loans classified as Stage 2 and Stage 3 as a percentage of commercial loans, which decreased to 11.8% in 2019 from 12.1% in 2018. In addition, a Ps 34.9 billion decrease in impairment loss on other accounts receivable contributed to the overall decrease.

The delinquency of commercial loans was affected by the CRDS loan, which as of December 31, 2019 was past due more than 90 days with a Ps 149.0 billion total exposure. This loan was classified as Stage 3 both at December 31, 2019 and 2018.

The bank's cost of risk[14] improved by 78 basis points to 3.0% for 2019 from 3.7% in 2018 and its cost of risk net of recoveries of charged-off financial assets[15] improved by 84 basis points to 2.5% for 2019 from 3.3% for 2018.

Charge-offs increased by Ps 195.1 billion to Ps 1,054.7 billion for the year ended December 31, 2019 from Ps 859.6 billion for the year ended December 31, 2018 and the ratio of charge-offs to average gross loans increased to 3.6% for the year ended December 31, 2019 from 3.2% for the year ended December 31, 2018. Banco de Occidente charged-off the Ps 161.4 billion total exposure to Electricaribe and the Ps 62.5 billion total exposure to Tranzit S.A., one of the SITP companies, during 2019.

Total loss allowance decreased by Ps 39.6 billion to Ps 1,537.3 billion as of December 31, 2019 from Ps 1,576.9 billion as of December 31, 2018. As of December 31, 2019, Banco de Occidente's coverage ratio of its gross loans past due more than 90 days was 121.6% versus 142.8% as of December 31, 2018. Quality as measured by gross loans classified as Stage 2 and Stage 3 over gross loans improved to 11.1% from 11.8% and coverage ratio for these loans decreased to 35.2% from 37.0% between the same dates. The decrease in the coverage ratio is partially explained by the fact that the charged-off corporate clients mentioned above had higher coverages than the rest of the loans (Electricaribe at 100% and Tranzit at 90.0%) at December 31, 2018.

Net income from commissions and fees

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Banking fees	359.8	345.3	14.5	4.2
Trust activities and portfolio management services	72.1	63.9	8.2	12.8
Income from commissions and fees	**431.9**	**409.2**	**22.7**	**5.6**
Expenses from commissions and fees	(85.3)	(71.6)	(13.7)	19.2
Net income from commissions and fees	**346.6**	**337.6**	**9.0**	**2.7**

Net income from commissions and fees increased by 2.7% or Ps 9.0 billion to Ps 346.6 billion in 2019 as compared to 2018. This was primarily due to a 4.2%, or Ps 14.5 billion increase in banking fees, a Ps 8.2 billion increase in trust activities fees and a 19.2%, or Ps 13.7 billion increase in expenses from commissions and fees.

The increase in banking fees is explained by a Ps 9.7 billion increase in commissions from debit and credit cards and a Ps 6.7 billion increase in banking services.

The Ps 13.7 billion increase in expenses from commissions and fees was manly driven by a Ps 25.8 billion increase in other fee expenses that was due to a change in presentation of some expenses associated with credit cards that in 2018 were classified as other expenses and are now classified as commissions and fee expenses. Partially offsetting the above, was Ps 7.3 billion decrease in commissions from banking services and a Ps 4.2 billion decrease in banking guarantees.

[14] Measured as impairment loss on loans and other accounts receivable divided by the average balance of gross loans.
[15] Measured as impairment loss on loans and other accounts receivable, net of recoveries of charged-off assets divided by the average balance of gross loans.

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Gross loss from sales of goods and services

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Income from sales of goods and services	223.6	175.8	47.7	27.1
Costs and expenses of sales of goods and services	(305.9)	(242.9)	(62.9)	25.9
Gross loss from sales of goods and services	**(82.3)**	**(67.1)**	**(15.2)**	**22.6**

Gross loss from sales of goods and services increased 22.6%, or Ps 15.2 billion to a gross loss of Ps 82.3 billion in 2019 from a gross loss of Ps 67.1 billion in 2018.

Income from sales of goods and services increased 27.1%, or Ps 47.7 billion to Ps 223.6 billion in 2019 from Ps 175.8 billion in 2018. This reflects rising revenues from third-party contact center services and business-processing outsourcing in Nexa BPO.

Costs and expenses of sales of goods and services increased Ps 62.9 billion to Ps 305.9 billion in 2019 from Ps 242.9 billion in 2018, explained by a Ps 57.2 billion increase in personnel expenses in Nexa BPO due to the increase in employees required to serve the rising revenues from third-party clients and Banco de Occidente's migration from third-party providers to Nexa BPO.

The gross loss from sales of goods and services is normal as the subsidiary provides services to Banco de Occidente and its subsidiaries, and thus has part of its income eliminated in the consolidation process.

Net trading income

During 2019, the bank's net trading income[16] was Ps 117.0 billion, Ps 12.3 billion higher than the Ps 104.8 billion in 2018.

Net trading income from investment securities at FVTPL increased Ps 88.0 billion to Ps 124.1 billion in 2019 as the bank benefited from positive global financial fixed income markets during the year. Net trading income from derivatives decreased Ps 75.8 billion to a loss of Ps 7.0 billion in 2019 from a gain of Ps 68.7 billion in 2018.

Total income from investment securities

Banco de Occidente's securities portfolio is classified in the following categories: (i) equity and fixed income investments at FVTPL (described in this section as net trading income in investment securities at FVTPL), (ii) fixed income investments at FVOCI and (iii) fixed income investments at AC (results from (ii) and (iii) are included in the net interest income section as interest income on investments in debt securities). Banco de Occidente manages its investment portfolio in a comprehensive and integral manner that considers individual return of each one of these three categories and the total return of the investment securities portfolio.

Total income from investment securities for the bank (comprised of interest income on investments in debt securities and net trading income in investment securities at FVTPL) was Ps 300.3 billion for 2019, 21.3% or Ps 52.7 billion higher than the Ps 247.7 billion registered during 2018. This was primarily driven by the average yield on investment securities increased to 4.8% in 2019 from 4.2% in 2018, generating a Ps 29.5 billion increase in interest income. The additional Ps 23.1 billion increase in interest income from investment securities was driven by a Ps 486.8 billion increase in the average balance of total investment securities to Ps 6,317.0 billion in 2019 from Ps 5,830.2 billion in 2018. Global fixed income and equity markets posted strong gains that translated into higher returns on Banco de Occidente's investment portfolios.

[16] Includes (i) net trading income from investment securities at FVTPL, which reflects the interest and gains/losses from mark-to-market valuation, in each case from equity and fixed income investment securities at FVTPL, and (ii) net trading income from derivatives, which reflects the gains/losses from mark-to-market valuation on derivatives which are not part of qualifying hedge relationships.

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Other income

	Year ended December 31, 2019	2018	Change, 2019 vs. 2018 #	%
	(in Ps billions)			
Foreign exchange gains (losses), net	56.4	(10.7)	67.1	(627.4)
Share of profit of equity accounted investees, net of tax (Equity method)	250.8	182.8	68.0	37.2
Net gain on sale of debt and equity securities	33.7	10.5	23.2	222.3
Dividends	2.4	2.7	(0.3)	(12.7)
Gain (loss) on the sale of non-current assets held for sale	1.9	0.4	1.4	330.6
Gain on sale of property, plant and equipment	5.6	7.8	(2.2)	(28.6)
Net gain in asset valuation	8.9	(2.7)	11.6	(435.0)
Other	44.2	61.1	(16.9)	(27.6)
Other income	**404.0**	**252.0**	**152.0**	**60.3**

Other income increased Ps 152.0 billion or 60.3% mainly driven by (i) a Ps 68.0 billion increase in the equity method investees, a Ps 67.1 billion increase in foreign exchange gains (losses), net, (ii) a Ps 23.2 billion increase in gain on sales of debt and equity securities, net, and (iii) a Ps 11.6 billion increase in gains on valuation of assets, net. These were partially offset by a Ps 16.9 billion decrease in other income.

The Ps 68.0 billion or 37.2% increase in the equity method investees is primarily explained by an increase in equity method from Porvenir, as the pension fund's results for the year improved by 58.2% in 2019 as compared to 2018. This was partially offset by a 5.5% decrease in Corficolombiana's results for the year (for further details see Corficolombiana's MD&A).

The Ps 23.2 billion increase in net gain on sale of debt and equity securities was a result of positive prevailing market conditions during most part of 2019 that enabled Banco de Occidente's realization of gains on a portion of its fixed income portfolio.

Other decreased by Ps 19.1 billion mainly due to lower results from PILA ("*Planilla Integrada de Liquidación de Aportes*") processing services through the bank's network and through affiliate channels.

Other expenses

	Year ended December 31, 2019	2018	Change, 2019 vs. 2018 #	%
	(in Ps billions)			
Losses from sales of noncurrent assets held for sale	(0.0)	(0.0)	(0.0)	N.A.
Personnel expenses	(480.4)	(506.2)	25.8	(5.1)
Administrative and other expenses	(726.0)	(699.7)	(26.3)	3.8
Depreciation and amortization	(107.7)	(77.2)	(30.5)	39.5
Impairment loss on other assets	(6.1)	(0.1)	(6.0)	N.A.
Other	(7.6)	(32.1)	24.5	(76.4)
Other expenses	**(1,327.7)**	**(1,315.2)**	**(12.5)**	**1.0**

Other expenses increased by 1.0%, or Ps 12.5 billion to Ps 1,327.7 billion in 2019 as compared to 2018, mainly driven by an increase of 39.5% or Ps 30.5 billion in depreciation and amortization expenses, a Ps 26.3 billion increase in administrative and other expenses, and a Ps 6.0 billion in impairment loss on other assets. Partially offsetting these increases, there was a Ps 25.8 billion decrease in personnel expenses, and a Ps 24.5 billion or 76.4% decrease in other expenses.

The Ps 30.5 billion increase in depreciation and amortization is mainly explained by the adoption of IFRS 16 in 2019, which changed the accounting methodology for leases. As a result, some rent expenses previously accounted under administrative expenses are now accounted under depreciation and amortization expense. Depreciation and amortization expenses for right-of-use in 2019 were Ps 34.8 billion.

Administrative and other expenses increased by Ps 26.3 billion to Ps 726.0 billion in 2019 from Ps 699.7 billion in 2018, mainly explained by (i) a Ps 54.2 billion increase in taxes and surcharges due to a Ps 45.2 billion non-income tax expense incurred in order to increase the fiscal cost of certain fixed assets, which will enable the bank to sell them in the future with a lower income tax expense, (ii) a Ps 17.5 billion increase in maintenance and repairs expenses associated with a Ps 18.0 billion reclassification of IT expenses as per corporate guidelines, (iii) a Ps 15.5 billion increase in contributions and affiliations, and (iv) a Ps 11.3 billion in other associated with a Ps 16.1 billion reclassification of IT expenses as per corporate guidelines. These increases were offset in part by a Ps 67.0 billion decrease in rent expenses associated with a Ps 35.4 billion reclassification of IT expenses as per corporate guidelines and to the adoption of IFRS 16 in 2019.

The Ps 25.8 billion decrease in personnel expenses is mainly explained by a Ps 29.6 billion decrease in labor severances related to a headcount optimization project executed throughout 2018. Partially offsetting the decrease, salaries and employee benefits remained materially flat with a 0.6% or Ps 2.9 billion increase.

Other decreased by Ps 24.5 billion due to a Ps 25.0 billion decrease in Banco de Occidente's provisions related to contingent loans (e.g., loan commitments, financial guarantees and unused credit card balances) measured by expected credit loss (ECL).

Given that Banco de Occidente's other expenses increased by 1.0% and its income increased by 3.4%, its efficiency ratio[17] improved to 49.6% for 2019 from 50.8% for 2018. The ratio of other expenses as a percentage of average assets improved by 21 basis points to 3.3% for 2019 from 3.5% for 2018.

Income tax expense

Income tax expense for Banco de Occidente increased by Ps 96.6 billion, to a Ps 61.1 billion tax expense for the year ended December 31, 2019 from a Ps 35.5 billion tax recovery for the year ended December 31, 2018.

The increase in income tax expense can be explained mainly by (i) a Ps 180.6 billion, or 92.5%, increase in net income before taxes[18], (ii) a low comparison base of income tax expense in 2018 due to a Ps 43.7 billion in current tax recoveries for prior periods and a Ps 24.2 billion deferred tax adjustment from previous periods. Partially offsetting the above, there was (i) a Ps 61.4 billion deferred and current income tax recovery associated with the increase of the fiscal cost of certain fixed assets as described above and (ii) a decrease in the statutory corporate income tax rate to 33% in 2019 as compared to 37% in 2018.

Banco de Occidente's effective tax rate[19] increased to 16.3% for the year ended December 31, 2019 from (18.2)% for the year ended December 31, 2018.

Net income attributable to non-controlling interest

Banco de Occidente's net income attributable to non-controlling interest increased by Ps 1.8 billion for 2019 as compared to 2018. The increase is primarily attributable to higher net income from Nexa BPO. Net income attributable to non-controlling interest is not a significant contributor to net income for Banco de Occidente, and is responsible for only 0.8% of net income for the year ended December 31, 2019.

[17] Calculated as other expenses divided by the sum of net interest income, net income from commissions and fees, gross loss from sales of goods and services, net trading income and other income.
[18] Net income before income tax expense minus equity method, minus dividends.
[19] Calculated as income tax expense divided by income before income tax expense excluding dividends and the equity method, as both are non-taxable income.

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Banco Popular

Net income

	Banco Popular Consolidated			
	For the year ended December 31,		Change 2019 vs 2018	
	2019	2018	#	%
	(in Ps billions)			
Total interest income	2,310.5	2,196.6	113.9	5.2
Total interest expense	(880.1)	(850.7)	(29.3)	3.4
Net interest income	**1,430.4**	**1,345.9**	**84.5**	**6.3**
Impairment loss on loans and other accounts receivable	(350.3)	(186.6)	(163.7)	87.7
Impairment (loss) recovery on other financial assets	(0.6)	0.9	(1.5)	(170.9)
Recovery of charged-off financial assets	31.4	28.8	2.6	9.1
Net impairment loss on financial assets	**(319.5)**	**(157.0)**	**(162.6)**	**103.6**
Net income from commissions and fees	201.2	163.0	38.2	23.4
Gross loss from sales of goods and services	—	(1.8)	1.8	(100.0)
Net trading income	24.9	22.1	2.7	12.3
Other income	155.4	183.4	(27.9)	(15.2)
Other expenses	(1,137.7)	(1,047.7)	(90.0)	8.6
Income before income tax expense	**354.7**	**507.9**	**(153.2)**	**(30.2)**
Income tax expense	(52.5)	(152.9)	100.4	(65.6)
Net income for the year	**302.1**	**355.0**	**(52.8)**	**(14.9)**
Net income for the year attributable to:				
Owners of the parent	**301.3**	**343.3**	**(42.1)**	**(12.3)**
Non-controlling interest	**0.9**	**11.7**	**(10.8)**	**(92.6)**

Banco Popular's net income attributable to owners of the parent decreased by 12.3%, or Ps 42.1 billion, to Ps 301.3 billion in 2019 as compared to Ps 343.3 billion in 2018. This decrease is attributable to a Ps 162.6 billion increase in net impairment loss on financial assets, a Ps 90.0 billion increase in other expenses, and a Ps 27.9 billion decrease in other income. Partially offsetting the above was a Ps 84.5 billion increase in net interest income, a Ps 38.2 billion increase in net income from commissions and fees, a Ps 2.7 billion increase in net trading income, a Ps 1.8 billion increase in income from sales of goods and services, and a Ps 100.4 billion decrease in income tax expense.

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Net interest income

	Year ended December 31, 2019	2018	Change, 2019 vs. 2018 #	%
	(in Ps billions)			
Interest income using the effective interest method:				
Commercial loans	473.4	517.6	(44.2)	(8.5)
Consumer loans	1,620.0	1,485.9	134.1	9.0
Mortgage loans	74.2	62.7	11.5	18.4
Microcredit loans	1.0	0.6	0.3	55.0
Interbank and overnight funds	9.2	1.7	7.5	433.2
Interest on loan portfolio	**2,177.7**	**2,068.5**	**109.3**	**5.3**
Interest on investments in debt securities	**132.8**	**128.2**	**4.6**	**3.6**
Total interest income	**2,310.5**	**2,196.6**	**113.9**	**5.2**
Interest expense:				
Checking accounts	(0.8)	(0.6)	(0.2)	25.3
Time deposits	(399.8)	(376.6)	(23.2)	6.2
Savings deposits	(307.9)	(319.3)	11.4	(3.6)
Total interest expense on deposits	**(708.5)**	**(696.5)**	**(12.0)**	**1.7**
Interbank borrowings and overnight funds	(26.0)	(29.1)	3.1	(10.7)
Borrowings from banks and others	(19.1)	(8.2)	(10.9)	132.7
Bonds issued	(118.4)	(109.3)	(9.0)	8.3
Borrowings from development entities	(8.1)	(7.5)	(0.6)	7.4
Total interest expense	**(880.1)**	**(850.7)**	**(29.3)**	**3.4**
Net interest income	**1,430.4**	**1,345.9**	**84.5**	**6.3**

Banco Popular's net interest income increased by 6.3%, or Ps 84.5 billion, to Ps 1,430.4 billion in 2019 while its average total interest earning assets increased by 6.3%, or Ps 1,322.5 billion, to Ps 22,378.2 billion in 2019. This resulted in a stable net interest margin of 6.4% both in 2019 and 2018. The average spread between the average yield on gross loans and the average rate paid on deposits increased by 11 basis points to 6.8% from 6.7% over the same period.

The following table shows the impact on interest income on interest-earning assets derived from changes in the average balance and the average yield per type of interest-earning asset. Interbank and overnight funds are shown separate from gross loans due to their characteristics and short-term nature.

	Average balance for the years ended December 31, 2019	2018	Change, 2019 vs. 2018 #	%	Average yield for the years ended December 31, 2019	2018	Impact on interest income due to changes in Balance	Yield	Total
	(in Ps billions)						(in Ps billions)		
Commercial loans	7,212.9	7,550.1	(337.3)	(4.5)	6.6%	6.9%	(22.1)	(22.0)	(44.2)
Consumer loans	11,446.6	10,168.6	1,278.0	12.6	14.2%	14.6%	180.9	(46.8)	134.1
Mortgage loans	876.6	736.3	140.3	19.1	8.5%	8.5%	11.9	(0.3)	11.5
Microcredit loans	5.8	6.8	(1.0)	(15.2)	16.5%	9.0%	(0.2)	0.5	0.3
Gross loans	**19,541.8**	**18,461.9**	**1,079.9**	**5.8**	**11.1%**	**11.2%**	**119.8**	**(18.0)**	**101.8**
Interbank and overnight funds	155.5	27.3	128.2	469.8	5.9%	6.3%	7.6	(0.1)	7.5
Total gross loans	**19,697.3**	**18,489.2**	**1,208.2**	**6.5**	**11.1%**	**11.2%**	**133.6**	**(24.3)**	**109.3**
Interest on investments in debt securities	2,680.9	2,566.5	114.3	4.5	5.0%	5.0%	5.7	(1.1)	4.6
Total interest-earning assets	**22,378.2**	**21,055.7**	**1,322.5**	**6.3**	**10.3%**	**10.4%**	**136.5**	**(22.7)**	**113.9**

Banco Popular's average yield on gross loans moved in tandem with the 10 basis points decrease in the average Central Bank rate to 4.25% in 2019 from 4.35% in 2018. Interest rates for loans across the banking system were increasingly competitive, particularly during the second half of the year, as the improvement in credit quality was priced into new originations, especially in consumer loans. However, the change in mix towards consumer and mortgage loans helped the bank mitigate the yield reduction across all loans, as they have higher interest rates than commercial loans.

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The following table shows the impact on interest expense derived from changes in the average balance and the average rate paid per type of interest-bearing funding.

	Average balance for the years ended December 31,		Change, 2019 vs. 2018		Average rate paid for the years ended December 31,		Impact on interest expense due to changes in		
	2019	2018	#	%	2019	2018	Balance	Rate	Total
	(in Ps billions)						(in Ps billions)		
Checking accounts	77.8	1.0	76.9	7,767.7	1.0%	60.6%	(0.7)	0.6	(0.2)
Time deposits	7,475.8	6,460.1	1,015.7	15.7	5.3%	5.8%	(54.3)	31.1	(23.2)
Savings accounts	9,122.7	9,178.0	(55.2)	(0.6)	3.4%	3.5%	1.9	9.5	11.4
Total deposits	**16,676.4**	**15,639.1**	**1,037.3**	**6.6**	**4.2%**	**4.5%**	**(44.1)**	**32.1**	**(12.0)**
Interbank borrowings and overnight funds	705.7	875.0	(169.3)	(19.4)	3.7%	3.3%	6.2	(3.1)	3.1
Borrowings from banks and others	388.1	241.1	147.1	61.0	4.9%	3.4%	(7.3)	(3.7)	(10.9)
Bonds issued	1,762.9	1,635.4	127.6	7.8	6.7%	6.7%	(8.6)	(0.5)	(9.0)
Borrowings from development entities	301.4	223.0	78.3	35.1	2.7%	3.4%	(2.1)	1.5	(0.6)
Other funding	**3,158.1**	**2,974.5**	**183.7**	**6.2**	**5.4%**	**5.2%**	**(10.0)**	**(7.4)**	**(17.4)**
Total funding	**19,834.5**	**18,613.5**	**1,221.0**	**6.6**	**4.4%**	**4.6%**	**(54.2)**	**24.8**	**(29.3)**

The average rate paid on interest-bearing deposits decreased, as the bank managed to shift their time deposits to lower interest rates in the mid-market and to the repricing of savings accounts in tandem with the Central Bank rate. In contrast, the average rate paid on other funding increased due to a shift in mix towards borrowings from banks and others, which is mainly explained by the lease liabilities arising as a result of the adoption of IFRS 16. These liabilities have longer maturities and higher average interest rates than the existing average borrowings from banks and others in 2018.

Net impairment loss on financial assets

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Impairment loss on loans and other accounts receivable	(350.3)	(186.6)	(163.7)	87.7
Impairment (loss) recovery on other financial assets	(0.6)	0.9	(1.5)	(170.9)
Recovery of charged-off financial assets	31.4	28.8	2.6	9.1
Net impairment loss on financial assets	**(319.5)**	**(157.0)**	**(162.6)**	**103.6**

The following table shows the delinquency ratios for each of Banco Popular's gross loans:

	Year ended December 31,				Change, 2019 vs. 2018	
	2019		2018		Loans at least 91 days past due	Delinquency Ratio
	Loans at least 91 days past due	Delinquency Ratio(1)	Loans at least 91 days past due	Delinquency Ratio(1)	#	%
	(in Ps billions)					
Commercial loans	211.7	2.9%	187.7	2.5%	24.0	0.4
Consumer loans	377.1	3.2%	296.9	2.7%	80.1	0.4
Mortgage loans	25.2	2.6%	18.8	2.3%	6.4	0.3
Microcredit loans	0.4	7.8%	1.0	15.4%	(0.6)	(7.5)
Gross loans	**614.4**	**3.0%**	**504.4**	**2.6%**	**110.0**	**0.4**

(1) Calculated as loans past due more than 90 days divided by gross loans.

Net impairment loss on financial assets increased by Ps 162.6 billion, or 103.6% in 2019 as compared to 2018. This increase was primarily driven by a Ps 163.7 billion increase in impairment loss on loans and other accounts receivable (mainly in the commercial and consumer loan portfolios) and a Ps 1.5 billion decrease in impairment (loss) recovery on other financial assets. A Ps 2.6 billion increase in recoveries of charged-off financial assets slightly compensated such effects. For more information on loss allowance calculations under IFRS 9, please refer to Note 4 of our audited consolidated financial statements.

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The Ps 163.7 billion increase in impairment loss on loans and other accounts receivable was driven by a Ps 85.7 billion increase in impairment loss on consumer loans and a Ps 85.3 billion increase in impairment loss on commercial loans. The increase in impairment loss on consumer loans was mainly driven by (i) a 10.5% increase in the end of period balance for 2019 and (ii) stronger coverage ratio explained by upwards updates in the bank's loss given default (LGD) and probability of default (PD) parameters for payroll loans. As a result, coverage ratios for consumer loans classified as Stage 2 and Stage 3 increased to 61.4% in 2019 from 44.9% in 2018.

The increase in impairment loss on commercial loans was mainly driven by coverage ratio increases for specific Stage 3 clients, in which CRDS was the most relevant with its coverage increasing to 100.0% in 2019, up from 44.8% as of January 31, 2019 (after the second partial payment made by the Colombian government on January 10, 2019) and 31.2% as of December 31, 2018. The deterioration in delinquency of commercial loans was driven by this loan, which as of December 31, 2019 was past due more than 90 days with a Ps 113.3 billion total exposure. This loan was classified as Stage 3 both at December 31, 2019 and 2018.

The bank's cost of risk[20] deteriorated 78 basis points to 1.8% for 2019 from 1.0% for 2018. The bank's cost of risk net of recoveries of charged-off financial assets[21] deteriorated to 1.6% in 2019 from 0.9% in 2018. The increase of impairment losses for the aforementioned consumer and commercial loans accounted for most of the increase on both the cost of risk and the cost of risk net of recoveries of charged-off financial asset.

Charge-offs increased by Ps 56.6 billion to Ps 225.6 billion for the year ended December 31, 2019 from Ps 169.0 billion for the year ended December 31, 2018. Charge-offs for commercial loans increased by Ps 93.3 billion and decreased by Ps 37.7 billion for consumer loans. The ratio of charge-offs to average loans increased to 1.2% in 2019 from 0.9% in 2018.

Allowance for impairment loss of loans increased Ps 210.7 billion to Ps 991.3 billion as of December 31, 2019 from Ps 780.6 billion as of December 31, 2018. Banco Popular's coverage ratio of its loans past due more than 90 days was 161.3% and 154.8% at the same dates. Quality as measured by loans classified as Stage 2 and Stage 3 over gross loans improved to 6.5% from 7.5% and coverage ratio for these loans increased to 57.8% from 42.3% between the same dates.

Net income from commissions and fees

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Banking fees	177.1	168.8	8.2	4.9
Bonded warehouse services	65.6	59.2	6.4	10.9
Trust activities and portfolio management services	22.0	22.3	(0.3)	(1.5)
Pension and severance fund management	2.2	2.1	0.1	4.4
Income from commissions and fees	**266.9**	**252.5**	**14.4**	**5.7**
Expenses from commissions and fees	(65.7)	(89.5)	23.8	(26.6)
Net income from commissions and fees	**201.2**	**163.0**	**38.2**	**23.4**

Net income from commissions and fees increased by 23.4%, or Ps 38.2 billion, to Ps 201.2 billion in 2019 as compared to 2018, mainly explained by a Ps 23.8 billion decrease in expenses from commissions and fees, a Ps 8.2 billion increase in banking fees, and a Ps 6.4 billion increase in bonded warehouse services.

The Ps 23.8 billion decrease in expenses from commissions and fees was driven by a Ps 14.8 billion decrease in other fees paid and a Ps 7.4 billion decrease in banking fees paid. The decrease in other fees is mainly explained by a change in presentation of expenses paid to Nexa BPO's for call-center services that in 2018 were classified as commissions and fee expenses and are now classified as administrative and other expenses, amounting to Ps 15.3 billion.

[20] Measured as impairment loss on loans and other accounts receivable divided by the average balance of gross loans.
[21] Measured as impairment loss on loans and other accounts receivable, net of recoveries of charged-off assets divided by the average balance of gross loans.

The Ps 8.2 billion increase in banking fees was driven by a Ps 4.7 billion increase in banking services fees and a Ps 3.6 billion increase in debit and credit card fees.

Gross loss from sales of goods and services

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Income from sales of goods and services	—	12.1	(12.1)	(100.0)
Costs and expenses of sales of goods and services	—	(14.0)	14.0	(100.0)
Gross loss from sales of goods and services	**—**	**(1.8)**	**1.8**	**(100.0)**

Gross loss from sales of goods and services decreased Ps 1.8 billion to Ps 0 from a loss of Ps 1.8 billion in 2018. The change in income and costs of sales of goods and services as both of Banco Popular's non-financial subsidiaries were liquidated during 2019, Inca in early 2019 and Alpopular Cargo S.A.S. during the last quarter of 2019.

Net trading income

During 2019, Banco Popular's net trading income[22] came in at Ps 24.9 billion, 12.3%, or Ps 2.7 billion higher than the Ps 22.1 billion obtained in 2018. This increase was driven by a Ps 5.5 billion increase in net trading income from investment securities at FVTPL to Ps 19.3 billion in 2019, partially offset by a Ps 2.8 billion decrease in net trading income from derivatives to Ps 5.6 billion in 2019. The result in net trading income from investment securities at FVTPL benefited from positive global financial fixed income markets during the year.

Total income from investment securities

Banco Popular's securities portfolio is classified in the following categories: (i) equity and fixed income investments at FVTPL (described in this section as net trading income in investment securities at FVTPL), (ii) fixed income investments at FVOCI and (iii) fixed income investments at AC (results from (ii) and (iii) are included in the net interest income section as interest income on investments in debt securities). Banco Popular manages its investment portfolio in a comprehensive and integral manner that considers individual return of each one of these three categories and the total return of the investment securities portfolio.

Total income from investment securities for the bank (comprised of income on investments in debt securities and net trading income from investment securities at FVTPL) was Ps 152.0 billion for 2019, Ps 10.1 billion higher than in 2018. This was primarily driven by a 6.1% or Ps 169.2 billion increase of the average balance of total investment securities, resulting in a Ps 8.7 billion increase in interest income. The average yield of total investment securities increased by 5 basis points to 5.1% in 2019, resulting in a Ps 1.4 billion increase in interest income. Global fixed income and equity markets posted strong gains that translated into higher returns on Banco Popular's investment portfolios.

[22] Includes (i) net trading income from investment securities at FVTPL, which reflects the interest and gains/losses from mark-to-market valuation, in each case from equity and fixed income investment securities FVTPL, and (ii) net trading income from derivatives, which reflects the gains/losses from mark-to-market valuation on derivatives which are not part of qualifying hedge relationships.

Other income

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Foreign exchange gains (losses), net	0.3	1.3	(1.1)	(80.0)
Share of profit of equity accounted investees, net of tax (Equity method)	78.6	60.4	18.2	30.1
Net gain on sale of debt and equity securities	30.7	(0.0)	30.7	N.A.
Dividends	4.1	11.7	(7.6)	(65.0)
Gain (loss) on the sale of non-current assets held for sale	0.0	—	0.0	N.A.
Gain on sale of property, plant and equipment	11.0	67.3	(56.3)	(83.7)
Net gain in asset valuation	0.6	8.2	(7.5)	(92.3)
Other	30.1	34.5	(4.4)	(12.7)
Other income	**155.4**	**183.4**	**(27.9)**	**(15.2)**

The Ps 56.3 billion decrease in gain on sale of property, plant and equipment is explained by higher income recorded in 2018 resulting from gains in transactions associated with PP&E structure optimizations of Ps 60.4 billion.

The increase in equity method and the decrease in dividend income are related to the recognition of Corficolombiana as an associate investment in October 2018 (formerly an available for sale financial asset); Banco Popular became a member of Corficolombiana's Board of Director in October 2018, therefore, it started recognizing Corficolombiana's net income via the equity method during the last quarter of 2018 but also recognized dividends corresponding to the 2017 period. Thus, the increase in equity method is a result of the recognition of a full year in 2019 as compared to only a quarter in 2018, and the decrease in dividend income is a result of Banco Popular no longer recognizing dividend income through its statement of income.

Net gain on sales of debt and equity securities increased by Ps 30.7 billion associated with the realization of gains on fixed income investments at FVOCI. Given that prevailing market conditions during most part of 2019 were positive, Banco Popular decided to realize gains on a portion of its fixed income portfolio.

Other expenses

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Losses from sales of noncurrent assets held for sale	—	(0.2)	0.2	(100.0)
Personnel expenses	(402.1)	(415.1)	13.0	(3.1)
Administrative and other expenses	(640.2)	(564.3)	(75.9)	13.4
Depreciation and amortization	(82.0)	(50.8)	(31.2)	61.4
Impairment loss on other assets	(0.5)	(0.0)	(0.5)	N.A.
Other	(12.9)	(17.2)	4.3	(25.2)
Other expenses	**(1,137.7)**	**(1,047.7)**	**(90.0)**	**8.6**

Other expenses for the year ended December 31, 2019 increased by 8.6%, or Ps 90.0 billion, to Ps 1,137.7 billion in 2019 mainly driven by a Ps 75.9 billion increase in administrative and other expenses and a Ps 31.2 billion increase in depreciation and amortization. These were compensated in part by a Ps 13.0 billion decrease in personnel expenses and a Ps 4.3 billion decrease in other.

The Ps 75.9 billion increase in administrative and other expenses is explained by (i) a Ps 25.7 billion increase in other specialized outsourcing (ii) a Ps 25.0 billion increase in taxes and surcharges due to a Ps 13.9 billion non-income tax expense incurred in order to increase the fiscal cost of certain fixed assets, which will enable the bank to sell them in the future with a lower income tax expense, (iii) a Ps 14.1 billion increase in call-center outsourcing driven by the change in presentation of expenses paid to Nexa BPO's call center services that in 2018 were classified as commissions and fee expenses and are now classified as administrative and other expenses; and (iv) a Ps 9.7 billion increase in fees, which include consulting and legal fees among others. These increases were partially offset by a Ps 20.1 billion decrease in rent expenses associated with the adoption of IFRS 16 in 2019.

The Ps 31.2 billion increase in depreciation and amortization was mainly due to the adoption of IFRS 16 in 2019, which changed the accounting methodology for leases. As a result, some rent expenses previously accounted under administrative expenses are now accounted under depreciation and amortization expense. Depreciation and amortization expenses for right-of-use in 2019 were Ps 21.4 billion.

The decrease in personnel expenses was mainly driven by a Ps 27.9 billion decrease in bonus plan payments related to a headcount optimization plan executed in 2018, that was partially offset by a Ps 10.4 billion increase in salaries and employee benefits and a Ps 4.5 billion increase in labor severances. The 2.9% increase in salaries and employee benefits compares favorably to the 3.18% inflation rate for 2018.

Given that Banco Popular's other expenses increased by 8.6% and its income increased by 5.8%, its efficiency ratio[23] deteriorated to 62.8% in 2019 from 61.2% in 2018. The ratio of other expenses as a percentage of average assets deteriorated by 9 basis points to 4.5% in 2019.

Income tax expense

Income tax expense for Banco Popular decreased by Ps 100.4 billion, or 65.6%, to Ps 52.5 billion for the year ended December 31, 2019, primarily due to (i) a Ps 163.8 billion decrease in net income before taxes[24], (ii) a Ps 24.9 billion deferred and current income tax recovery associated with the increase of the fiscal cost of certain fixed assets described above, and (iii) a decrease in the statutory corporate income tax rate to 33% in 2019 as compared to 37% in 2018. Banco Popular's effective tax rate[25] decreased to 19.3% for the year ended December 31, 2019 from 35.1% for the year ended December 31, 2018.

Net income attributable to non-controlling interest

Net income attributable to non-controlling interest decreased by Ps 10.8 billion to Ps 0.9 billion for the year ended December 31, 2019. The decrease in net income attributable to non-controlling interest was driven by lower income from Alpopular in 2019 as compared to 2018. Banco Popular recognizes a non-controlling interest of 28.9% in this subsidiary. Net income attributable to non-controlling interest is not a significant contributor to net income for Banco Popular, and is responsible for only 0.3% of net income for the year ended December 31, 2019.

[23] Calculated as other expenses divided by the sum of net interest income, net income from commissions and fees, gross loss from sales of goods and services, net trading income and other income.
[24] Net income before income tax expense minus equity method, minus dividends.
[25] Calculated as income tax expense divided by income before income tax expense excluding dividends and the equity method, as both are non-taxable income.

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Banco AV Villas

Net income

	For the year ended December 31,		Change 2019 vs 2018	
	2019	2018	#	%
	(in Ps billions)			
Total interest income	1,464.4	1,384.7	79.7	5.8
Total interest expense	(421.0)	(370.0)	(51.0)	13.8
Net interest income	**1,043.4**	**1,014.7**	**28.7**	**2.8**
Impairment loss on loans and other accounts receivable	(269.3)	(297.3)	28.0	(9.4)
Impairment (loss) recovery on other financial assets	(0.4)	0.3	(0.7)	(233.1)
Recovery of charged-off financial assets	47.2	48.8	(1.6)	(3.3)
Net impairment loss on financial assets	**(222.4)**	**(248.2)**	**25.7**	**(10.4)**
Net income from commissions and fees	163.0	174.0	(11.0)	(6.3)
Net trading income	16.6	13.2	3.4	25.6
Other income	41.9	44.6	(2.7)	(6.0)
Other expenses	(700.4)	(680.6)	(19.8)	2.9
Income before income tax expense	**342.0**	**317.8**	**24.3**	**7.6**
Income tax expense	(105.4)	(101.3)	(4.1)	4.0
Net income for the year	**236.6**	**216.5**	**20.2**	**9.3**
Net income for the year attributable to:				
Owners of the parent	**236.0**	**215.8**	**20.2**	**9.4**
Non-controlling interest	**0.6**	**0.7**	**(0.1)**	**(11.7)**

Banco AV Villas' net income attributable to owners of the parent increased by 9.4%, or Ps 20.2 billion, to Ps 236.0 billion for the year ended December 31, 2019 as compared to Ps 215.8 billion for the year ended December 31, 2018. This increase was driven by a Ps 28.7 billion increase in net interest income, a Ps 25.7 billion decrease in net impairment loss on financial assets, and a Ps 3.4 billion increase in net trading income. Partially offsetting these increases, was a Ps 19.8 billion increase in other expenses, a Ps 11.0 billion decrease in net income from commissions and fees, a Ps 4.1 billion increase in income tax expense, and a Ps 2.7 billion decrease in other income.

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Net interest income

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Interest income using the effective interest method:				
Commercial loans	210.6	217.4	(6.8)	(3.1)
Consumer loans	965.0	917.7	47.4	5.2
Mortgage loans	227.3	203.9	23.4	11.5
Microcredit loans	0.2	0.2	(0.0)	(20.2)
Interbank and overnight funds	4.1	2.8	1.3	46.7
Interest on loan portfolio	**1,407.2**	**1,342.0**	**65.2**	**4.9**
Interest on investments in debt securities	**57.2**	**42.8**	**14.5**	**33.9**
Total interest income	**1,464.4**	**1,384.7**	**79.7**	**5.8**
Interest expense:				
Checking accounts	(0.9)	(0.9)	(0.0)	3.8
Time deposits	(238.8)	(233.8)	(5.0)	2.1
Savings deposits	(122.1)	(104.9)	(17.3)	16.5
Total interest expense on deposits	**(361.8)**	**(339.5)**	**(22.3)**	**6.6**
Interbank borrowings and overnight funds	(42.8)	(25.6)	(17.1)	66.9
Borrowings from banks and others	(16.3)	(4.7)	(11.5)	244.1
Borrowings from development entities	(0.2)	(0.1)	(0.0)	18.1
Total interest expense	**(421.0)**	**(370.0)**	**(51.0)**	**13.8**
Net interest income	**1,043.4**	**1,014.7**	**28.7**	**2.8**

Banco AV Villas' net interest income increased by 2.8%, or Ps 28.7 billion, to Ps 1,043.4 billion in 2019 from Ps 1,014.7 billion in 2018 while its average total interest earning assets increased by 12.2%, or Ps 1,450.8 billion, to Ps 13,324.0 billion in 2019. This resulted in a 72 basis points decrease in the net interest margin to 7.8% in 2019 from 8.5% in 2018. The average spread between the average rate on gross loans and the average rate paid on deposits decreased by 55 basis points to 8.5% from 9.0% over the same period.

The following table shows the impact on interest income on interest-earning assets derived from changes in the average balance and the average yield per type of interest-earning asset. Interbank and overnight funds are shown separate from gross loans due to their characteristics and short-term nature.

	Average balance for the years ended December 31,		Change, 2019 vs. 2018		Average yield for the years ended December 31,		Impact on interest income due to changes in		
	2019	2018	#	%	2019	2018	Balance	Yield	Total
	(in Ps billions)						(in Ps billions)		
Commercial loans	2,941.6	2,753.8	187.8	6.8	7.2%	7.9%	13.4	(20.3)	(6.8)
Consumer loans	6,519.0	5,853.3	665.7	11.4	14.8%	15.7%	98.5	(51.2)	47.4
Mortgage loans	2,341.6	2,075.3	266.3	12.8	9.7%	9.8%	25.8	(2.5)	23.4
Microcredit loans	0.9	1.1	(0.2)	(20.6)	20.4%	20.4%	(0.0)	0.0	(0.0)
Gross loans	**11,803.0**	**10,683.5**	**1,119.5**	**10.5**	**11.9%**	**12.5%**	**133.1**	**(69.2)**	**63.9**
Interbank and overnight funds	128.5	152.2	(23.7)	(15.6)	3.2%	1.8%	(0.7)	2.0	1.3
Total gross loans	**11,931.5**	**10,835.7**	**1,095.8**	**10.1**	**11.8%**	**12.4%**	**129.2**	**(64.1)**	**65.2**
Interest on investments in debt securities	1,392.5	1,037.5	355.0	34.2	4.1%	4.1%	14.6	(0.1)	14.5
Total interest-earning assets	**13,324.0**	**11,873.2**	**1,450.8**	**12.2**	**11.0%**	**11.7%**	**159.5**	**(79.8)**	**79.7**

Despite a 10 basis points decrease in the average Central Bank rate to 4.25% in 2019 from 4.35% in 2018, Banco AV Villas' average yield on gross loans decreased more than proportionally. Interest rates for loans across the banking system grew increasingly competitive, particularly during the second half of the year, as the improvement in credit quality was priced into new originations, especially in consumer loans.

The following table shows the impact on interest expense derived from changes in the average balance and the average rate paid per type of interest-bearing funding.

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	Average balance for the years ended December 31,		Change, 2019 vs. 2018		Average rate paid for the years ended December 31,		Impact on interest expense due to changes in		
	2019	2018	#	%	2019	2018	Balance	Rate	Total
	(in Ps billions)						(in Ps billions)		
Checking accounts	137.0	145.1	(8.2)	(5.6)	0.7%	0.6%	0.1	(0.1)	(0.0)
Time deposits	4,771.4	4,305.7	465.7	10.8	5.0%	5.4%	(23.3)	18.3	(5.0)
Savings accounts	5,657.4	5,180.9	476.5	9.2	2.2%	2.0%	(10.3)	(7.0)	(17.3)
Total deposits	**10,565.7**	**9,631.8**	**934.0**	**9.7**	**3.4%**	**3.5%**	**(32.0)**	**9.7**	**(22.3)**
Interbank borrowings and overnight funds	838.5	538.8	299.7	55.6	5.1%	4.8%	(15.3)	(1.9)	(17.1)
Borrowings from banks and others	304.3	180.8	123.5	68.3	5.3%	2.6%	(6.6)	(4.9)	(11.5)
Borrowings from development entities	5.3	3.3	2.0	60.2	3.3%	4.4%	(0.1)	0.0	(0.0)
Other funding	**1,148.1**	**723.0**	**425.1**	**58.8**	**5.2%**	**4.2%**	**(21.9)**	**(6.8)**	**(28.7)**
Total funding	**11,713.8**	**10,354.7**	**1,359.1**	**13.1**	**3.6%**	**3.6%**	**(48.9)**	**(2.2)**	**(51.0)**

The 13.8% or Ps 51.0 billion increase in total interest expense for Banco AV Villas was driven by an increase in the average balance of interest-bearing funding. The average rate paid on interest-bearing deposits decreased, in line with the repricing of time deposits and savings accounts in tandem with the Central Bank rate. In contrast, the average rate paid on other funding increased due to a shift in mix towards borrowings from banks and others, which is mainly explained by the lease liabilities arising as a result of the adoption of IFRS 16. These liabilities have longer maturities and higher average interest rates than the existing average borrowings from banks and others in 2018.

Net impairment loss on financial assets

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Impairment loss on loans and other accounts receivable	(269.3)	(297.3)	28.0	(9.4)
Impairment (loss) recovery on other financial assets	(0.4)	0.3	(0.7)	(233.1)
Recovery of charged-off financial assets	47.2	48.8	(1.6)	(3.3)
Net impairment loss on financial assets	**(222.4)**	**(248.2)**	**25.7**	**(10.4)**

The following table shows the delinquency ratios for each of Banco AV Villas' gross loans:

	Year ended December 31,				Change, 2019 vs. 2018	
	2019		2018		Loans at least 91 days past due	Delinquency Ratio
	Loans at least 91 days past due	Delinquency Ratio(1)	Loans at least 91 days past due	Delinquency Ratio(1)	#	%
	(in Ps billions)					
Commercial loans	126.5	4.3%	98.5	3.3%	28.1	1.0
Consumer loans	158.6	2.3%	137.9	2.2%	20.7	0.1
Mortgage loans	96.0	4.0%	85.0	3.8%	11.1	0.2
Microcredit loans	0.1	6.6%	0.0	1.0%	0.1	5.6
Gross loans	**381.3**	**3.1%**	**321.4**	**2.8%**	**59.9**	**0.3**

(1) Calculated as loans past due more than 90 days divided by gross loans.

Net impairment loss on financial assets decreased by 10.4%, or Ps 25.7 billion, in 2019 as compared to 2018. This decrease was driven by a Ps 28.0 billion decrease in impairment loss on loans and other accounts receivable, that was partially offset by a Ps 1.6 billion decrease of recoveries of charged-off financial assets and a Ps 0.7 billion increase in impairments on other financial assets. For more information on loss allowance calculations under IFRS 9, please refer to Note 4 of our audited consolidated financial statements.

The decrease in impairment loss on loans and other accounts receivable of Ps 28.0 billion was mainly driven by (i) a Ps 18.9 billion decrease in the bank's impairment loss on commercial loans due to a 0.5% contraction of the end of period

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balance between 2019 and 2018, and (ii) a Ps 17.7 billion decrease in impairment loss on mortgages due to a lower LGD, resulting from an improvement of the bank's recoverability of troubled loans. Partially offsetting these decreases was a Ps 9.3 billion increase of impairment on consumer loans driven by an 8.1% increase of end of period balance between 2019 and 2018 but was compensated by improving quality as measured by consumer loans classified as Stage 2 and Stage 3 over total consumer loans which improved to 8.9% from 11.1% between the same dates.

The bank's cost of risk[26] improved 50 basis points to 2.3% for 2019 from 2.8% in 2018. The bank's cost of risk net of recoveries of charged-off financial assets[27] improved 44 basis points to 1.9% for 2019 from 2.3% in 2018.

Charge-offs increased by Ps 38.9 billion to Ps 322.1 billion for 2019 from Ps 283.2 billion for 2018. The ratio of charge-offs to average loans remained at 2.7% for both 2019 and 2018. The increase in charge-offs was mainly driven by the Ps 35.0 billion charge-off of the complete exposure to Electricaribe during 2019.

Allowance for impairment losses of loans decreased by Ps 45.8 billion, to Ps 493.9 billion as of December 31, 2019 from Ps 539.6 billion as of December 31, 2018. As of December 31, 2019, Banco AV Villas' coverage ratio of its loans past due more than 90 days was 129.5% compared to 167.9% as of December 31, 2018. The decrease in coverage was mainly a result of the improving quality as measured by loans classified as Stage 2 and Stage 3 over gross loans which improved to 8.1% from 10.1% between the same dates; the coverage ratio for these loans was 40.0% and 35.6%, respectively.

The deterioration in delinquency of commercial loans was driven by the CRDS loan, which as of December 31, 2019 was past due more than 90 days with a Ps 50.4 billion total exposure. This loan was classified as Stage 3 both at December 31, 2019 and 2018.

Net income from commissions and fees

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Banking fees	300.2	281.8	18.5	6.6
Income from commissions and fees	**300.2**	**281.8**	**18.5**	**6.6**
Expenses from commissions and fees	(137.3)	(107.8)	(29.5)	27.4
Net income from commissions and fees	**163.0**	**174.0**	**(11.0)**	**(6.3)**

Net income from commissions and fees decreased by 6.3%, or Ps 11.0 billion, to Ps 163.0 billion in 2019 as compared to 2018 mainly driven by an increase of Ps 29.5 billion, or 27.4%, in expenses from commissions and fees to Ps 137.3 billion in 2019 that was mainly explained by the outsourcing of sales-forces during 2019. This increase was partially offset by a Ps 18.5 billion increase in commissions from banking fees, which was primarily explained by a Ps 16.3 billion increase in banking services fees and a Ps 2.9 billion increase in credit and debit card fees.

Net trading income

During 2019, Banco AV Villas' net trading income[28] increased by Ps 3.4 billion to Ps 16.6 billion in 2019 from Ps 13.2 billion in 2018, driven by a Ps 3.2 billion increase in net trading income from investment securities at FVTPL to Ps 16.8 billion in 2019 from Ps 13.5 billion in 2018.

[26] Measured as impairment loss on loans and other accounts receivable divided by the average balance of gross loans.
[27] Measured as impairment loss on loans and other accounts receivable, net of recoveries of charged-off assets divided by the average balance of gross loans.
[28] Includes (i) net trading income from investment securities at FVTPL, which reflects the interest and gains/losses from mark-to-market valuation, in each case from equity and fixed income investment securities FVTPL, and (ii) net trading income from derivatives, which reflects the gains/losses from mark-to-market valuation on derivatives which are not part of qualifying hedge relationships.

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Total income from investment securities

Banco AV Villas' securities portfolio is classified in the following categories (i) equity and fixed income investments at FVTPL (described in this section as net trading income in investment securities at FVTPL), (ii) fixed income investments at FVOCI and (iii) fixed income investments at AC ((ii) and (iii) are described above in the net interest income section as interest income on investments in debt securities). Banco AV Villas manages its investment portfolio in a comprehensive and integral manner that considers individual return of each one of these three categories and the total return of the investment securities portfolio.

Total income from investment securities for the bank (comprised of income on investments in debt securities and net trading income from investment securities at FVTPL) was Ps 74.0 billion for 2019, Ps 17.7 billion higher than the Ps 56.3 billion for 2018. This was primarily an effect of a 23.8%, or Ps 331.8 billion, increase in the average balance of total investment securities, which resulted in a Ps 14.2 billion increase in interest income. In addition, there was a 25 basis points increase in the average yield of total investment securities to 4.3% in 2019 from 4.0% in 2018, which resulted in a Ps 3.5 billion increase in interest income. Global fixed income and equity markets posted strong gains that translated into higher returns on AV Villas' investment portfolios.

Other income

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Foreign exchange gains (losses), net	1.1	1.1	0.1	6.4
Share of profit of equity accounted investees, net of tax (Equity method)	(0.2)	(0.7)	0.5	(73.9)
Net gain on sale of debt and equity securities	17.3	4.0	13.3	329.1
Dividends	3.8	3.0	0.8	27.7
Gain (loss) on the sale of non-current assets held for sale	0.2	0.5	(0.3)	(65.5)
Gain on sale of property, plant and equipment	0.1	0.6	(0.5)	(85.3)
Net gain in asset valuation	0.2	2.5	(2.3)	(91.6)
Other	19.3	33.5	(14.2)	(42.4)
Other income	**41.9**	**44.6**	**(2.7)**	**(6.0)**

Other income decreased by 6.0%, or Ps 2.7 billion, to Ps 41.9 billion in 2019 as compared to 2018. This decrease was mainly driven by (i) a Ps 14.2 billion decrease in other mainly attributable to a Ps 5.7 billion decrease in fair value adjustments and recoveries from previous periods and a Ps 4.8 billion decrease in income related to PILA ("*Planilla Integrada de Liquidación de Aportes*") processing services through the bank's network, and (ii) a Ps 2.3 billion decrease in net gain in asset valuation. These decreases were partially offset by a Ps 13.3 billion increase in net gain on sale of debt and equity securities, associated with the realization of gains on fixed income investments at FVOCI in relation to the positive prevailing market conditions previously mentioned.

Other expenses

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Losses from sales of noncurrent assets held for sale	(0.3)	(0.1)	(0.2)	122.1
Personnel expenses	(239.5)	(234.7)	(4.8)	2.0
Administrative and other expenses	(392.9)	(408.1)	15.2	(3.7)
Depreciation and amortization	(65.5)	(33.4)	(32.0)	95.7
Impairment loss on other assets	—	—	—	N.A.
Other	(2.4)	(4.3)	1.9	(45.0)
Other expenses	**(700.4)**	**(680.6)**	**(19.8)**	**2.9**

Other expenses for the year ended December 31, 2019 increased by 2.9%, or Ps 19.8 billion, to Ps 700.4 billion in 2019 mainly driven by a Ps 32.0 billion increase in depreciation and amortization and a Ps 4.8 billion increase in personnel expenses. Partially offsetting these increases was a Ps 15.2 billion reduction in administrative and other expenses.

The Ps 32.0 billion increase in depreciation and amortization was mainly due to the adoption of IFRS 16 in 2019, which changed the accounting methodology for leases. As a result, some rent expenses previously accounted under administrative expenses are now accounted under depreciation and amortization expense. Depreciation and amortization expenses for right-of-use in 2019 were Ps 29.9 billion.

The Ps 15.2 billion decrease in administrative and other expenses was driven by a Ps 31.5 billion decrease in rent expenses mainly associated with the adoption of IFRS 16 in 2019. This decrease was partially offset by (i) a Ps 10.1 billion increase in fees, which include consulting and legal fees among others and (ii) a Ps 7.4 billion increase in contributions and affiliations expenses.

The increase in personnel expenses was mainly driven by a Ps 12.5 billion increase in bonus plan payments and Ps 0.5 billion increase in labor severances that were partially offset by a Ps 8.2 billion decrease in salaries and employee benefits.

Given that Banco AV Villas' other expenses increased by 2.9% and its income increased by 1.4%, Banco AV Villas' efficiency ratio[29] deteriorated to 55.4% in 2019 from 54.6% in 2018. The ratio of other expenses as a percentage of average assets improved 43 basis points to 4.7% in 2019 from 5.2% in 2018.

Income tax expense

Income tax expense increased by 4.0%, or Ps 4.1 billion, to Ps 105.4 billion for the year ended December 31, 2019. Banco AV Villas' effective tax rate[30] was 31.1% for the year ended December 31, 2019 down from 32.1% for the year ended December 31, 2018. The decrease in the effective tax rate was mainly a result of the decrease in the statutory corporate income tax rate to 33% in 2019 as compared to 37% in 2018.

Net income attributable to non-controlling interest

Net income attributable to non-controlling interest decreased to Ps 0.6 billion for the year ended December 31, 2019 from Ps 0.7 billion for the year ended December 31, 2018. Banco AV Villas' net income attributable to non-controlling interest reflects ownership in A Toda Hora S.A. by other subsidiaries of Grupo Aval.

[29] Calculated as other expenses divided by the sum of net interest income, net income from commissions and fees, net trading income and other income.
[30] Calculated as income tax expense divided by income before income tax expense excluding dividends and the equity method, as both are non-taxable income.

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Corficolombiana

Net income

	Corficolombiana Consolidated			
	For the year ended December 31,		Change 2019 vs 2018	
	2019	2018	#	%
	(in Ps billions)			
Total interest income	536.2	586.7	(50.5)	(8.6)
Total interest expense	(925.2)	(781.0)	(144.2)	18.5
Net interest income(expense)	**(389.0)**	**(194.4)**	**(194.6)**	**100.1**
Impairment loss on loans and other accounts receivable	(11.6)	(40.8)	29.2	(71.6)
Impairment (loss) recovery on other financial assets	(0.7)	0.7	(1.4)	(207.1)
Recovery of charged-off financial assets	0.0	0.5	(0.5)	(99.7)
Net impairment loss on financial assets	**(12.3)**	**(39.6)**	**27.3**	**(68.9)**
Net income from commissions and fees	65.7	66.0	(0.2)	(0.3)
Gross profit from sales of goods and services	2,745.1	2,911.9	(166.8)	(5.7)
Net trading income	113.4	46.9	66.6	142.0
Net income from other financial instruments mandatorily at fair value through profit or loss	217.6	205.8	11.8	5.7
Other income	296.8	317.6	(20.8)	(6.6)
Other expenses	(230.3)	(337.4)	107.1	(31.8)
Income before income tax expense	**2,807.1**	**2,976.8**	**(169.7)**	**(5.7)**
Income tax expense	(802.9)	(908.3)	105.3	(11.6)
Net income for the year	**2,004.2**	**2,068.5**	**(64.4)**	**(3.1)**
Net income for the year attributable to:				
Owners of the parent	**1,531.3**	**1,620.2**	**(88.9)**	**(5.5)**
Non-controlling interest	**472.9**	**448.4**	**24.5**	**5.5**

Corficolombiana's net income attributable to owners of the parent decreased by 5.5%, or Ps 88.9 billion to Ps 1,531.3 billion in 2019 as compared to 2018, resulting from a Ps 194.6 billion decrease in net interest income (expense) and a Ps 166.8 billion decrease in the results of its non-financial companies. Partially offsetting these were a Ps 107.1 billion decrease in other expenses, a Ps 105.3 billion decrease in income tax expense, a Ps 66.6 billion increase in net trading income and a Ps 27.3 billion decrease in net impairment loss on financial assets.

The Ps 107.1 billion decrease in other expenses in 2019, is mostly explained by the absence of the Ps 111.8 billion impairment recorded by Episol, a fully owned subsidiary of Corficolombiana, on its investment in Concesionaria Ruta del Sol 2 to fully impair the investment.

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Net interest income

	For the year ended December 31,		Change, 2019 vs 2018	
	2019	2018	#	%
	(in Ps billions)			
Interest income using the effective interest method:				
Commercial loans	236.4	313.6	(77.2)	(24.6)
Consumer loans	85.9	74.2	11.7	15.8
Mortgage loans	1.5	1.3	0.2	16.1
Interbank and overnight funds	124.7	65.9	58.8	89.2
Interest on loan portfolio	**448.5**	**455.0**	**(6.5)**	**(1.4)**
Interest on investments in debt securities	**87.7**	**131.7**	**(44.0)**	**(33.4)**
Total interest income	**536.2**	**586.7**	**(50.5)**	**(8.6)**
Interest expense:				
Checking accounts	—	(0.5)	0.5	(100.0)
Time deposits	(195.5)	(219.3)	23.8	(10.8)
Savings deposits	(26.2)	(20.8)	(5.4)	26.1
Total interest expense on deposits	**(221.7)**	**(240.6)**	**18.9**	**(7.8)**
Interbank borrowings and overnight funds	(117.2)	(123.1)	5.9	(4.8)
Borrowings from banks and others	(418.4)	(240.8)	(177.6)	73.7
Bonds issued	(168.0)	(170.0)	2.0	(1.2)
Borrowings from development entities	—	(6.6)	6.6	(100.0)
Total interest expense	**(925.2)**	**(781.0)**	**(144.2)**	**18.5**
Net interest income(expense)	**(389.0)**	**(194.4)**	**(194.6)**	**100.1**

Corficolombiana's net interest expense was Ps 389.0 billion and Ps 194.4 billion in 2019 and 2018, respectively. The liquidation of Leasing Corficolombiana accounted for Ps 39.2 billion of the Ps 194.6 billion decrease. Net interest expenses are mainly the result of a net leverage position of the non-financial subsidiaries consolidated by Corficolombiana, as their average balance of interest earning assets is smaller than the average of their interest-bearing funding.

Corficolombiana's consolidated non-financial subsidiaries' (such as Promigas and toll road concessions) net interest income has been and is expected to continue to be negative in the future as these entities are not financial entities and thus pay interest expenses to fund returns of assets that are mostly not considered "interest-earning assets". The returns on those assets were registered mostly in the gross profit (loss) from sales of goods and services and some in the other income line items for 2019 and 2018. Net interest expense contribution from non-financial subsidiaries was Ps 219.2 billion for 2019 and Ps 78.3 billion for 2018.

The increase in consolidated net interest expense, was driven by a Ps 144.2 billion increase in interest expense and by a Ps 50.5 billion decrease in total interest income. The liquidation of Leasing Corficolombiana accounted for a Ps 47.5 billion decrease in total interest expense and a Ps 86.7 billion decrease in total interest income.

The increase in total interest expense of Ps 144.2 billion to Ps 925.2 billion in 2019 as compared to 2018, was mainly the result of a 10.2% or Ps 1,343.7 billion increase in the average of interest bearing liabilities to Ps 14,531.1 billion in 2019 from Ps 13,187.3 billion in 2018, that led to a Ps 85.6 billion increase in interest expense. In addition, the increase in the average cost of funds, to 6.4% in 2019 from 5.9% in 2018 resulted in a Ps 58.6 billion increase in interest expense. The average rate paid on other funding increased due to a shift in mix towards borrowings from banks and others, which is mainly explained by the arising lease liabilities related to the adoption of IFRS 16. These liabilities have a higher average interest rate than the existing average borrowings from banks and others in 2018.

The Ps 50.5 billion decrease in interest income to Ps 536.2 billion in 2019 was the result of a 19.1% or Ps 952.0 billion decrease in the average interest earning assets to Ps 4,022.3 billion in 2019, leading to a Ps 126.9 billion decrease in interest income. Partially offsetting that was a 154 basis points increase in the average yield of interest earning assets to 13.3% in 2019 from 11.8% in 2018, resulting in a Ps 76.4 billion increase in interest income.

Of the Ps 50.5 billion or 8.6% decrease in interest income in Corficolombiana, Ps 65.3 billion was due to a decrease in interest income on gross loans and Ps 44.0 billion due to a decrease in interest income on investments in debt securities. These were partially offset by a Ps 58.8 billion increase in interest income on interbank and overnight funds.

The Ps 65.3 billion decrease in interest income on gross loans was mainly attributable to a 22.4% or Ps 541.7 billion decrease in the average balance of gross loans to Ps 1,880.9 billion in 2019 from Ps 2,422.7 billion in 2018, which resulted in a Ps 93.3 billion decrease in interest income. Partially offsetting that was a 116 basis points increase in the average yield earned on gross loans to 17.2% in 2019 from 16.1% in 2018, that resulted in a Ps 28.0 billion increase in interest income. The decrease in the average balance was driven by the assignment of all of Leasing Corficolombiana's loans to Banco de Bogotá and Banco de Occidente as part of its liquidation process. The increase in yield is explained by the rise of consumer loans in the overall loan and leases mix, as a result of the aforementioned process.

The increase in interest income on interbank and overnight funds of Ps 58.8 billion was driven by an increase in the average yield of these investments to 25.8% in 2019 from 13.5% in 2018 that led to a Ps 60.1 billion increase in interest income. Partially offsetting that was a 1.0% or Ps 5.1 billion decrease in the average balance of interbank and overnight funds to Ps 484.2 billion in 2019 from Ps 489.4 billion in 2018, that resulted in a Ps 1.3 billion decrease in interest income.

The decrease in interest income on investments in debt securities of Ps 44.0 billion was driven by a decrease in the average yield of these investments to 5.3% in 2019 from 6.4% in 2018, that led to a Ps 22.5 billion decrease in interest income. Furthermore, a 19.7% or Ps 405.2 billion decrease in the average balance of fixed income investments at FVOCI and at AC to Ps 1,657.1 billion in 2019, resulted in a Ps 21.4 billion decrease in interest income.

Net impairment loss on financial assets

Corficolombiana's net impairment loss on financial assets decreased by Ps 27.3 billion to Ps 12.3 billion in 2019 from Ps 39.6 billion in 2018. This decrease was driven by a Ps 29.2 billion decrease in impairment loss on loans and other accounts receivable and a Ps 1.4 billion increase in impairment (loss) recovery on other financial assets, to Ps 0.7 billion of loss in 2019 from a Ps 0.7 billion recovery in 2018. For more information on loss allowance calculations under IFRS 9, please refer to Note 4 of our audited consolidated financial statements.

The Ps 29.2 billion decrease in impairment loss on loans and other accounts receivable, was driven by (i) a lower impairment recognized by Corficolombiana on its exposure in Electricaribe S.A. E.S.P., which had no impact on 2019 since it was already fully provisioned and amounted to Ps 24.7 billion in 2018 and (ii) the liquidation of Leasing Corficolombiana led to a Ps 19.5 billion decrease. These were partially offset by (i) a Ps 9.3 billion increase in impairment loss on consumer loans in Promigas and (ii) the fact that Fiduciaria Corficolombiana registered a Ps 0.9 billion impairment in 2019, which compares to a Ps 6.9 billion recovery of an impairment on other accounts receivable carried in 2018.

Corficolombiana charged-off its exposure to Electricaribe during 2019 in an amount of Ps 79.0 billion.

Net income from commissions and fees

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Banking fees	15.1	17.9	(2.8)	(15.6)
Trust activities and portfolio management services	63.4	61.4	2.0	3.2
Income from commissions and fees	**78.5**	**79.3**	**(0.8)**	**(1.0)**
Expenses from commissions and fees	(12.7)	(13.3)	0.6	(4.4)
Net income from commissions and fees	**65.7**	**66.0**	**(0.2)**	**(0.3)**

Net income from commissions and fees decreased by Ps 0.2 billion, or 0.3% to Ps 65.7 billion in 2019 as compared to Ps 66.0 billion in 2018. This decrease was driven by a Ps 2.8 billion decrease in banking fees that was partially offset by a Ps 2.0 billion increase in fees from trust activities and portfolio management services and by a Ps 0.6 billion decrease in commission and fee expenses. The liquidation of Leasing Corficolombiana accounted for Ps 1.8 billion of the Ps 0.2 billion decrease in net income from commissions and fees.

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Gross profit from sales of goods and services

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Income from sales of goods and services	9,002.0	7,923.7	1,078.2	13.6
Costs and expenses of sales of goods and services	(6,256.8)	(5,011.8)	(1,245.0)	24.8
Gross profit from sales of goods and services	**2,745.1**	**2,911.9**	**(166.8)**	**(5.7)**

Gross profit from sales of goods and services decreased by 5.7%, or Ps 166.8 billion to Ps 2,745.1 billion in 2019 from Ps 2,911.9 billion in 2018, mainly driven by lower results in infrastructure companies in 2019 as compared to 2018. Under IFRS 15, when the contractual start of construction is signed, income related to pre-construction progress up to that date is recognized immediately through profit or loss, further income is subsequently recognized as work progresses. In the case of the Villavicencio - Yopal (Covioriente) and Pacífico 1 (Covipacífico) concession projects, income recognized was higher in 2018 as both projects started construction (contractual) in the fourth and third quarters of 2018 respectively. In addition work progress in Chirajara-Fundadores (Coviandina) was lower in 2019 than in 2018. For more information on our concession arrangements rights please refer to Note 16 of our audited consolidated financial statements.

Income from sales of goods and services increased by 13.6% or Ps 1,078.2 billion to Ps 9,002.0 billion in 2019 as compared to 2018. Promigas contributed with Ps 1,095.4 billion of that increase of which (i) Ps 645.6 billion are recognized in an equal amount of income and expenses related to construction and expansion of gas pipelines under concession and (ii) Ps 416.1 billion resulted from growth in gas distribution and transportation activities.

Costs and expenses of sales of goods and services showed a Ps 1,245.0 billion increase to Ps 6,256.8 billion in 2019 from Ps 5,011.8 billion for 2018. The increase is mainly explained by the aforementioned Promigas effect and increases in production costs and acquisition of raw materials and costs of goods sold, mainly in Corficolombiana's infrastructure concessions and Promigas.

Net trading income

Total net trading income[31] increased by Ps 66.6 billion to Ps 113.4 billion in 2019 from Ps 46.9 billion in 2018, driven by a Ps 38.8 billion increase in net trading income from investment securities at FVTPL and a Ps 27.8 billion increase in income from derivatives.

Corficolombiana's net trading income from investment securities at FVTPL amounted to Ps 104.2 billion during 2019, Ps 38.8 billion higher than the Ps 65.4 billion during 2018. The Ps 38.8 billion increase in net trading income from investment securities is explained by a Ps 26.5 billion increase in income from equity investment securities at FVTPL, and a Ps 12.3 billion increase in income from the fixed income held for trading portfolio. Global fixed income and equity markets posted strong gains that translated into higher returns on Corficolombiana's investment portfolios.

Net trading income from derivatives, increased by Ps 27.8 billion to a gain of Ps 9.3 billion in 2019 from a loss of Ps 18.5 billion in 2018.

[31] Includes (i) net trading income from investment securities at FVTPL, which reflects the interest and gains/losses from mark-to-market valuation, in each case from equity and fixed income investment securities FVTPL, and (ii) net trading income from derivatives, which reflects the gains/losses from mark-to-market valuation on derivatives which are not part of qualifying hedge relationships.

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Total income from investment securities

Corficolombiana's securities portfolio is classified in the following categories: (i) equity and fixed income investments at FVTPL (described in this section as net trading income in investment securities at FVTPL), (ii) fixed income investments at FVOCI and (iii) fixed income investments at AC ((ii) and (iii) are described above in the net interest income section as interest income on investments in debt securities). Corficolombiana manages its investment portfolio in a comprehensive and integral manner that considers individual return of each one of these three categories and the total return of the investment securities portfolio.

Total income from investment securities (comprised of income on investments in debt securities and net trading income from investment securities at FVTPL) was Ps 191.9 billion for 2019, 2.6% or Ps 5.2 billion lower than the Ps 197.1 billion registered during 2018. This decrease is explained by a Ps 93.5 billion reduction in the average balance of total investment securities to Ps 3,440.9 billion in 2019, which resulted in a Ps 5.2 billion decrease in income. The average yield on total investment securities remained at 5.6% for both 2019 and 2018.

Net income from other financial instruments mandatorily at FVTPL

Net income from financial instruments mandatorily at FVTPL reflect the fair value of concession arrangements entered between Promigas and the Colombian government, and increased by Ps 11.8 billion to Ps 217.6 billion in 2019 as compared to 2018.

Other income

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Foreign exchange gains (losses), net	(21.6)	(10.0)	(11.6)	115.4
Share of profit of equity accounted investees, net of tax (Equity method)	207.3	184.4	22.9	12.4
Net gain on sale of debt and equity securities	31.1	17.3	13.8	79.6
Dividends	76.6	63.8	12.8	20.0
Gain (loss) on the sale of non-current assets held for sale	0.0	0.3	(0.3)	(100.0)
Gain on sale of property, plant and equipment	0.0	0.0	0.0	626.7
Net gain in asset valuation	1.4	0.0	1.4	N.A.
Other	1.9	61.7	(59.8)	(96.8)
Other income	**296.8**	**317.6**	**(20.8)**	**(6.6)**

Other income decreased by Ps 9.0 billion or 1.7%, mainly driven by (i) a Ps 59.8 billion decrease from other income, (ii) a Ps 11.6 billion decrease in foreign exchange gains (losses), net discussed above as part of the trading strategy (the net result of these two accounts was a loss of Ps 12.4 billion in 2019 versus a loss of Ps 28.6 billion in 2018).

Other, which includes income on sales of foreclosed assets and recoveries on other expenses, decreased by Ps 59.8 billion to Ps 1.9 billion in 2019 as compared to 2018, driven by (i) a Ps 31.5 billion decrease in income from insurance compensations at Episol, (ii) the recognition of Ps 11.7 billion of income from sales of assets under financial leasing in Promigas in 2018, and (iii) the liquidation of Leasing Corficolombiana that led to a Ps 9.8 billion decrease.

These decreases were partially offset by a Ps 22.9 billion increase in income from the equity method to Ps 207.3 billion in 2019 from Ps 184.4 billion in 2018. This increase was explained by an increase in net income recognized through the equity method from Gases del Caribe and Cálidda.

Also contributing, a Ps 13.8 billion increase in net gain on sales of debt and equity securities, given that prevailing market conditions during most part of 2019 were positive, Corficolombiana decided to realize gains on a portion of its fixed income portfolio. Dividend income increased by Ps 12.8 billion to Ps 76.6 billion in 2019 from Ps 63.8 billion in 2018, mainly driven by a Ps 15.6 billion increase in dividend income from Grupo Energía de Bogotá (GEB) and a Ps 2.1 billion decrease from Sociedad Aeroportuaria de la Costa.

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Other expenses

	Year ended December 31,		Change, 2019 vs. 2018	
	2019	2018	#	%
	(in Ps billions)			
Losses from sales of noncurrent assets held for sale	—	(0.2)	0.2	(100.0)
Personnel expenses	(91.2)	(99.6)	8.4	(8.5)
Administrative and other expenses	(85.5)	(95.3)	9.8	(10.3)
Depreciation and amortization	(7.8)	(7.7)	(0.0)	0.5
Impairment loss on other assets	(0.2)	(133.6)	133.4	(99.8)
Net loss from liquidation of subsidiaries	(44.3)	(0.2)	(44.1)	N.A.
Other	(1.3)	(0.6)	(0.6)	101.3
Other expenses	**(230.3)**	**(337.4)**	**107.1**	**(31.8)**

Corficolombiana's other expenses decreased by Ps 107.1 billion or 31.8% to Ps 230.3 billion in 2019 as compared to 2018. This decrease was mainly driven by a Ps 133.4 billion reduction in impairment loss on other assets as two impairment charges were carried out in 2018 (i) Episol recorded a Ps 111.8 billion impairment on its investment in CRDS, and (ii) Corficolombiana recorded a Ps 18.2 billion impairment to fully provision its investment in Pizano S.A. (under liquidation). This was partially offset by a Ps 44.1 billion increase in net loss from liquidation of subsidiaries in 2019, which reflects the net loss from the liquidation of Leasing Corficolombiana, which started its liquidation process in May 2019. The result for 2018 includes the net loss of Banco Corficolombiana Panamá, another Corficolombiana subsidiary, that was liquidated in November 2018.

The Ps 9.8 billion decrease in administrative and other expenses was mainly driven by the liquidation of Leasing Corficolombiana which led to a Ps 11.0 billion decrease. Corficolombiana's taxes and surcharges on a separate basis increased Ps 1.6 billion. Personnel expenses decreased Ps 8.4 billion mainly driven by the liquidation of Leasing Corficolombiana which led to a Ps 14.5 billion decrease. Corficolombiana's personnel expense on a separate basis increased Ps 5.2 billion.

Income tax expense

Income tax expense for Corficolombiana decreased by Ps 105.3 billion, or 11.6%, to Ps 802.9 billion for the year ended December 31, 2019. Corficolombiana's effective tax rate[32] decreased to 31.3% for the year ended December 31, 2019 from 33.3% for the year ended December 31, 2018. The decrease in income tax expense was mainly driven by (i) a Ps 102.7 billion resulting from a lower statutory corporate income tax rate of 33% in 2019 as compared to 37% in 2018 and (ii) lower income before income tax expense. Partially offsetting these, was the positive effect of the Financing Law on deferred tax expenses in 2018 that resulted in a recovery of Ps 121.1 billion for that year.

Net income attributable to non-controlling interest

Net income attributable to non-controlling interest in Corficolombiana increased by 5.5%, or Ps 24.5 billion to Ps 472.9 billion in 2019 as compared to 2018. The increase is mainly explained by a Ps 45.4 billion increase in net income attributable to non-controlling interest from Promigas that was partially offset by lower net income from concessions in which we do not have full ownership. The ratio of net income attributable to non-controlling interest to net income increased to 23.6% in 2019 from 21.7% in 2018, given the higher weight of Promigas in net income, in which Corficolombiana holds a 50.9% controlling interest.

[32] Calculated as income tax expense divided by income before income tax expense excluding dividends and the equity method, as both are non-taxable income.

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Results of Operations for the Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

After seeing in 2017 a year in which the economic stagnation in Colombia drove a decline in Grupo Aval's returns (1.4% and 12.6% in terms of ROAA and ROAE, respectively), 2018 was a year of strong recovery for us, driven by a combination of factors detailed below:

- First, the Colombian economy grew at a stronger pace in 2018 than the year before (2.7% versus 1.4% in 2017). More than the growth rate itself, what was relevant for our operations in Colombia (close to 70% of our consolidated business) was the source of such growth, which in 2018 was household demand. After seeing a decline in disposable income of the Colombian households in 2017 impacted by the VAT increases, 2018 was a year of recovery.
- Second, 2018 was a year of lower average interest rates in Colombia (with the average Central Bank rate declining to 4.35% in 2018 from 6.13% in 2017). Although this is a scenario that translates into lower spreads and NIM for Aval (as we have net asset sensitivity position), it sets a scenario in which retail vintages show improvement which is expected to translate into stable or improving delinquencies and controlled or declining cost of risk.
- Third, Grupo Aval engaged in a strategy of marginal but profitable growth in the Colombian corporate book that implied a rigorous discipline in terms of pricing. This might have led to temporarily losing some market share in big corporate names, but it also meant a strong focus on getting back to competitive level of returns. The aforementioned strategy was combined with a continuation of our focus on retail banking, which led to increases in market share in products such as payrolls, credit cards and mortgages.
- Fourth, both our Colombian and Central American operations continued their digital transformation, paired with a cost optimization strategy that concluded in the shrinking of our traditional footprint and a faster migration to more productive digital channels. We believe that by continuing the digitalizing of our operations and by offering new products and services to our clients digitally, we will continue to faster satisfy and even anticipate their needs.
- Fifth, 2018 was a year in which our non-financial operation (mainly reflected in Corficolombiana, which in turn represented 21% of our attributable net income) performed very well. We began the construction phase of three of the four fourth generation (4G) projects and we continued to see sustained results in our gas distribution subsidiaries.
- Sixth, some of our operating entities also went through a non-productive asset optimization process that led to gains from certain sales of assets.
- Finally, given the Financing Law's impact on our net deferred tax liability position, and other tax optimization strategies, we were able to lower our deferred income tax expense and recover current taxes from previous periods.

Our results for the year which can be analyzed in our consolidated and segment analysis were also impacted by the adoption and application of IFRS 9 and IFRS 15.

Grupo Aval

Overview

The following discussion describes the main drivers of Grupo Aval's results of operations for the year ended December 31, 2018 compared to the year ended December 31, 2017. Further detail is provided in the discussion of the results of Grupo Aval's banking subsidiaries and Corficolombiana.

Grupo Aval's net income attributable to owners of the parent for the year ended December 31, 2018 increased by 48.4%, or Ps 950.3 billion, to Ps 2,912.7 billion compared to the year ended December 31, 2017.

Grupo Aval's financial results for the year ended December 31, 2018 were positively impacted as compared to the year ended December 31, 2017 by:

(i) a 3.4% or Ps 357.7 billion increase in net interest income;

(ii) a 1.5% or Ps 57.5 billion decrease in net impairment loss on financial assets;

(iii) a 5.7% or Ps 260.6 billion increase in net income from commissions and fees;

(iv) a Ps 1,886.9 billion increase in income (expense) from sales of goods and services. Such increase resulted from Grupo Aval's non-financial entities, mainly those controlled by Corficolombiana;

(v) a 3.8% or Ps 21.3 billion increase in net trading income; and

(vi) a 14.9% or Ps 202.8 billion increase in other income;

The positive impacts on Grupo Aval's financial results detailed above were partially offset by:

(i) a 4.1% or Ps 367.9 billion increase in other expense;

(ii) a 22.6% or Ps 396.8 billion increase in income tax expense; and

(iii) an 89.3% or Ps 1,071.8 billion increase in income attributable to non-controlling interest as a main driver of the results for the year was Corficolombiana, in which Grupo Aval holds a 38.2% economic stake as of December 31, 2018.

	Grupo Aval Consolidated			
	For the year ended December 31,		Change December 2018 vs December 2017	
	2018	2017	#	%
	(in Ps billions)			
Total interest income	18,356.6	18,741.8	(385.2)	(2.1)
Total interest expense	(7,484.8)	(8,227.7)	742.9	(9.0)
Net interest income	**10,871.8**	**10,514.1**	**357.7**	**3.4**
Net impairment loss on financial assets	(3,797.3)	(3,854.9)	57.5	(1.5)
Net income from commissions and fees	4,839.6	4,579.0	260.6	5.7
Net income (expense) from sales of goods and services	2,643.9	757.0	1,886.9	249.3
Net trading income	582.7	561.4	21.3	3.8
Other income	1,564.5	1,361.7	202.8	14.9
Other expense	(9,371.0)	(9,003.1)	(367.9)	4.1
Income before income tax expense	**7,334.1**	**4,915.2**	**2,418.9**	**49.2**
Income tax expense	(2,149.6)	(1,752.8)	(396.8)	22.6
Net income for the year	**5,184.6**	**3,162.4**	**2,022.1**	**63.9**
Net income for the year attributable to:				
Owners of the parent	**2,912.7**	**1,962.4**	**950.3**	**48.4**
Non-controlling interest	**2,271.9**	**1,200.0**	**1,071.8**	**89.3**

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Net interest income

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Interest income using the effective interest method:				
Commercial loans and leases	7,216.3	8,132.8	(916.5)	(11.3)
Consumer loans and leases	8,280.1	8,087.4	192.7	2.4
Mortgage loans and leases	1,442.6	1,278.0	164.6	12.9
Microcredit loans and leases	108.5	113.8	(5.3)	(4.7)
Interbank and overnight funds	343.1	288.0	55.1	19.1
Interest on loans and leases	**17,390.6**	**17,900.0**	**(509.4)**	**(2.8)**
Interest on investments in debt securities	966.0	841.9	124.2	14.7
Total interest income	**18,356.6**	**18,741.8**	**(385.2)**	**(2.1)**
Interest expense:				
Checking accounts	(350.2)	(309.3)	(40.8)	13.2
Time deposits	(3,296.5)	(3,560.5)	264.0	(7.4)
Savings deposits	(1,497.0)	(1,979.0)	481.9	(24.4)
Total interest expense on deposits	**(5,143.7)**	**(5,848.8)**	**705.1**	**(12.1)**
Borrowings from banks and others	(769.2)	(770.0)	0.8	(0.1)
Interbank borrowings and overnight funds	(266.1)	(287.4)	21.3	(7.4)
Bonds issued	(1,162.7)	(1,162.2)	(0.5)	0.0
Borrowings from development entities	(143.2)	(159.3)	16.1	(10.1)
Total interest expense	**(7,484.8)**	**(8,227.7)**	**742.9**	**(9.0)**
Net interest income	**10,871.8**	**10,514.1**	**357.7**	**3.4**

Grupo Aval's net interest income increased by 3.4% or Ps 357.7 billion in 2018 as compared to 2017. The increase in net interest income was mainly due to a 9.0% or Ps 742.9 billion decrease in interest expense that was partially offset by a 2.1% or Ps 385.2 billion decrease in interest income.

Total interest income for Grupo Aval decreased by 2.1% or Ps 385.2 billion to Ps 18,356.6 billion in 2018, driven by a decrease of Ps 509.4 billion in interest income on total loans and leases[33] (driven by a 3.2% or Ps 564.5 billion decrease in interest income on loans and leases, offset by a Ps 55.1 billion increase in interest income on interbank and overnight funds), offset in part by a Ps 124.2 billion increase in interest income on investments in debt securities.

The following table shows the impact on interest income on loans and leases derived from changes in the average balance and the average yield per type of loan.

	Average balance for the years ended December 31,		Change, 2018 vs. 2017		Average yield for the years ended December 31,		Impact on interest income due to changes in		
	2018	2017	#	%	2018	2017	Balance	Yield	Total
	(in Ps billions)						(in Ps billions)		
Commercial loans and leases	92,293.3	90,555.2	1,738.1	1.9	7.8%	9.0%	135.9	(1,052.4)	(916.5)
Consumer loans and leases	51,879.5	48,268.0	3,611.5	7.5	16.0%	16.8%	576.4	(383.7)	192.7
Mortgage loans and leases	16,908.3	15,251.6	1,656.6	10.9	8.5%	8.4%	141.3	23.3	164.6
Microcredit loans and leases	417.2	402.9	14.3	3.5	26.0%	28.2%	3.7	(9.0)	(5.3)
Loans and leases	**161,498.3**	**154,477.8**	**7,020.5**	**4.5**	**10.6%**	**11.4%**	**741.1**	**(1,305.6)**	**(564.5)**

The 3.2% or Ps 564.5 billion decrease in interest income on loans and leases for Grupo Aval in 2018 as compared to 2017 was mainly a result of a 85 basis points decrease in the average yield on loans and leases from 11.4% in 2017 to 10.6% in 2018, that led to a Ps 1,305.6 billion decrease in interest income. The decrease in the average yield was mainly driven by

[33] Unless otherwise indicated, "total loans and leases" refers to loans and leases plus interbank and overnight funds and "loans and leases" refers to loans and leases excluding interbank and overnight funds.

(i) lower average interest rates as the average Colombian Central Bank rate decreased from 6.13% in 2017 to 4.35% in 2018, and (ii) a more competitive landscape in Colombia particularly in commercial loans and leases.

The decrease in the average yield was offset by a 4.5% or Ps 7,020.5 billion increase in the average balance of loans and leases to Ps 161,498.3 billion, driven by a strategy of profitable growth in Colombia that resulted in faster growth in the consumer portfolio than in the commercial portfolio, and organic growth in Central America (mainly in Costa Rica, Guatemala and Panamá, and despite of a 17% decrease in Nicaragua).

The Ps 55.1 billion increase in interest income on interbank and overnight funds for Grupo Aval in 2018 was explained by a 11.0% or Ps 597.4 billion increase in the average balance of these funds that led to a Ps 34.1 billion increase in interest income. In addition, a 39 basis points increase in the average yield from 5.3% in 2017 to 5.7% in 2018 resulted in a Ps 21.0 billion increase in interest income.

Grupo Aval's interest income on investments in debt securities increased by 14.7% or Ps 124.2 billion and it was mainly a result of a 9.6% or Ps 1,912.4 billion increase in the average balance of investments that led to a Ps 84.7 billion increase in interest income. Also contributing to the increase in interest income was a 20 basis point increase in the average yield of investment in debt securities from 4.2% in 2017 to 4.4% in 2018, which resulted in a Ps 39.4 billion increase in interest income on investments in debt securities. Despite a declining interest rate scenario in Colombia, Grupo Aval saw an increase on its yield on its fixed income portfolio due to strategies related to timing of investments implemented by Banco de Bogotá and Corficolombiana that increased the yield of debt securities at fair value through other comprehensive income ("FVOCI") and at amortized cost ("AC").

The following table shows the impact on interest expense derived from changes in the average balance and the average rate paid per type of interest-bearing funding.

	Average balance for the years ended December 31,		Change, 2018 vs. 2017		Average rate paid for the years ended December 31,		Impact on interest expense due to changes in		
	2018	2017	#	%	2018	2017	Balance	Rate	Total
	(in Ps billions)						(in Ps billions)		
Checking accounts	20,532.7	21,117.4	(584.8)	(2.8)	1.7%	1.5%	10.0	(50.8)	(40.8)
Time deposits	64,074.3	62,108.8	1,965.5	3.2	5.1%	5.7%	(101.1)	365.1	264.0
Savings accounts	55,090.4	52,050.8	3,039.7	5.8	2.7%	3.8%	(82.6)	564.5	481.9
Total deposits	**139,697.4**	**135,276.9**	**4,420.4**	**3.3**	**3.7%**	**4.3%**	**(162.8)**	**867.8**	**705.1**
Borrowings from banks and others	17,805.3	18,075.5	(270.2)	(1.5)	4.3%	4.3%	11.7	(10.8)	0.8
Interbank borrowings and overnight funds	6,916.0	6,751.3	164.7	2.4	3.8%	4.3%	(6.3)	27.6	21.3
Bonds issued	19,253.0	17,918.3	1,334.6	7.4	6.0%	6.5%	(80.6)	80.1	(0.5)
Borrowings from development entities	3,227.0	2,841.2	385.7	13.6	4.4%	5.6%	(17.1)	33.3	16.1
Other funding	**47,201.3**	**45,586.4**	**1,614.9**	**3.5**	**5.0%**	**5.2%**	**(80.1)**	**117.9**	**37.8**
Total funding	**186,898.6**	**180,863.3**	**6,035.3**	**3.3**	**4.0%**	**4.5%**	**(241.7)**	**984.6**	**742.9**

The 9.0% or Ps 742.9 billion decrease in total interest expense for Grupo Aval is explained by a decrease of 54 basis points in the average cost of funding, from 4.5% in 2017 to 4.0% in 2018, which led to a Ps 984.6 billion decrease in interest expense. This decrease was partially offset by a 3.3% or Ps 6,035.3 billion increase in the average balance of total interest-bearing funding to Ps 186,898.6 billion in 2018 resulting in a Ps 241.7 billion increase in interest expense.

Interest expense for Grupo Aval's interest-bearing deposits decreased by 12.1% or Ps 705.1 billion to Ps 5,143.7 billion in 2018, mainly driven by a 64 basis points decrease in the average cost of deposits, from 4.3% in 2017 to 3.7% in 2018, which led to a Ps 867.8 billion decrease in interest expense. Partially offsetting the decrease, there was a 3.3% or Ps 4,420.4 billion increase in the average balance of interest-bearing deposits, from Ps 135,276.9 billion in 2017 to Ps 139,697.4 billion in 2018, which resulted in a Ps 162.8 billion increase in interest expense.

Interest expense for Grupo Aval's other funding decreased by 1.6% or Ps 37.8 billion to Ps 2,341.1 billion in 2018, mainly driven by a 26 basis points decrease in the average cost of these funds, from 5.2% in 2017 to 5.0% in 2018, which led to a Ps 117.9 billion decrease in interest expense. This decrease was offset in part by a 3.5% or Ps 1,614.9 billion increase in the average balance of other funding to Ps 47,201.3 billion in 2018, which resulted in a Ps 80.1 billion increase in interest expense.

Grupo Aval's average total interest-earning assets[34] increased by 5.3%, or Ps 9,530.3 billion, to Ps 189,314.5 billion in 2018 and the net interest income increased by 3.4%, or Ps 357.7 billion to Ps 10,871.8 billion in 2018. As a consequence, its net interest margin decreased 11 basis points from 5.85% in 2017 to 5.74% in 2018. The interest spread between the average rate on loans and leases and the average rate paid on interest-bearing deposits decreased by 20 basis points from 7.1% to 6.9% over the same period.

Net impairment loss on financial assets

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Impairment loss on loans and other accounts receivable	(4,150.0)	(4,119.3)	(30.6)	0.7
Impairment (loss) recovery on other financial assets	32.5	(0.1)	32.6	N.A.
Recovery of charged-off financial assets	320.1	264.6	55.5	21.0
Net impairment loss on financial assets	**(3,797.3)**	**(3,854.9)**	**57.5**	**(1.5)**

	Year ended December 31,				Change, 2018 vs. 2017	
	2018		2017		Loans at least 91 days past due	Delinquency Ratio
	Loans at least 91 days past due	Delinquency Ratio(1)	Loans at least 91 days past due	Delinquency Ratio(1)	#	%
	(in Ps billions)					
Loans and leases	**5,188.4**	**3.1%**	**4,382.0**	**2.8%**	**806.5**	**0.3**
Commercial loans and leases	3,240.3	3.4%	2,608.3	2.8%	632.0	0.6
Consumer loans and leases	1,477.7	2.7%	1,396.5	2.8%	81.2	(0.1)
Mortgage loans and leases	418.1	2.2%	333.6	2.1%	84.4	0.2
Microcredit loans and leases	52.4	12.3%	43.6	10.6%	8.8	1.7

(1) Calculated as 91 days past due loans divided by total gross loans excluding interbank and overnight funds.

Net impairment loss on financial assets for Grupo Aval improved by 1.5% or Ps 57.5 billion in 2018 as compared to 2017, driven by a Ps 55.5 billion increase in recoveries of charged-off financial assets, a Ps 32.6 billion decrease in impairment (loss) recovery on other financial assets and a Ps 30.6 billion increase in impairment loss on loans and other accounts receivable.

The recovery of charged-off financial assets increased Ps 55.5 billion, driven by improvements in the group's collection processes.

The Ps 32.6 billion decrease in impairment (loss) recovery on other financial assets was driven by the recovery of Ps 49.4 billion impairment on fixed income instruments at FVOCI from Oi S.A. and Telemar Norte Leste S.A. as Grupo Aval sold these investments in February 2018, at a lower value than it had impaired in 2016. The loss on the sale of these investments was recognized in Gains (loss) in sale of investments explained in the Other income section.

Impairment loss on loans and other accounts receivable increased driven by an Ps 85.2 billion increase in impairment loss on mortgage loans and a Ps 11.7 billion increase in impairment loss on commercial loans that were partially offset by a Ps 35.9 billion decrease in impairment loss on consumer loans and a Ps 19.3 billion decrease in impairment loss on microcredit loans.

[34] Calculated as (i) gross loans including interbank and overnight funds, and (ii) fixed income investment securities at fair value through other comprehensive income ("FVOCI") and at amortized cost ("AC").

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The Ps 85.2 billion increase in impairment loss on mortgage loans was driven by higher provisions in Nicaragua and Costa Rica due to political and macroeconomic factors and the natural aging of the mortgage portfolio of the Colombian banks, which still has a better quality than the Colombian average for this product.

The increase in impairment loss on commercial loans of Ps 11.7 billion was impacted by a Ps 70.8 billion increase in impairment on specific corporate loans recorded, such as Electricaribe, Concesionaria Ruta del Sol and SITP (Bogotá's Mass Transportation System)35. The impairment losses for these loans in the year were (i) Ps 281.5 billion for Electricaribe, Ps 104.1 billion lower than the Ps 385.6 billion impairment loss in 2017 (ii) Ps 194.7 billion for Concesionaria Ruta del Sol, Ps 92.2 billion higher than the Ps 102.5 billion impairment loss in 2017 and (iii) Ps 125.8 billion for SITP, Ps 82.7 billion higher than the Ps 43.1 billion impairment loss in 2017. As of December 31, 2018, the coverage ratio on those loans, measured as the loan loss allowance of each client divided by the total credit exposure of each client, was 100.0%, 31.2% and 36.4%, respectively. Grupo Aval may charge-off the Electricaribe loan during 2019, based on its charge-off policy, but also taking into account upcoming developments surrounding the process of the company.

The decrease in impairment loss on consumer loans of Ps 35.9 billion was mainly a result of an improvement in the 91 days past due consumer loans and leases portfolio observed during the second semester of the year (the delinquency ratio of the consumer loan portfolio decreased from 2.8% in 2017 to 2.7% in 2018).

The Ps 19.3 billion decrease in impairment loss on microcredit loans was mainly driven by the adoption of IFRS 9 and the parameter's calibration of the model that better reflected the probability of default of 30 day past due loans.

Grupo Aval's cost of risk36 improved 10 basis points from 2.7% in 2017 to 2.6% for 2018. Grupo Aval's cost of risk net of recoveries of charged-off financial assets37 improved by 12 basis points from 2.5% in 2017 to 2.4% in 2018.

Charge-offs for Grupo Aval's consolidated operations increased by Ps 465.4 billion from Ps 2,683.6 billion in 2017 to Ps 3,149.0 billion in 2018. The ratio of charge-offs to average balance of loans and leases increased from 1.7% in 2017 to 1.9% in 2018. Grupo Aval's consolidated coverage ratio for loans 91 days past due was 158.0% in 2018 versus 128.2% in 2017. The increases in coverage includes the impact of its implementation of IFRS 9 on January 1, 2018, which affected the opening balance of loan loss allowance for 2018 by Ps 1,163.0 billion.

Net income from commissions and fees

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Banking fees	3,996.5	3,793.7	202.8	5.3
Bonded warehouse services	156.6	169.8	(13.2)	(7.8)
Trust activities and portfolio management services	312.9	311.8	1.1	0.3
Pension and severance fund management	987.3	926.8	60.6	6.5
Income from commissions and fees	**5,453.4**	**5,202.1**	**251.3**	**4.8**
Expenses from commissions and fees	(613.8)	(623.1)	9.4	(1.5)
Net income from commissions and fees	**4,839.6**	**4,579.0**	**260.6**	**5.7**

Net income from commissions and fees for Grupo Aval increased by 5.7% or Ps 260.6 billion in 2018 as compared to 2017 driven by a Ps 202.8 billion increase in banking fees, a Ps 60.6 billion increase in pension and severance fund management (mainly from Porvenir), a Ps 1.1 billion increase in trust activities and portfolio management services and a Ps 9.4 billion decrease in expenses from commissions and fees. These increases were partially offset by a Ps 13.2 billion decrease in bonded warehouse services.

[35] SITP (Bogotá's Mass Transportation System) for this purpose includes three companies: Consorcio Express S.A.S., ETIB S.A.S and Transporte Zonal Integrado S.A.S (Tranzit S.A.S.).
[36] Calculated as impairment loss on loans and other accounts receivable divided by the average balance of loans and leases.
[37] Calculated as impairment loss on loans and other accounts receivable, net of recoveries of charged-off assets divided by the average balance of loans and leases.

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The Ps 202.8 billion increase in banking fees was driven by a Ps 150.8 billion increase in fees from banking services and a Ps 75.4 billion increase in credit card fees that were offset in part by a Ps 12.4 billion decrease in branch network fees (in line with our distribution channel optimization) and a Ps 11.1 billion decrease in checking fees.

Net income (expense) from sales of goods and services

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Income from sales of goods and services	8,126.0	5,792.9	2,333.2	40.3
Costs and expenses from sales of goods and services	(5,482.1)	(5,035.8)	(446.3)	8.9
Net income (expense) from sales of goods and services	**2,643.9**	**757.0**	**1,886.9**	**249.3**

Net income (expense) from sales of goods and services increased Ps 1,886.9 billion, driven by a Ps 2,333.2 billion increase in income from sales of goods and services, offset in part by a Ps 446.3 billion increase in costs and expenses from sales of goods and services.

Income from sales of goods and services increased by 40.3%, or Ps 2,333.2 billion from Ps 5,792.9 billion in 2017 to Ps 8,126.0 billion in 2018. This was mainly driven by strong results in Grupo Aval's non-financial entities, mainly consolidated in Corficolombiana, driven by the progress of construction of three toll road concession projects during the year (Covioriente, Covipacífico and Coviandina) and strong results from Promigas. The results for the year also incorporate the application of IFRS 15.

Costs and expenses from sales of goods and services increased by 8.9%, or Ps 446.3 billion from Ps 5,035.8 billion in 2017 to Ps 5,482.1 billion in 2018. The increase is mainly explained by a Ps 436.1 billion increase in costs related to the acquisition of raw materials and production costs mainly in Corficolombiana's concessions and in Promigas.

Net trading income

During 2018, Grupo Aval's net trading income38 was Ps 582.7 billion, Ps 21.3 billion or 3.8% higher than the Ps 561.4 billion obtained in 2017 resulting from a Ps 262.3 billion increase in net trading income from derivatives and a Ps 240.9 billion decrease in income from investment securities at fair value through profit or loss.

The decrease in net trading income from investment securities at fair value through profit or loss was mainly driven by a decrease in the average yield which went from 8.9% in 2017 to 3.0% in 2018, resulting in a Ps 261.6 billion decrease in income. The average balance of Grupo Aval's consolidated fixed income and equity investments at fair value through profit or loss portfolio increased by 15.3%, or Ps 679.2 billion, to Ps 5,115.7 billion, leading to a Ps 20.6 billion increase in income. The decrease in the return of this portfolio was driven by lower returns on Porvenir's equity and fixed income securities related to its stabilization reserve (see Note 8.2 of Financial Statements).

Total income from investment securities

Grupo Aval's securities portfolio is classified in the following categories: (i) equity and fixed income investments at fair value through profit or loss (described in this section as net trading income in investment securities at FVTPL), (ii) fixed income investments at FVOCI and (iii) fixed income investments at AC (results from (ii) and (iii) are included in the net interest income as interest income on investments in debt securities).

[38] Includes (i) net trading income from investment securities at FVTPL, which reflects the interest and gains/losses from mark-to-market valuation, in each case from equity and fixed income investment securities at fair value through profit or loss ("FVTPL"), and (ii) net trading income from derivatives, which reflects the gains/losses from mark-to-market valuation on derivatives different from that considered under hedge accounting.

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Total income from investment securities for Grupo Aval (comprised of interest income on investments in debt securities and net trading income from investment securities at FVTPL) was Ps 1,121.5 billion for 2018, 9.4% or Ps 116.8 billion lower than the Ps 1,238.3 billion for 2017. This was primarily driven by the average yield on total investment securities decreasing from 5.1% in 2017 to 4.2% in 2018, generating a Ps 224.8 billion decrease in interest income. Partially offsetting this decrease, there was a Ps 2,591.6 billion increase in the average balance of total investment securities from Ps 24,327.3 billion in 2017 to Ps 26,918.9 billion in 2018, resulting in a Ps 108.0 billion increase in interest income. The decrease in income was offset by the above-mentioned effect of derivatives.

Other income

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Foreign exchange gains (losses), net	283.4	424.5	(141.0)	(33.2)
Gains (losses) on sales of investments, net	1.1	51.7	(50.6)	(97.9)
Income from sales of noncurrent assets held for sale	20.1	13.6	6.5	47.9
Equity method investees	197.7	172.0	25.8	15.0
Dividend income	71.5	50.4	21.0	41.7
Gains on valuation of assets, net	37.3	39.0	(1.7)	(4.4)
Net income from financial instruments mandatory at fair value	205.8	209.9	(4.1)	(2.0)
Other	747.6	400.6	347.0	86.6
Other income	**1,564.5**	**1,361.7**	**202.8**	**14.9**

Total other income for Grupo Aval increased by 14.9% or Ps 202.8 billion in 2018 as compared to 2017 explained by (i) a Ps 347.0 billion increase in other income mainly driven by a Ps 372.8 billion gain in transactions associated with PP&E structure optimizations (see Note 30 of our audited consolidated financial statements) in Banco de Bogotá and Banco Popular; (ii) a Ps 25.8 billion increase from the equity method investees mainly from Gases del Caribe and Cálidda; (iii) a Ps 21.0 billion increase in dividend income mainly from Grupo Energía de Bogotá (GEB) and Sociedad Portuaria de la Costa; (iv) a Ps 6.5 billion increase in income from sales of noncurrent assets held for sale; (v) a Ps 141.0 billion decrease in foreign exchange gains (losses), net which was offset by a better performance in net trading income from derivatives; (vi) a Ps 50.6 billion decrease in gains (losses) on sales of investments, net related to the recognition of a Ps 50.5 billion loss on the sale of fixed income investments in Oi S.A. and Telemar Norte Leste S.A. in 2018 (explained above in "Net impairment loss on financial assets"); (vii) a Ps 4.1 billion decrease in net income from financial instruments designated at fair value; and (viii) a Ps 1.7 billion decrease in gains on valuation of assets.

Other expenses

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Losses from sales of noncurrent assets held for sale	(5.2)	(7.0)	1.8	(25.3)
Personnel expenses	(3,877.6)	(3,671.1)	(206.5)	5.6
Salaries and employee benefits	(3,585.4)	(3,470.0)	(115.4)	3.3
Bonus plan payments	(174.5)	(132.8)	(41.7)	31.4
Labor severances	(117.8)	(68.4)	(49.4)	72.2
Administrative and other expenses	(4,640.5)	(4,406.1)	(234.3)	5.3
Depreciation and amortization	(539.8)	(521.4)	(18.3)	3.5
Wealth tax	—	(101.8)	101.8	(100.0)
Impairment loss on other assets	(166.3)	(174.3)	8.0	(4.6)
Other expenses	(141.7)	(121.4)	(20.3)	16.8
Charitable and other donation expenses	(10.1)	(9.9)	(0.2)	2.4
Other	(131.6)	(111.5)	(20.1)	18.0
Other expense	**(9,371.0)**	**(9,003.1)**	**(367.9)**	**4.1**

Total other expenses for Grupo Aval increased by 4.1% or Ps 367.9 billion in 2018 as compared to 2017, driven by a Ps 234.3 billion increase in administrative and other expenses, a Ps 206.5 billion increase in personnel expenses, a Ps 20.3

billion increase in other expenses and a Ps 18.3 billion increase in depreciation and amortization. These increases were offset in part by a Ps 101.8 billion decrease in wealth tax, as the last installment was paid in 2017, a Ps 8.0 billion decrease in impairment loss on other assets and a Ps 1.8 billion decrease in losses from sales of noncurrent assets held for sale.

The increase in administrative and other expenses of Ps 234.3 billion was driven by (i) a Ps 108.3 billion increase in consultancy, audit and other fees; (ii) a Ps 82.3 billion increase in contributions and affiliations expenses; (iii) a Ps 45.1 billion increase in lease expenses (mainly from technological equipment); (iv) a Ps 26.3 billion increase in operating taxes; and (v) a Ps 20.8 billion decrease in maintenance and repairs.

The Ps 206.5 billion increase in personnel expenses was influenced by headcount optimization projects in Banco de Occidente and Banco Popular. See Banco de Occidente–Other expenses" and Banco Popular–Other expenses".

The impairment loss on other assets in 2018 includes a Ps 111.8 billion impairment carried out by Episol of its investment in Concesionaria Ruta del Sol. In 2017 the impairment for this investment was Ps 140.7 billion. As of December 31, 2018. Episol's investment in Concesionaria Ruta del Sol had been fully impaired (see Note 14 of audited consolidated financial statements).

Because Grupo Aval's personnel and administrative and other expenses increased by 5.5%, while its income increased by 13.7%, the efficiency ratio[39] improved from 46.5% in 2017 to 43.1% in 2018. The ratio of personnel and administrative and other expenses as a percentage of average assets remained stable at 3.5% for both 2017 and 2018.

Income tax expense

Income tax expense for Grupo Aval increased by 22.6%, or Ps 396.8 billion, to Ps 2,149.6 billion in 2018. Grupo Aval's effective tax rate40 was 36.6% in 2017 and 30.4% in 2018.

The change in the effective tax rate and income tax expense was mainly driven by (i) a higher net income before income tax expense[41] that resulted in an increase of Ps 908.1 billion in income tax expense, (ii) a positive impact of the Financing Law passed in Colombia on deferred taxes which decreased the future expected tax rate from 33% to 30% (see Note 19 of Financial Statements) and resulted in a Ps 153.0 billion decrease in income tax expense (of which Ps 62.4 billion are attributable to owners of the parent), (iii) a lower statutory tax rate from 40% in 2017 to 37% in 2018 that resulted in a Ps 211.9 billion decrease in income tax expense in 2018, and (iv) other tax effects that resulted in a Ps 29.4 billion decrease in income tax expense.

Net income attributable to non-controlling interest

Net income attributable to non-controlling interest increased by 89.3%, or Ps 1,071.8 billion, to Ps 2,271.9 billion in 2018 as compared with 2017. The ratio of net income attributable to non-controlling interest to net income increased from 37.9% in 2017 to 43.8% in 2018. The increase in this ratio is mainly attributable to improving results in Banco de Bogotá and Corficolombiana, subsidiaries in which Grupo Aval holds the lowest controlling portion among its five consolidated subsidiaries, with 68.7% and 38.2% respectively.

[39] Calculated as personnel and administrative and other expenses divided by net interest income, fees and other services income, other income excluding other.
[40] Calculated as income tax expense divided by income before income tax expense excluding dividends and the equity method, as both are non-taxable income, and the equity tax as it is a non-deductible expense.
[41] Net income before income tax expense minus equity method, minus dividends, plus wealth tax.

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Banco de Bogotá

Overview

Banco de Bogotá's net income attributable to owners of the parent for the year ended December 31, 2018 increased by 53.9%, or Ps 1,029.3 billion, to Ps 2,937.3 billion compared to the year ended December 31, 2017. This increase is attributable to a Ps 199.0 billion increase in net income from commissions and fees, a Ps 4.7 billion increase in net interest income after impairment loss on financial assets, a Ps 956.0 billion increase in total other income and a reduction in the bank's effective tax rate that resulted in a Ps 20.2 billion decrease in income tax expense.

The Ps 956.0 billion increase in total other income was mainly driven by (i) a Ps 525.6 billion increase in income from equity method investees from which Ps 507.0 billion was driven by stronger results in Corficolombiana (for further detail see─Corficolombiana), and (ii) a Ps 312.3 billion gain in transactions associated with a PP&E structure optimization.

The following discussion describes the principal drivers of Banco de Bogotá's results of operations for the year ended December 31, 2018 compared to the year ended December 31, 2017.

	Banco de Bogotá Consolidated			
	For the year ended December 31,		Change December 2018 vs December 2017	
	2018	2017	#	%
	(in Ps billions)			
Total interest income	11,195.4	11,314.8	(119.4)	(1.1)
Total interest expense	(4,328.8)	(4,594.1)	265.3	(5.8)
Net interest income	**6,866.5**	**6,720.7**	**145.8**	**2.2**
Net impairment loss on financial assets	(2,492.1)	(2,350.9)	(141.2)	6.0
Net income from commissions and fees	4,038.2	3,839.1	199.0	5.2
Net income (expense) from sales of goods and services	(124.3)	(134.5)	10.2	(7.6)
Net trading income	412.1	395.2	16.8	4.3
Other income	1,586.7	630.7	956.0	151.6
Other expense	(6,205.8)	(5,997.2)	(208.6)	3.5
Income before income tax expense	**4,081.3**	**3,103.2**	**978.1**	**31.5**
Income tax expense	(950.0)	(970.2)	20.2	(2.1)
Net income for the year	**3,131.2**	**2,133.0**	**998.3**	**46.8**
Net income for the year attributable to:				
Owners of the parent	**2,937.3**	**1,908.0**	**1,029.3**	**53.9**
Non-controlling interest	**194.0**	**225.0**	**(31.0)**	**(13.8)**

The following tables differentiate the results between those obtained in Banco de Bogotá's Colombian operation and those obtained in its Central American operation[42]. As of December 31, 2018, 51.9% of the consolidated total assets were in Colombia, and 48.1% in Central America.

[42] Banco de Bogotá's Central American operation refers to Leasing Bogotá Panamá operation expressed in Colombian pesos, at the exchange rate of the period. Colombian operation refers to the difference between the Central American operation and Banco de Bogota's consolidated results.

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	Banco de Bogotá's Colombian Operation			
	For the year ended December 31,		Change December 2018 vs December 2017	
	2018	2017	#	%
	(in Ps billions)			
Total interest income	5,845.4	6,323.6	(478.2)	(7.6)
Total interest expense	(2,474.9)	(2,896.3)	421.4	(14.5)
Net interest income	**3,370.5**	**3,427.3**	**(56.8)**	**(1.7)**
Net impairment loss on financial assets	(1,367.0)	(1,429.0)	61.9	(4.3)
Net income from commissions and fees	1,915.7	1,862.4	53.3	2.9
Net income (expense) from sales of goods and services	(124.3)	(134.5)	10.2	(7.6)
Net trading income	409.4	401.0	8.5	2.1
Other income	1,021.1	220.1	801.0	364.0
Other expense	(2,817.6)	(2,794.2)	(23.3)	0.8
Income before income tax expense	**2,407.8**	**1,553.0**	**854.9**	**55.0**
Income tax expense	(456.4)	(501.6)	45.2	(9.0)
Net income for the year	**1,951.5**	**1,051.4**	**900.1**	**85.6**
Net income for the year attributable to:				
Owners of the parent	**1,757.6**	**826.6**	**931.1**	**112.6**
Non-controlling interest	**193.8**	**224.8**	**(31.0)**	**(13.8)**

As described below, Banco de Bogotá's net income attributable to owners of the parent from its Colombian operation grew by 112.6%, driven by the entity's ability to offset its almost flat result in net interest income after impairment loss on financial assets by optimizing its cost structure (reflected in other expenses remaining relatively stable and in realization of other income), strong results in its associates and joint ventures, and by a decline in the effective tax rate in the period.

	Banco de Bogotá's Central American Operation			
	For the year ended December 31,		Change December 2018 vs December 2017	
	2018	2017	#	%
	(in Ps billions)			
Total interest income	5,349.9	4,991.2	358.7	7.2
Total interest expense	(1,853.9)	(1,697.8)	(156.1)	9.2
Net interest income	**3,496.0**	**3,293.4**	**202.6**	**6.2**
Net impairment loss on financial assets	(1,125.0)	(922.0)	(203.1)	22.0
Net income from commissions and fees	2,122.5	1,976.7	145.7	7.4
Net trading income	2.6	(5.7)	8.4	(145.6)
Other income	565.6	410.7	155.0	37.7
Other expense	(3,388.2)	(3,202.9)	(185.3)	5.8
Income before income tax expense	**1,673.4**	**1,550.2**	**123.2**	**7.9**
Income tax expense	(493.7)	(468.6)	(25.1)	5.3
Net income for the year	**1,179.7**	**1,081.6**	**98.2**	**9.1**
Net income for the year attributable to:				
Owners of the parent	**1,179.6**	**1,081.4**	**98.2**	**9.1**
Non-controlling interest	**0.1**	**0.1**	**(0.0)**	**(29.2)**

Banco de Bogotá's net income derived from its Central American operation grew 9.1% or Ps 98.2 billion on the year, driven by strong income from commissions and fees and other income, which together with a controlled operating expenses strategy, offset a relatively flat net interest income after impairment loss on financial assets.

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Net interest income

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Interest income using the effective interest method:				
Commercial loans and leases	4,530.1	4,923.1	(393.0)	(8.0)
Consumer loans and leases	4,786.6	4,727.1	59.5	1.3
Mortgage loans and leases	1,051.0	938.4	112.6	12.0
Microcredit loans and leases	107.6	112.3	(4.6)	(4.1)
Interbank and overnight funds	267.2	203.7	63.4	31.1
Interest on loans and leases	**10,742.5**	**10,904.7**	**(162.2)**	**(1.5)**
Interest on investments in debt securities	452.8	410.1	42.7	10.4
Total interest income	**11,195.4**	**11,314.8**	**(119.4)**	**(1.1)**
Interest expense:				
Checking accounts	(338.1)	(295.2)	(42.9)	14.5
Time deposits	(2,112.0)	(2,172.6)	60.6	(2.8)
Savings deposits	(704.9)	(972.3)	267.3	(27.5)
Total interest expense on deposits	**(3,155.1)**	**(3,440.1)**	**285.1**	**(8.3)**
Borrowings from banks and others	(575.5)	(551.7)	(23.8)	4.3
Interbank borrowings and overnight funds	(81.7)	(90.9)	9.1	(10.0)
Bonds issued	(434.3)	(417.2)	(17.1)	4.1
Borrowings from development entities	(82.2)	(94.2)	11.9	(12.7)
Total interest expense	**(4,328.8)**	**(4,594.1)**	**265.3**	**(5.8)**
Net interest income	**6,866.5**	**6,720.7**	**145.8**	**2.2**

Banco de Bogotá's net interest income increased by 2.2% or Ps 145.8 billion to Ps 6,866.5 billion in 2018 as compared to 2017. The increase in net interest income was mainly due to a 5.8% or Ps 265.3 billion decrease in total interest expense partially offset by a 1.1% or Ps 119.4 billion decrease in total interest income. Of the Ps 145.8 billion increase in net interest income, Ps 202.6 billion are explained by the bank's Central American operations which were partially offset by a Ps 56.8 billion decrease in the bank's Colombian operations.

Total interest income for Banco de Bogotá decreased by 1.1% or Ps 119.4 billion to Ps 11,195.4 billion in 2018, driven by a decrease of Ps 162.2 billion in interest income on total loans and leases[43] (driven by a 2.1% or Ps 225.6 billion decrease in interest income on loans and leases offset in part by a Ps 63.4 billion increase in interest income on interbank and overnight funds), offset in part by a Ps 42.7 billion increase in interest on investments in debt securities.

The following table shows the impact on interest income on loans and leases derived from changes in the average balance and the average yield per type of loan.

	Average balance for the years ended December 31,		Change, 2018 vs. 2017		Average yield for the years ended December 31,		Impact on interest income due to changes in		
	2018	2017	#	%	2018	2017	Balance	Yield	Total
	(in Ps billions)						(in Ps billions)		
Commercial loans and leases	61,647.9	59,813.9	1,834.1	3.1	7.3%	8.2%	134.8	(527.8)	(393.0)
Consumer loans and leases	28,784.6	27,010.3	1,774.2	6.6	16.6%	17.5%	295.0	(235.5)	59.5
Mortgage loans and leases	12,820.9	11,781.5	1,039.4	8.8	8.2%	8.0%	85.2	27.4	112.6
Microcredit loans and leases	409.2	393.9	15.3	3.9	26.3%	28.5%	4.0	(8.7)	(4.6)
Loans and leases	**103,662.7**	**98,999.6**	**4,663.1**	**4.7**	**10.1%**	**10.8%**	**471.2**	**(696.8)**	**(225.6)**

The 2.1% or Ps 225.6 billion decrease in interest income on loans and leases for Banco de Bogotá in 2018 as compared to 2017 was mainly a result of a 70 basis points decrease in the average yield on loans and leases from 10.8% in 2017 to

[43] Unless otherwise indicated, "total loans and leases" refers to loans and leases plus interbank and overnight funds and "loans and leases" refers to loans and leases excluding interbank and overnight funds.

10.1% in 2018 that led to a Ps 696.8 billion decrease in interest income. This decrease was partially offset by a 4.7% or Ps 4,663.1 billion increase in the average balance of loans and leases to Ps 103,662.7 billion driven by Banco de Bogotá's Central American operation (increased 7.1% or Ps 3,145.2 billion). In Colombia, the bank focused on a strategy of profitable marginal growth (increased 2.8% or Ps 1,517.9 billion). The increase in the average balance resulted in a Ps 471.2 billion increase in interest income.

The Ps 63.4 billion increase in interest income on interbank and overnight funds for Banco de Bogotá in 2018 was due to a 20.4% or Ps 739.9 billion increase in the average balance of these funds resulting in a Ps 45.2 billion increase in interest income and a 50 basis points increase in the average yield from 5.6% in 2017 to 6.1% in 2018 that led to a Ps 18.2 billion increase in interest income.

Banco de Bogotá's interest income on investments in debt securities increased by 10.4%, or Ps 42.7 billion and it was mainly the result of a 31 basis points increase in the average yield of investment securities from 3.7% in 2017 to 4.0% in 2018, which resulted in a Ps 34.2 billion increase in interest income on investments in debt securities. Furthermore, an increase in the average balance of investments of 1.9% or Ps 211.2 billion led to a Ps 8.5 billion increase in interest income.

The following table shows the impact on interest expense derived from changes in the average balance and the average rate paid per type of interest-bearing funding.

	Average balance for the years ended December 31,		Change, 2018 vs. 2017		Average rate paid for the years ended December 31,		Impact on interest expense due to changes in		
	2018	2017	#	%	2018	2017	Balance	Rate	Total
	(in Ps billions)						(in Ps billions)		
Checking accounts	18,805.9	19,515.8	(709.8)	(3.6)	1.8%	1.5%	12.8	(55.6)	(42.9)
Time deposits	42,556.4	41,312.6	1,243.8	3.0	5.0%	5.3%	(61.7)	122.3	60.6
Savings accounts	29,918.7	28,598.8	1,319.8	4.6	2.4%	3.4%	(31.1)	298.4	267.3
Total deposits	**91,281.0**	**89,427.2**	**1,853.8**	**2.1**	**3.5%**	**3.8%**	**(64.1)**	**349.1**	**285.1**
Borrowings from banks and others	14,024.5	14,625.4	(601.0)	(4.1)	4.1%	3.8%	24.7	(48.5)	(23.8)
Interbank borrowings and overnight funds	2,299.5	2,322.4	(22.9)	(1.0)	3.6%	3.9%	0.8	8.3	9.1
Bonds issued	7,670.6	7,268.8	401.8	5.5	5.7%	5.7%	(22.7)	5.7	(17.1)
Borrowings from development entities	1,737.1	1,583.7	153.4	9.7	4.7%	5.9%	(7.3)	19.2	11.9
Other funding	**25,731.7**	**25,800.4**	**(68.7)**	**(0.3)**	**4.6%**	**4.5%**	**3.1**	**(22.9)**	**(19.8)**
Total funding	**117,012.8**	**115,227.6**	**1,785.2**	**1.5**	**3.7%**	**4.0%**	**(66.0)**	**331.3**	**265.3**

The 5.8% or Ps 265.3 billion decrease in total interest expense for Banco de Bogotá is explained by a decrease of 29 basis points in the average cost of funding, from 4.0% in 2017 to 3.7% in 2018, which led to a Ps 331.3 billion decrease in interest expense. This decrease was partially offset by a 1.5% or Ps 1,785.2 billion increase in the average balance of total interest-bearing funding to Ps 117,012.8 billion in 2018, resulting in a Ps 66.0 billion increase in interest expense. Interest expense for Banco de Bogotá's interest-bearing deposits decreased by 8.3% or Ps 285.1 billion to Ps 3,155.1 billion in 2018, mainly driven by a 39 basis points decrease in the average cost of deposits, from 3.8% in 2017 to 3.5% in 2018, which led to a Ps 349.1 billion decrease in interest expense. This decrease was offset by a 2.1% or Ps 1,853.8 billion increase in the average balance of interest-bearing deposits, from Ps 89,427.2 billion in 2017 to Ps 91,281.0 billion in 2018, which resulted in a Ps 64.1 billion increase in interest expense.

Since Banco de Bogotá's average total interest-earning assets[44] increased by 4.9%, or Ps 5,614.2 billion, to Ps 119,277.9 billion in 2018 and its net interest income increased by 2.2%, or Ps 145.8 billion to Ps 6,866.5 billion in 2018, the bank saw a 16 basis points decrease in the net interest margin from 5.9% in 2017 to 5.8% in 2018. The spread between the yield earned on loans and leases and the rate paid on deposits decreased 31 basis points from 7.0% in 2017 to 6.6% in 2018. As it will be explained in detail, the contraction in the net interest margin and spread was mainly driven by its Colombian

[44] Calculated as (i) gross loans including interbank and overnight funds, and (ii) fixed income investment securities at FVOCI and at AC.

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operation. The prevailing conditions of decreasing rates in Colombia directly impact the bank's Colombian loan book as 74% of its loans and leases in Colombia are commercial, of which the majority are floating rate.

Net interest income for Banco de Bogotá's Colombian operations:

Total interest income for Banco de Bogotá's Colombian operations decreased by 7.6% or Ps 478.2 billion to Ps 5,845.4 billion in 2018, driven by a decrease of Ps 519.2 billion in interest income on total loans and leases (driven by an 8.9% or Ps 531.5 billion decrease in interest income on loans and leases and partially offset by a Ps 12.3 billion increase in interest income on interbank and overnight funds), offset in part by a Ps 41.0 billion increase in interest on investments in debt securities.

The following table shows the impact on interest income on loans and leases derived from changes in the average balance and the average yield per type of loan.

	Average balance for the years ended December 31,		Change, 2018 vs. 2017		Average yield for the years ended December 31,		Impact on interest income due to changes in		
	2018	2017	#	%	2018	2017	Balance	Yield	Total
	(in Ps billions)						(in Ps billions)		
Commercial loans and leases	41,668.7	41,444.3	224.4	0.5	7.6%	9.0%	17.1	(584.2)	(567.1)
Consumer loans and leases	11,149.5	10,413.6	735.9	7.1	16.6%	17.8%	122.3	(118.9)	3.4
Mortgage loans and leases	3,226.0	2,683.7	542.3	20.2	9.4%	10.0%	51.1	(14.2)	36.9
Microcredit loans and leases	409.2	393.9	15.3	3.9	26.3%	28.5%	4.0	(8.7)	(4.6)
Loans and leases	**56,453.4**	**54,935.6**	**1,517.9**	**2.8**	**9.6%**	**10.9%**	**146.3**	**(677.7)**	**(531.5)**

The 8.9% or Ps 531.5 billion decrease in interest income on loans and leases for Banco de Bogotá's Colombian operations was driven by a 123 basis points decrease in the average yield on loans and leases from 10.9% in 2017 to 9.6% in 2018, which resulted in a Ps 677.7 billion decrease in interest income and was partially offset by a 2.8% or Ps 1,517.9 billion increase in the average balance of loans and leases from Ps 54,935.6 billion in 2017 to Ps 56,453.4 billion in 2018, which resulted in a Ps 146.3 billion increase in interest income. The decrease in the average yield was mainly driven by (i) lower average interest rates as the average Central Bank rate decreased 177 basis points from 6.13% in 2017 to 4.35% in 2018, and (ii) a more competitive landscape particularly in commercial loans and leases.

The Ps 12.3 billion increase in interest income on interbank and overnight funds for Banco de Bogotá's Colombian operations in 2018 was explained by a 27.6% or Ps 433.3 billion increase in the average balance of these funds resulting in a Ps 32.4 billion increase in interest income, partially offset by a 128 basis points decrease in the average yield from 8.8% in 2017 to 7.5% in 2018 that led to a Ps 20.1 billion decrease in interest income.

Interest income on investments in debt securities for Banco de Bogotá's Colombian operations increased by 19.1% or Ps 41.0 billion. This increase is explained by a 54 basis points increase in the average yield on investments from 3.7% in 2017 to 4.2% in 2018 mainly due to the strategy and timing of investments implemented by the bank, which resulted in a Ps 31.6 billion increase in interest income. The average balance of investment securities increased from Ps 5,806.5 billion in 2017 to Ps 6,027.6 billion in 2018, which led to a Ps 9.4 billion increase in interest income.

The following table shows the impact on interest expense derived from changes in the average balance and the average rate paid per type of interest-bearing funding.

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	Average balance for the years ended December 31,		Change, 2018 vs. 2017		Average rate paid for the years ended December 31,		Impact on interest expense due to changes in		
	2018	2017	#	%	2018	2017	Balance	Rate	Total
	(in Ps billions)						(in Ps billions)		
Checking accounts	6,333.1	7,853.3	(1,520.3)	(19.4)	3.6%	2.5%	55.3	(92.4)	(37.0)
Time deposits	21,277.7	22,453.0	(1,175.3)	(5.2)	4.8%	5.5%	56.2	156.0	212.3
Savings accounts	21,170.6	20,514.4	656.2	3.2	2.8%	4.2%	(18.2)	296.9	278.6
Total deposits	**48,781.4**	**50,820.7**	**(2,039.4)**	**(4.0)**	**3.8%**	**4.5%**	**76.8**	**377.1**	**453.9**
Borrowings from banks and others	4,183.4	4,311.8	(128.4)	(3.0)	2.5%	2.3%	3.3	(12.1)	(8.8)
Interbank borrowings and overnight funds	1,361.5	1,541.6	(180.0)	(11.7)	5.4%	5.2%	9.7	(2.7)	7.0
Bonds issued	6,717.3	6,008.2	709.0	11.8	5.6%	5.6%	(39.8)	(2.8)	(42.5)
Borrowings from development entities	1,737.1	1,583.7	153.4	9.7	4.7%	5.9%	(7.3)	19.2	11.9
Other funding	**13,999.3**	**13,445.4**	**553.9**	**4.1**	**4.6%**	**4.5%**	**(25.3)**	**(7.2)**	**(32.4)**
Total funding	**62,780.7**	**64,266.1**	**(1,485.4)**	**(2.3)**	**3.9%**	**4.5%**	**58.6**	**362.8**	**421.4**

Total interest expense for Banco de Bogotá's Colombian operations decreased 14.5% or Ps 421.4 billion, driven by a 56 basis points decrease in the average cost of funding from 4.5% in 2017 to 3.9% in 2018, consistent with the decreasing rate environment in Colombia, which resulted in a Ps 362.8 billion decrease in interest expense. The average balance of total interest-bearing funding also decreased 2.3% or Ps 1,485.4 billion to Ps 62,780.7 billion that led a Ps 58.6 billion decrease in interest expense. Interest expense on interest-bearing deposits, which represent the majority of the bank's Colombian operation funding, decreased by 19.8% or Ps 453.9 billion to Ps 1,836.3 billion in 2018, mainly driven by a 74 basis points decrease in the average cost of deposits, from 4.5% in 2017 to 3.8% in 2018, which resulted in a Ps 377.1 billion decrease in interest expense. The average balance of interest-bearing deposits decreased 4.0% or Ps 2,039.4 billion, from Ps 50,820.7 billion in 2017 to Ps 48,781.4 billion in 2018, leading to a Ps 76.8 billion decrease in interest expense.

Average total interest-earning assets for Banco de Bogotá's Colombian operations increased by 3.5%, or Ps 2,172.3 billion, to Ps 64,487.2 billion for the year ended December 31, 2018 while net interest income decreased by 1.7% or Ps 56.8 billion to Ps 3,370.5 billion. The above resulted in a 27 basis points decrease in net interest margin from 5.5% in 2017 to 5.2% in 2018. The spread between the yield earned on loans and leases and the rate paid on deposits decreased by 49 basis points from 6.4% in 2017 to 5.9% in 2018. As mentioned before, given the bank's loans and leases composition, when reference rates decrease its spreads and net interest margin follow the trend.

Net interest income for Banco de Bogotá's Central American operations:

Total interest income for the Central American operations increased by 7.2% or Ps 358.7 billion, driven by an increase of Ps 357.0 billion in interest income on total loans and leases (driven by a Ps 305.9 billion increase in interest income on loans and leases and Ps 51.1 billion increase in interest income on interbank and overnight funds), and a Ps 1.7 billion increase in interest on investment securities.

The following table shows the impact on interest income on loans and leases derived from changes in the average balance and the average yield per type of loan.

	Average balance for the years ended December 31,		Change, 2018 vs. 2017		Average yield for the years ended December 31,		Impact on interest income due to changes in		
	2018	2017	#	%	2018	2017	Balance	Yield	Total
	(in Ps billions)						(in Ps billions)		
Commercial loans and leases	19,979.2	18,369.6	1,609.6	8.8	6.8%	6.4%	109.1	65.0	174.1
Consumer loans and leases	17,635.1	16,596.7	1,038.4	6.3	16.6%	17.3%	172.8	(116.6)	56.1
Mortgage loans and leases	9,595.0	9,097.8	497.2	5.5	7.8%	7.4%	38.7	37.0	75.7
Loans and leases	**47,209.3**	**44,064.1**	**3,145.2**	**7.1**	**10.7%**	**10.7%**	**335.5**	**(29.6)**	**305.9**

The Ps 305.9 billion or 6.5% increase in interest income on loans and leases for Banco de Bogotá's Central American operations was mainly explained by a 7.1%, or Ps 3,145.2 billion increase in the average balance of loans and leases, which resulted in a Ps 335.5 billion increase in interest income. Partially offsetting this increase, there was a 7 basis points decrease in the average yield on loans and leases from 10.73% to 10.67% for 2017 and 2018, respectively, which led to a Ps 29.6 billion decrease in interest income.

The Ps 51.1 billion increase in interest income on interbank and overnight funds for Banco de Bogotá's Central American operations in 2018 was explained by a 175 basis points increase in the average yield from 3.2% in 2017 to 4.9% in 2018 that led to a Ps 35.9 billion increase in interest income. Additionally, a 14.9% or Ps 306.6 billion increase in the average balance of these funds resulted in a Ps 15.2 billion increase in interest income.

Interest income on investments in debt securities for Banco de Bogotá's Central American operations increased by 0.9%, or Ps 1.7 billion, to Ps 197.7 billion for the year ended December 31, 2018, driven by a slight increase in the average yield, from 3.75% for 2017 to 3.79% for 2018, leading to a Ps 2.1 billion increase in interest income. Partially offsetting this, there was a 0.2% or Ps 9.9 billion decrease in average balance of investment in debt securities from Ps 5,225.1 billion in 2017 to Ps 5,215.2 billion in 2018, which resulted in a Ps 0.4 billion decrease in interest income.

The following table shows the impact on interest expense derived from changes in the average balance and the average rate paid per type of interest-bearing funding.

	Average balance for the years ended December 31,		Change, 2018 vs. 2017		Average rate paid for the years ended December 31,		Impact on interest expense due to changes in		
	2018	2017	#	%	2018	2017	Balance	Rate	Total
	(in Ps billions)						(in Ps billions)		
Checking accounts	12,472.9	11,662.4	810.4	6.9	0.9%	0.9%	(7.0)	1.2	(5.8)
Time deposits	21,278.7	18,859.6	2,419.1	12.8	5.1%	5.0%	(124.4)	(27.3)	(151.7)
Savings accounts	8,748.1	8,084.4	663.6	8.2	1.3%	1.3%	(8.9)	(2.4)	(11.3)
Total deposits	**42,499.7**	**38,606.5**	**3,893.2**	**10.1**	**3.1%**	**3.0%**	**(120.8)**	**(48.0)**	**(168.8)**
Borrowings from banks and others	9,841.0	10,313.6	(472.5)	(4.6)	4.8%	4.4%	22.5	(37.5)	(15.0)
Interbank borrowings and overnight funds	938.0	780.8	157.1	20.1	0.9%	1.3%	(1.4)	3.5	2.2
Bonds issued	953.4	1,260.6	(307.2)	(24.4)	6.1%	6.6%	18.6	6.9	25.5
Other funding	**11,732.4**	**12,355.0**	**(622.6)**	**(5.0)**	**4.6%**	**4.4%**	**28.4**	**(15.8)**	**12.6**
Total funding	**54,232.1**	**50,961.5**	**3,270.6**	**6.4**	**3.4%**	**3.3%**	**(111.8)**	**(44.3)**	**(156.1)**

Total interest expense for Banco de Bogotá's Central American operations increased by 9.2%, or Ps 156.1 billion, explained by a 6.4% or Ps 3,270.6 billion increase in the average balance of total interest-bearing funding that resulted in a Ps 111.8 billion increase in interest expense. Also contributing to the increase in interest expense was a 9 basis points increase in the average cost of funding from 3.33% to 3.42% that led to a Ps 44.3 billion increase in interest expense. Interest expense on interest-bearing deposits increased by 14.7% or Ps 168.8 billion to Ps 1,318.7 billion in 2018, mainly driven by a 10.1% or Ps 3,893.2 billion increase in the average balance of interest-bearing deposits, from Ps 38,606.5 billion in 2017 to Ps 42,499.7 billion in 2018, which resulted in a Ps 120.8 billion increase in interest expense. In addition, the average cost of deposits increased by 12 basis points from 3.0% in 2017 to 3.1% in 2018, leading to a Ps 48.0 billion increase in interest expense.

Average total interest-earning assets for Banco de Bogotá's Central American operations increased by 6.7%, or Ps 3,441.9 billion, to Ps 54,790.7 billion for the year ended December 31, 2018, while net interest income grew by 6.2% or Ps 202.6 billion to Ps 3,496.0 billion. The above resulted in a 3 basis points decrease in net interest margin from 6.41% to 6.38% between 2017 and 2018. The spread between the yield earned on loans and leases and the rate paid on deposits, on the other hand, decreased 19 basis points from 7.75% in 2017 to 7.56% in 2018. This contraction in the spread was driven by competitive dynamics in some of the banks Central American operations.

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Net impairment loss on financial assets

	Year ended December 31, 2018	2017	Change, 2018 vs. 2017 #	%
	(in Ps billions)			
Impairment loss on loans and other accounts receivable	(2,610.9)	(2,459.3)	(151.6)	6.2
Impairment (loss) recovery on other financial assets	(5.1)	(0.1)	(5.0)	3,519.4
Recovery of charged-off financial assets	123.9	108.5	15.4	14.2
Net impairment loss on financial assets	**(2,492.1)**	**(2,350.9)**	**(141.2)**	**6.0**

	Year ended December 31, 2018		2017		Change, 2018 vs. 2017	
	Loans at least 91 days past due	Delinquency Ratio(1)	Loans at least 91 days past due	Delinquency Ratio(1)	Loans at least 91 days past due #	Delinquency Ratio %
	(in Ps billions)					
Loans and leases	**3,094.5**	**2.8%**	**2,501.0**	**2.4%**	**593.6**	**0.4**
Commercial loans and leases	1,938.3	3.0%	1,534.5	2.5%	403.8	0.5
Consumer loans and leases	825.6	2.6%	716.7	2.5%	108.9	0.1
Mortgage loans and leases	279.2	2.0%	207.0	1.7%	72.2	0.3
Microcredit loans and leases	51.4	12.3%	42.8	10.7%	8.6	1.6
Colombian Operations	**2,388.3**	**4.2%**	**1,948.7**	**3.5%**	**439.7**	**0.7**
Commercial loans and leases	1,776.5	4.3%	1,426.2	3.4%	350.3	0.9
Consumer loans and leases	470.6	4.0%	415.7	3.8%	55.0	0.2
Mortgage loans and leases	89.8	2.6%	64.0	2.2%	25.8	0.4
Microcredit loans and leases	51.4	12.3%	42.8	10.7%	8.6	1.6
Central American Operations	**706.2**	**1.3%**	**552.3**	**1.2%**	**153.9**	**0.1**
Commercial loans and leases	161.8	0.7%	108.3	0.6%	53.5	0.2
Consumer loans and leases	355.0	1.8%	301.1	1.7%	53.9	0.1
Mortgage loans and leases	189.4	1.8%	143.0	1.5%	46.4	0.3

(1) Calculated as 91 days past due loans divided by total gross loans and leases (excluding interbank and overnight funds)

Net impairment loss on financial assets for Banco de Bogotá increased by 6.0% or Ps 141.2 billion in 2018 as compared to 2017 (a Ps 203.1 billion increase in the Central American operation and a Ps 61.9 billion decrease in the Colombian operations), driven primarily by a 6.2% or Ps 151.6 billion increase in impairment loss on loans and other accounts receivable, and a Ps 5.0 billion increase in impairment (loss) recovery on other financial assets, partially offset by a Ps 15.4 billion increase in recoveries of charged-off financial assets.

Banco de Bogotá's cost of risk[45] remained stable at 2.5% for both 2017 and 2018. The cost of risk net of recoveries of charged-off financial assets[46] also remained stable at 2.4% for both 2017 and 2018. Cost of risk ratios for Banco de Bogotá's Colombian operations improved from 2.8% in 2017 to 2.6% in 2018 and from 2.6% in 2017 to 2.4% in 2018, respectively, while these ratios for Banco de Bogotá's Central American operations increased from 2.1% in 2017 to 2.4% in 2018. Explanations for the variation in cost of risk for both operations are detailed below.

Charge-offs for Banco de Bogotá increased by 15.5% or Ps 245.2 billion to Ps 1,826.1 billion in 2018 as compared to 2017, and its ratio of charge-offs to average balance of loans and leases (excluding interbank and overnight funds) ratio increased from 1.6% in 2017 to 1.8% in 2018.

The recovery of charged-off financial assets increased by 14.2% or Ps 15.4 billion, driven by an increase of Ps 15.4 billion in the recoveries of Banco de Bogotá's Colombian operations.

Banco de Bogotá's coverage ratio for loans 91 days past due was 165.9% at December 31, 2018, with a ratio of 148.8%

[45] Measured as impairment loss on loans and other accounts receivable divided by the average balance of loans and leases.
[46] Measured as impairment loss on loans and other accounts receivable, net of recoveries of charged-off assets divided by the average balance of loans and leases.

for its Colombian operations and 223.6% for its Central American operations. These ratios compare to 129.0%, 129.4% and 127.9% for the consolidated, Colombian and Central American operations at December 31, 2017, respectively. The increases in coverage include the impact of its implementation of IFRS 9 on January 1, 2018, which impacted the opening balance of loan loss allowance for 2018.

Net impairment loss on financial assets for Banco de Bogotá's Colombian operations:

Net impairment loss on financial assets for Banco de Bogotá's Colombian operations decreased by 4.3% or Ps 61.9 billion from Ps 1,429.0 billion in 2017 to Ps 1,367.0 billion in 2018, mainly explained by a 2.9% or Ps 44.7 billion decrease in impairment loss on loans and other accounts receivable (driven by a Ps 30.3 billion decrease in impairment loss on commercial loans and a Ps 19.0 billion decrease in impairment loss on consumer loans), and a Ps 15.4 billion increase in recoveries of charged-off financial assets.

The decrease in impairment loss on commercial loans was mainly driven by a 1.7% or Ps 696.9 billion decrease of the commercial loan and lease portfolio on a year-on-year basis. The decrease in impairment loss on microcredit loans and accounts receivable for Banco de Bogotá's Colombian operations was mainly driven by the adoption of IFRS 9 and the parameter's calibration of the model that better reflected the probability of default of 30 day past due loans.

The cost of risk for Banco de Bogotá's Colombian operations improved by 15 basis points from 2.80% in 2017 to 2.64% for 2018. The cost of risk net of recoveries of charged-off financial assets improved by 18 basis points from 2.60% in 2017 to 2.42% for 2018.

Net impairment loss on financial assets for Banco de Bogotá's Central American operations:

The Ps 203.1 billion increase in net impairment loss on financial assets resulting from the bank's Central American operations is mainly explained by a Ps 196.3 billion increase in impairment loss on loans and other accounts receivable from Ps 922.0 billion in 2017 to Ps 1,118.3 billion in 2018, and by a Ps 6.8 billion increase in impairment (loss) recovery on other financial assets mainly due to a deterioration of fixed income investments issued by Nicaragua's Central Bank.

The increase in impairment loss on loans and other accounts receivable of Ps 196.3 billion (led by higher provisions in Nicaragua and Costa Rica due to political and macroeconomic factors) was driven by (i) a Ps 96.3 billion increase in impairment loss on consumer loans and leases, (ii) a Ps 50.0 billion increase in impairment loss on commercial loans and leases, and (iii) a Ps 49.4 billion increase in impairment loss on mortgage loans and leases.

The cost of risk for Banco de Bogotá's Central American operations was 2.1% in 2017 and 2.4% in 2018.

Net income from commissions and fees

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Banking fees	3,150.9	2,995.4	155.5	5.2
Bonded warehouse services	99.0	109.5	(10.5)	(9.6)
Trust activities and portfolio management services	165.8	160.5	5.3	3.3
Pension and severance fund management	985.2	924.8	60.4	6.5
Income from commissions and fees	**4,401.0**	**4,190.2**	**210.8**	**5.0**
Expenses from commissions and fees	(362.8)	(351.1)	(11.7)	3.3
Net income from commissions and fees	**4,038.2**	**3,839.1**	**199.0**	**5.2**

Net income from commissions and fees for Banco de Bogotá increased by 5.2% or Ps 199.0 billion in 2018 as compared to 2017, with Ps 145.7 billion resulting from Banco de Bogotá's Central American operations and Ps 53.3 billion resulting from Banco de Bogotá's Colombian operations.

The Ps 53.3 billion or 2.9% increase resulting from Banco de Bogotá's Colombian operations was mainly driven by a Ps 57.3 billion or 6.4% increase in fees from pension and severance fund management (since the bank consolidates

Porvenir), a Ps 24.1 billion or 2.5% increase in commissions from banking fees and a Ps 5.3 billion or 3.3% increase in fees from trust activities and portfolio management services. These increases were partially offset by a Ps 22.9 billion or 8.7% increase in expenses from commissions and fees and a Ps 10.5 billion or 9.6% decrease in fees from bonded warehouse services.

The increase in fees from pension and severance fund management was primarily driven by a Ps 41.7 billion, or 6.4%, increase in fee income from the administration of mandatory pension funds from Ps 651.8 billion in 2017 to Ps 693.5 billion in 2018. Such results are explained by an increase of 0.5 million in the number of clients from 8.5 million as of December 31, 2017 to 8.9 million as of December 31, 2018.

Fee income from severance fund management increased by Ps 12.7 billion, or 8.1%, from Ps 157.5 billion in 2017 to Ps 170.2 billion in 2018. This increase was mainly due to an increase of 0.2 million in the number of severance funds clients from 4.0 million as of December 31, 2017 to 4.2 million as of December 31, 2018.

Revenues received from the administration of voluntary pension funds increased by Ps 7.3 billion or 9.7%, from Ps 75.2 billion in 2017 to Ps 82.5 billion in 2018. This increase was mainly due to an increase in the balance of managed funds from Ps 3.9 trillion as of December 31, 2017 to Ps 4.0 trillion as of December 31, 2018.

Revenues received from the administration of third-party liability pension funds decreased by Ps 4.4 billion or 36.7% from Ps 12.0 billion in 2017 to Ps 7.6 billion in 2018.

The Ps 145.7 billion or 7.4% increase in net income from commissions and fees from Banco de Bogotá's Central American operations, was mainly driven by a Ps 131.4 billion increase in banking fees net of a Ps 11.1 billion decrease in commissions and fee expenses.

Net income (expense) from sales of goods and services

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Income from sales of goods and services	130.6	104.3	26.3	25.2
Costs and expenses from sales of goods and services	(254.9)	(238.8)	(16.1)	6.7
Net income (expense) from sales of goods and services	**(124.3)**	**(134.5)**	**10.2**	**(7.6)**

Net income (expense) from sales of goods and services improved by Ps 10.2 billion in 2018 from a net expense of Ps 134.5 billion in 2017 to a net expense of Ps 124.3 billion in 2018. Income from sales of goods and services increased Ps 26.3 billion from Ps 104.3 billion in 2017 to Ps 130.6 billion in 2018, mainly driven by a Ps 24.8 billion increase in income from transportation and storage services in Almaviva, a subsidiary of Banco de Bogotá, and a Ps 5.3 billion increase in income from management consultancy activities in Megalínea, another subsidiary of Banco de Bogotá.

Costs and expenses from sales of goods and services showed a Ps 16.1 billion increase from Ps 238.8 billion in 2017 to Ps 254.9 billion for 2018.

The net expense from sales of goods and services is normal as the subsidiary's results included here offer services to Banco de Bogotá and its subsidiaries, and thus have their income eliminated in the consolidation process.

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Net trading income

During 2018, Banco de Bogotá's net trading income[47] was Ps 412.1 billion, 4.3% or Ps 16.8 billion higher than the Ps 395.2 billion for 2017. Colombian operations accounted for a Ps 8.5 billion increase in net trading income, and Banco de Bogotá's Central American operations contributed with a Ps 8.4 billion increase in net trading income. The Ps 16.8 billion increase in net trading income was driven by a Ps 302.5 billion increase in net trading income from derivatives offset in part by a Ps 285.7 billion decrease in net trading income from investment securities at FVTPL.

Total income from valuation on trading and hedging derivatives increased Ps 302.5 billion from Ps 94.5 billion in 2017 to Ps 397.0 billion in 2018, driven by the fluctuation of the Colombian peso during 2018.

The Ps 285.7 billion decrease in net trading income from investment securities at FVTPL, for Banco de Bogotá, was mainly driven by a decrease in the return from 13.3% in 2017 to 0.6% in 2018, resulting in a Ps 286.9 billion decrease in income. The average balance of Banco de Bogotá's fixed income and equity investments at FVTPL increased by 8.5%, or Ps 193.5 billion, to Ps 2,459.9 billion, and resulted in a Ps 1.2 billion increase in income. The decrease in the return of this portfolio was driven by lower returns on Porvenir's equity and fixed income securities at FVTPL related to its stabilization reserve (see Item 4. Information on the company—A. History and development of the company—Pension fund management—Porvenir).

For the Colombian operations, net trading income from investment securities at FVTPL decreased by Ps 178.6 billion to Ps 36.6 billion in 2018. This decrease was mainly explained by a decrease in the average return from 10.1% in 2017 to 1.6% in 2018, mainly driven by the performance of the trading portfolio in Porvenir in line with market conditions, that led to a Ps 181.7 billion decrease in income. The balance of the Colombian operations' fixed income and equity investments at FVTPL increased 9.1%, or Ps 193.8 billion, to Ps 2,320.4 billion, resulting in a Ps 3.1 billion increase in income. The decrease in income was offset by a Ps 187.1 billion increase in income from derivatives.

For the Central American operation net trading income from investment securities at FVTPL decreased Ps 107.0 billion from a net gain of Ps 85.5 billion in 2017 to a net loss of Ps 21.5 billion in 2018. The decrease was mainly explained by a decrease in the return, leading to a Ps 107.0 billion decrease in income, while the average balance of fixed income and equity investments at FVTPL remained basically unchanged and was Ps 139.5 billion for 2018. The decrease in income was offset by a Ps 115.4 billion increase in income from derivatives.

Total income from investment securities

Banco de Bogotá's securities portfolio is classified in the following categories: (i) equity and fixed income investments at FVTPL (described in this section as net trading income in investment securities at FVTPL), (ii) fixed income investments at FVOCI and (iii) fixed income investments at AC (results from (ii) and (iii) are included in the net interest income section as interest income on investments in debt securities).

Total income from investment securities for Banco de Bogotá (comprised of interest income on investments in debt securities and net trading income from investment securities at FVTPL) was Ps 467.9 billion for 2018, Ps 243.0 billion lower than the Ps 710.8 billion for 2017. This was primarily driven by a decrease of 193 basis points in the average return on total investment securities from 5.3% in 2017 to 3.4% in 2018, generating a Ps 256.8 billion decrease in interest income, which was partially offset by a Ps 404.7 billion increase in the average balance of total investment securities from Ps 13,298.1 billion in 2017 to Ps 13,702.8 billion in 2018, resulting in a Ps 13.8 billion increase in interest income. The decrease in income was offset by the above-mentioned effect of derivatives.

[47] Includes (i) net trading income from investment securities at FVTPL, which reflects the interest and gains/losses from mark-to-market valuation, in each case from equity and fixed income investment securities at FVTPL, and (ii) net trading income from derivatives, which reflects the gains/losses from mark-to-market valuation on derivatives different from that considered under hedge accounting.

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Total income from investment securities for Banco de Bogotá's Colombian operations:

Total income from investment securities for Banco de Bogotá's Colombian operations was Ps 291.7 billion for 2018, Ps 137.6 billion lower than the Ps 429.3 billion for 2017. This was primarily driven by a decrease of 192 basis points in the average return on total investment securities from 5.4% in 2017 to 3.5% in 2018, generating a Ps 152.1 billion decrease in interest income. Partially offsetting this decrease, there was a Ps 414.9 billion increase in the average balance of total investment securities from Ps 7,933.1 billion in 2017 to Ps 8,348.0 billion in 2018, resulting in a Ps 14.5 billion increase in interest income. As mentioned before, derivatives operations offset the lower returns from investment securities.

Total income from investment securities for Banco de Bogotá's Central American operations:

Total income from investment securities for Banco de Bogotá's Central American operations was Ps 176.2 billion for 2018, Ps 105.3 billion lower than the Ps 281.5 billion for 2017. This was primarily driven by a decrease of 196 basis points in the average return on total investment securities from 5.2% in 2017 to 3.3% in 2018, generating a Ps 105.0 billion decrease in interest income. Furthermore, the average balance of total investment securities decreased Ps 10.2 billion or 0.2% from Ps 5,364.9 billion in 2017 to Ps 5,354.8 billion in 2018, resulting in a Ps 0.3 billion decrease in interest income. As described above, derivatives operations offset the lower returns from investment securities. The decrease in income was offset by the above-mentioned effect of derivatives.

Other income

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Foreign exchange gains (losses), net	302.8	344.6	(41.8)	(12.1)
Gains (losses) on sales of investments, net	24.8	36.8	(12.0)	(32.5)
Income from sales of noncurrent assets held for sale	18.8	13.0	5.8	44.8
Equity method investees	568.2	42.6	525.6	1,232.9
Dividend income	17.7	4.4	13.3	301.4
Gains on valuation of assets, net	29.3	6.1	23.1	378.0
Other	625.2	183.2	441.9	241.2
Other income	**1,586.7**	**630.7**	**956.0**	**151.6**

Total other income for Banco de Bogotá increased by Ps 956.0 billion to Ps 1,586.7 billion in 2018, with Ps 801.0 billion resulting from Banco de Bogotá's Colombian operations and Ps 155.0 billion from Banco de Bogotá's Central American operations.

The Ps 801.0 billion increase from Banco de Bogotá's Colombian operations was mainly driven by Ps a 525.6 billion increase in equity method investees related to an increase in Corficolombiana's net income derived from strong results in their non-financial subsidiaries (for further details see "─Corficolombiana"), a Ps 443.0 billion increase in other income related to (i) Ps 312.3 billion gain in non-monetary transactions associated with PP&E structure optimizations and (ii) Ps 123.4 billion gain from the dilution resulting from Corficolombiana's capitalization process in August 2018, and a Ps 23.1 billion increase in gains on valuation of assets, net. Partially offsetting these increases, there was a Ps 190.9 billion decrease in foreign exchange gains, net.

The Ps 155.0 billion increase from Banco de Bogotá's Central American operations was mainly driven by a Ps 149.1 billion increase in foreign exchange gains (losses), net.

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Other expense

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Losses from sales of noncurrent assets held for sale	(4.6)	(0.4)	(4.2)	1,010.6
Personnel expenses	(2,547.1)	(2,471.5)	(75.6)	3.1
Salaries and employee benefits	(2,359.0)	(2,295.4)	(63.5)	2.8
Bonus plan payments	(132.0)	(118.1)	(13.9)	11.8
Labor severances	(56.1)	(58.0)	1.9	(3.3)
Administrative and other expenses	(3,171.1)	(2,979.0)	(192.2)	6.5
Depreciation and amortization	(363.3)	(361.6)	(1.6)	0.5
Wealth tax	—	(56.3)	56.3	(100.0)
Impairment loss on other assets	(32.6)	(25.5)	(7.1)	27.9
Other expenses	(87.1)	(102.8)	15.7	(15.3)
Charitable and other donation expenses	(8.1)	(7.5)	(0.6)	7.9
Other	(79.0)	(95.3)	16.3	(17.1)
Other expense	**(6,205.8)**	**(5,997.2)**	**(208.6)**	**3.5**

Total other expenses for Banco de Bogotá increased by Ps 208.6 billion, or 3.5%, in 2018 as compared to 2017. This increase was driven by a Ps 192.2 billion increase in administrative and other expenses, a Ps 75.6 billion increase in personnel expenses, a Ps 7.1 billion increase in impairment loss on other assets, a Ps 4.2 billion increase in losses from sales of noncurrent assets held for sale and Ps 1.6 billion increase in depreciation and amortization, which were partially offset by a Ps 56.3 billion decrease in wealth tax (last installment paid in 2017) and a Ps 15.7 billion decrease in other expenses.

The Ps 192.2 billion increase in administrative expenses was mainly explained by a Ps 97.4 billion increase in taxes and surcharges, and a Ps 86.5 billion increase in consultancy, audit and other fees.

The increase in personnel expenses for Banco de Bogotá resulted from a 2.8% or Ps 63.5 billion increase in salaries and employee benefits and a Ps 13.9 billion increase in bonus plan payments.

Banco de Bogotá's efficiency ratio[48] improved from 48.4% in 2017 to 47.0% in 2018 and the ratio of personnel and administrative and other expenses as a percentage of average assets remained basically unchanged at 3.8% for both 2017 and 2018.

Of the Ps 208.6 billion increase in total other expenses for Banco de Bogotá, Ps 185.3 billion was driven by the Central American operations and Ps 23.3 billion by the Colombian operations.

Other expenses for Banco de Bogotá's Colombian operations:

The Ps 23.3 billion or 0.8% increase in total other expenses resulting from Colombian operations was mainly driven by a 3.3% or Ps 50.5 billion increase in administrative and other expenses, a 1.3% or Ps 12.4 billion increase in personnel expenses, a 7.6% or Ps 11.8 billion increase depreciation and amortization and a Ps 11.2 billion increase in impairment loss on other assets. Partially offsetting this increase, there was a Ps 56.3 billion decrease in wealth tax and a Ps 6.0 billion decrease in other expenses.

The increase in administrative expenses was driven by a Ps 64.1 billion increase in consultancy, audit and other fees, a Ps 15.4 billion increase in taxes and surcharges, partially offset by a Ps 18.0 billion decrease in maintenance and repairs.

[48] Calculated as personnel and administrative and other expenses divided by net interest income, fees and other services income, net trading income and other income excluding other.

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The increase in personnel expenses for Banco de Bogotá's Colombian operation was mainly driven by a 1.8% increase in salaries and employee benefits which compares very favorably to the 2017 4.09% inflation rate. The number of employees in Banco de Bogotá's Colombian financial operation slightly decreased from 21,615 in 2017 to 21,629 in 2018.

Banco de Bogotá's Colombian operations' efficiency ratio improved 173 basis points from 44.7% in 2017 to 43.0% in 2018 and the ratio of personnel and administrative and other expenses as a percentage of average assets slightly deteriorated from 3.22% in 2017 to 3.25% in 2018.

Other expenses for Banco de Bogotá's Central American operations:

The Ps 185.3 billion increase in total other expenses resulting from Central American operations is mainly explained by a 9.9% or Ps 141.6 billion increase in administrative and other expenses and a 4.2% or Ps 63.2 billion increase personnel expenses, partially offset by 4.9% or Ps 10.2 billion decrease in depreciation and amortization, and a Ps 9.7 billion decrease other expenses.

The Ps 141.6 billion increase in administrative and other expenses was driven by a Ps 82.1 billion increase in taxes and surcharges, a Ps 22.4 billion increase in consultancy, audit and other fees and a Ps 9.4 billion increase in marketing and advertising.

The increase in personnel expenses for Banco de Bogotá's Central American operation resulted from a 3.5% increase in salaries and employee benefits and a 27.9% or Ps 11.0 billion increase in labor severances expenses associated with a headcount optimization plan. The number of employees in Banco de Bogotá's Central America operation decreased from 24,401 in 2017 to 24,056 in 2018.

Banco de Bogotá's Central American's operations' efficiency ratio improved from 52.0% in 2017 to 51.0% in 2018 and the ratio of personnel and administrative and other expenses as a percentage of average assets remained stable at 4.4% for both 2017 and 2018.

Income tax expense

Income tax expense for Banco de Bogotá decreased by 2.1%, or Ps 20.2 billion, to Ps 950.0 billion in 2018. The decrease in income tax expense can be explained by (i) a positive impact of the Financing Law on deferred taxes which decreased the future expected tax rate from 33% to 30% (see Note 19 of Financial Statements) which resulted in a Ps 23.2 billion decrease in income tax expense and (ii) a lower statutory tax rate from 40% in 2017 to 37% in 2018 that resulted in a Ps 104.9 billion decrease in income tax expense in 2018 partially offset by a Ps 382.9 billion, or 12.3%, higher net income before taxes base[49] that resulted in a Ps 153.2 billion higher income tax expense.

Banco de Bogotá's effective tax rate[50] was 27.2% in 2018 compared to 31.2% in 2017. The effective tax rate for Banco de Bogota's Colombian operations decreased from 32.1% in 2017 to 25.0% in 2018. The effective tax rate for Banco de Bogota's Central American operations decreased from 30.2% in 2017 to 29.6% in 2018. Given that 2018 had a one-time positive impact on taxes, the bank expects the effective tax rate to go back to level closer to the mandatory rate in 2019.

Net income attributable to non-controlling interest

Net income attributable to non-controlling interest decreased by Ps 31.0 billion, to Ps 194.0 billion in 2018 as compared with Ps 225.0 billion in 2017. The ratio of net income attributable to non-controlling interest to net income was 6.2% in 2018 compared to 10.5% in 2017.

[49] Net income before income tax expense minus equity method, minus dividends, plus wealth tax.
[50] Calculated as income tax expense divided by income before income tax expense excluding dividends and the equity method, as both are non-taxable income, and the equity tax as it is a non-deductible expense.

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Banco de Occidente

Net income

	For the year ended December 31,		Change December 2018 vs December 2017	
	2018	2017	#	%
	(in Ps billions)			
Total interest income	3,098.5	3,451.9	(353.4)	(10.2)
Total interest expense	(1,135.2)	(1,388.1)	253.0	(18.2)
Net interest income	**1,963.3**	**2,063.7**	**(100.4)**	**(4.9)**
Net impairment loss on financial assets	(894.5)	(897.9)	3.3	(0.4)
Net income from commissions and fees	337.6	307.7	29.9	9.7
Net income (expense) from sales of goods and services	(67.1)	(66.0)	(1.1)	1.7
Net trading income	104.8	49.7	55.1	111.0
Other income	252.0	294.8	(42.9)	(14.5)
Other expense	(1,315.2)	(1,258.7)	(56.5)	4.5
Income before income tax expense	**380.8**	**493.5**	**(112.6)**	**(22.8)**
Income tax expense	35.5	(115.8)	151.2	(130.6)
Net income for the year	**416.3**	**377.7**	**38.6**	**10.2**
Net income for the year attributable to:				
Owners of the parent	**413.4**	**376.0**	**37.3**	**9.9**
Non-controlling interest	**2.9**	**1.6**	**1.3**	**76.5**

Banco de Occidente's net income attributable to owners of the parent increased by 9.9%, or Ps 37.3 billion, to Ps 413.4 billion in 2018 as compared to Ps 376.0 billion in 2017. Despite a Ps 112.6 billion decrease in income before taxes, the increase in net income attributable to owners of the parent was driven by a Ps 151.2 billion decrease in income tax expense, a Ps 55.1 billion increase in net trading income, a Ps 29.9 billion increase in net income from commissions and fees and a Ps 3.3 billion decrease in net impairment loss on financial assets. Partially offsetting the above, there was a Ps 100.4 billion decrease in net interest income, a Ps 56.5 billion increase in other expenses and a Ps 42.9 billion decrease in other income.

Net interest income

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Interest income using the effective interest method:				
Commercial loans and leases	1,708.9	2,020.0	(311.0)	(15.4)
Consumer loans and leases	1,015.8	1,107.4	(91.6)	(8.3)
Mortgage loans and leases	123.7	109.0	14.7	13.5
Interbank and overnight funds	38.5	25.8	12.7	49.1
Interest on loans and leases	**2,886.9**	**3,262.1**	**(375.2)**	**(11.5)**
Interest on investments in debt securities	211.6	189.8	21.8	11.5
Total interest income	**3,098.5**	**3,451.9**	**(353.4)**	**(10.2)**
Interest expense:				
Checking accounts	(10.7)	(11.4)	0.7	(5.9)
Time deposits	(403.6)	(534.8)	131.3	(24.5)
Savings deposits	(380.1)	(487.2)	107.0	(22.0)
Total interest expense on deposits	**(794.4)**	**(1,033.4)**	**239.0**	**(23.1)**
Borrowings from banks and others	(51.1)	(37.2)	(14.0)	37.6
Interbank borrowings and overnight funds	(9.9)	(22.7)	12.8	(56.3)
Bonds issued	(233.0)	(242.3)	9.4	(3.9)
Borrowings from development entities	(46.7)	(52.5)	5.8	(11.0)
Total interest expense	**(1,135.2)**	**(1,388.1)**	**253.0**	**(18.2)**
Net interest income	**1,963.3**	**2,063.7**	**(100.4)**	**(4.9)**

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Banco de Occidente's net interest income decreased by 4.9%, or Ps 100.4 billion, to Ps 1,963.3 billion in 2018 as compared to 2017. This decrease was primarily driven by a Ps 353.4 billion or 10.2% decrease in total interest income to Ps 3,098.5 billion in 2018, offset in part by a Ps 253.0 billion, or 18.2%, decrease in total interest expense during the same period. The decrease in total interest income was mainly the result of a 11.5%, or Ps 375.2 billion, decrease in interest income on total loans and leases[51] to Ps 2,886.9 billion (driven by a Ps 387.9 billion decrease in interest income on loans and leases and a Ps 12.7 billion increase in interest income on interbank and overnight funds) and despite a 11.5%, or Ps 21.8 billion, increase in interest on investments in debt securities to Ps 211.6 billion in 2018.

The following table shows the impact on interest income on loans and leases derived from changes in the average balance and the average yield per type of loan.

	Average balance for the years ended December 31,		Change, 2018 vs. 2017		Average yield for the years ended December 31,		Impact on interest income due to changes in		
	2018	2017	#	%	2018	2017	Balance	Yield	Total
	(in Ps billions)						(in Ps billions)		
Commercial loans and leases	19,200.9	19,297.8	(96.9)	(0.5)	8.9%	10.5%	(8.6)	(302.4)	(311.0)
Consumer loans and leases	6,733.3	6,907.9	(174.6)	(2.5)	15.1%	16.0%	(26.3)	(65.2)	(91.6)
Mortgage loans and leases	1,265.1	1,079.0	186.1	17.2	9.8%	10.1%	18.2	(3.5)	14.7
Loans and leases	**27,199.3**	**27,284.7**	**(85.5)**	**(0.3)**	**10.5%**	**11.9%**	**(8.9)**	**(378.9)**	**(387.9)**

The Ps 387.9 billion decrease in interest income earned on loans and leases was driven by 139 basis points decrease in the average yield on loans and leases from 11.9% in 2017 to 10.5% in 2018, which resulted in a Ps 378.9 billion decrease in interest income, and a 0.3%, or Ps 85.5 billion, decrease in Banco de Occidente's average loan and lease portfolio from Ps 27,284.7 billion in 2017 to Ps 27,199.3 billion, which resulted in a Ps 8.9 billion decrease in interest income. Despite a 177 basis points decrease in the average Central Bank rate, from 6.13% in 2017 to 4.35% in 2018, Banco de Occidente's average yield on loans and leases showed some resilience due to a lag in repricing of the loan portfolio, mainly in the consumer and mortgage portfolios. These portfolios represent 29.3% of Banco Occidente's loans and leases, where 77.2% are fixed rate loans.

Interest income on interbank and overnight funds increased by Ps 12.7 billion from Ps 25.8 billion in 2017 to Ps 38.5 billion in 2018, driven by a Ps 224.0 billion increase in the average balance of these funds from Ps 751.0 billion in 2017 to Ps 975.1 billion in 2018, which resulted in a Ps 8.8 billion increase in income. In addition, a 51 basis points increase in the average yield from 3.4% in 2017 to 3.9% in 2018, resulted in a Ps 3.8 billion increase in income.

The Ps 21.8 billion increase to Ps 211.6 billion in interest on investments in debt securities in 2018, is explained by an 18.4%, or Ps 800.4 billion increase in the average balance of investments in debt securities from Ps 4,340.1 billion to Ps 5,140.5 billion, that resulted in a Ps 32.9 billion increase in income. However, a 26 basis points decrease in the average yield of these investments from 4.4% in 2017 to 4.1% in 2018, resulted in a Ps 11.1 billion decrease in interest income partially offsetting the increase driven by volume mentioned before. The decline in the average yield was due to different market conditions seen in 2018 as compared to a higher yielding 2017, explained in part by the above-mentioned decrease in the average Central Bank rate.

[51] Unless otherwise indicated, "total loans and leases" refers to loans and leases plus interbank and overnight funds and "loans and leases" refers to loans and leases excluding interbank and overnight funds.

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The following table shows the impact on interest expense derived from changes in the average balance and the average rate paid per type of interest-bearing funding.

	Average balance for the years ended December 31,		Change, 2018 vs. 2017		Average rate paid for the years ended December 31,		Impact on interest expense due to changes in		
	2018	2017	#	%	2018	2017	Balance	Rate	Total
	(in Ps billions)						(in Ps billions)		
Checking accounts	1,640.5	1,465.8	174.8	11.9	0.7%	0.8%	(1.1)	1.8	0.7
Time deposits	8,444.0	9,215.7	(771.8)	(8.4)	4.8%	5.8%	36.9	94.4	131.3
Savings accounts	11,435.2	10,502.2	933.0	8.9	3.3%	4.6%	(31.0)	138.0	107.0
Total deposits	**21,519.6**	**21,183.7**	**336.0**	**1.6**	**3.7%**	**4.9%**	**(12.4)**	**251.4**	**239.0**
Borrowings from banks and others	1,384.0	1,105.5	278.6	25.2	3.7%	3.4%	(10.3)	(3.7)	(14.0)
Interbank borrowings and overnight funds	469.5	802.9	(333.4)	(41.5)	2.1%	2.8%	7.1	5.7	12.8
Bonds issued	3,225.9	2,939.6	286.2	9.7	7.2%	8.2%	(20.7)	30.1	9.4
Borrowings from development entities	1,162.7	1,037.1	125.5	12.1	4.0%	5.1%	(5.0)	10.8	5.8
Other funding	**6,242.0**	**5,885.1**	**356.9**	**6.1**	**5.5%**	**6.0%**	**(19.5)**	**33.5**	**14.0**
Total funding	**27,761.7**	**27,068.8**	**692.9**	**2.6**	**4.1%**	**5.1%**	**(28.3)**	**281.3**	**253.0**

Total interest expense decreased by 18.2% or Ps 253.0 billion in 2018 as compared to 2017 (Ps 239.0 billion in interest bearing deposits and Ps 14.0 billion in other interest-bearing funding), mainly driven by a 104 basis points decrease in the average cost of funds from 5.1% in 2017 to 4.1% in 2018 which led to a Ps 281.3 billion decrease in interest expense. The decrease in the average cost of funds resulted from the decreasing interest rate environment in Colombia described above. The average balance of interest-bearing funding increased by 2.6% or Ps 692.9 billion from Ps 27,068.8 billion in 2017 to Ps 27,761.7 billion in 2018, resulting in a Ps 28.3 billion increase in interest expense.

Average total interest earning assets[52] increased by 2.9%, or Ps 938.9 billion, from Ps 32,375.9 billion in 2017 to Ps 33,314.8 billion in 2018 and net interest income decreased by 4.9%, or Ps 100.4 billion, from Ps 2,063.7 billion to Ps 1,963.3 billion over the same period, which resulted in a 48 basis points contraction in the net interest margin from 6.4% in 2017 to 5.9% in 2018. The interest spread between the average rate on loans and leases and the average rate paid on deposits decreased 20 basis points from 7.0% in 2017 to 6.8% in 2018. The contraction of the spread and net interest margin of the bank was in line with a decreasing interest rate scenario as 70.7% of its loan portfolio is comprised of commercial loans with variable rates.

Net impairment loss on financial assets

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Impairment loss on loans and other accounts receivable	(1,014.4)	(993.4)	(21.1)	2.1
Impairment (loss) recovery on other financial assets	1.8	—	1.8	N.A.
Recovery of charged-off financial assets	118.1	95.5	22.6	23.7
Net impairment loss on financial assets	**(894.5)**	**(897.9)**	**3.3**	**(0.4)**

[52] Calculated as (i) gross loans including interbank and overnight funds, and (ii) fixed income investment securities at FVOCI and at AC.

	Year ended December 31,				Change, 2018 vs. 2017	
	2018		2017		Loans at least 91 days past due	Delinquency Ratio
	Loans at least 91 days past due	Delinquency Ratio(1)	Loans at least 91 days past due	Delinquency Ratio(1)	#	%
	(in Ps billions)					
Loans and leases	**1,103.9**	**3.9%**	**954.5**	**3.5%**	**149.4**	**0.4**
Commercial loans and leases	866.5	4.4%	689.9	3.6%	176.6	0.8
Consumer loans and leases	202.4	3.0%	238.3	3.5%	(36.0)	(0.5)
Mortgage loans and leases	35.1	2.5%	26.3	2.2%	8.8	0.3

(1) Calculated as 91 days past due loans divided by total gross loans (excluding interbank and overnight funds)

Net impairment loss on financial assets decreased by 0.4%, or Ps 3.3 billion, in 2018 as compared to 2017. This improvement was primarily driven by a Ps 22.6 billion increase in recoveries of charged-off financial assets (driven by improvements in collection processes) and a Ps 1.8 billion decrease in impairment (loss) recovery on other financial assets, partially offset by a Ps 21.1 billion increase in impairment loss on loans and other accounts receivable.

The increase in impairment loss on loans and other accounts receivable of Ps 21.1 billion was driven by an increase in the bank's impairment loss on commercial and mortgage loans and accounts receivable. These were partially offset by a decrease in impairment loss on consumer loans and accounts receivable.

The increase in impairment loss on mortgages and accounts receivable of Ps 18.1 billion was mainly driven by a 28 basis points increase in the 91 days past due mortgages loans and leases portfolio (the delinquency ratio increased from 2.2% in 2017 to 2.5% in 2018).

The improvement in impairment loss on consumer loans and accounts receivable of Ps 47.1 billion was mainly a result of an improvement in the 91 days past due consumer loans and leases portfolio (the delinquency ratio of the consumer loan portfolio decreased from 3.5% in 2017 to 3.0% in 2018). The decrease in consumer 91 days past due loans and leases was driven by the recovery of the economic cycle in Colombia boosted by the bank's growth strategy focused on payroll lending, and by improvements in collection and loan origination processes.

The bank's cost of risk[53] increased 9 basis points from 3.6% for 2017 to 3.7% in 2018 and its cost of risk net of recoveries of charged-off financial assets[54] remained stable at 3.3% for 2017 and 2018.

Charge-offs increased from Ps 683.1 billion for the year ended December 31, 2017 to Ps 859.6 billion for the year ended December 31, 2018 and the ratio of charge-offs to average loans (excluding interbank and overnight funds) increased from 2.5% for the year ended December 31, 2017 to 3.2% for the year ended December 31, 2018.

Since Banco de Occidente's net impairment loss on loans and leases increased, in absolute terms more than charge-offs, the allowance for impairment loss on loans and leases increased from Ps 1,135.7 billion as of December 31, 2017 to Ps 1,576.9 billion as of December 31, 2018. As of December 31, 2018 Banco de Occidente's coverage over its 91 days past due loans was 142.8% versus 119.0% as of December 31, 2017. The increases in coverage include the impact of its implementation of IFRS 9 on January 1, 2018, which impacted the opening balance of loan loss allowance for 2018.

[53] Measured as impairment loss on loans and other accounts receivable divided by the average balance of loans and leases.
[54] Measured as impairment loss on loans and other accounts receivable, net of recoveries of charged-off assets divided by the average balance of loans and leases.

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Net income from commissions and fees

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Banking fees	345.3	340.5	4.7	1.4
Trust activities and portfolio management services	63.9	61.3	2.6	4.3
Income from commissions and fees	**409.2**	**401.8**	**7.4**	**1.8**
Expenses from commissions and fees	(71.6)	(94.1)	22.5	(23.9)
Net income from commissions and fees	**337.6**	**307.7**	**29.9**	**9.7**

Net income from commissions and fees increased by 9.7% or Ps 29.9 billion to Ps 337.6 billion in 2018 as compared to 2017. This was primarily due to a 23.9%, or Ps 22.5 billion decrease in expenses from commissions and fees, a 1.4%, or Ps 4.7 billion increase in banking fees and a Ps 2.6 billion increase in trust activities fees.

The decrease in expenses from commissions and fees is explained by a decrease in expenses from banking services and others. The two main drivers for this decrease were a Ps 25.0 billion of savings resulting from the migration of third-party providers to Ventas y Servicios S.A. (see "Item 4—. Information on the Company—B. Business overview—Other corporate information—Technology"), a subsidiary of Banco de Occidente, and the reduction of the interbank automated clearing house tariff charged by ACH Colombia S.A. in May 2018 to all the banks in the market, that led to Ps 7.1 billion savings between 2017 and 2018 which were partially transferred to clients through lower fees.

Net income (expense) from sales of goods and services

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Income from sales of goods and services	175.8	140.6	35.3	25.1
Costs and expenses from sales of goods and services	(242.9)	(206.5)	(36.4)	17.6
Net income (expense) from sales of goods and services	**(67.1)**	**(66.0)**	**(1.1)**	**1.7**

Net expense from sales of goods and services increased 1.7%, or Ps 1.1 billion from a net expense of Ps 66.0 billion in 2017 to a net expense of Ps 67.1 billion in 2018.

Income from sales of goods and services increased 25.1%, or Ps 35.3 billion from Ps 140.6 billion in 2017 to Ps 175.8 billion in 2018. This reflects rising revenues from third-party contact center services and business-processing outsourcing in Ventas y Servicios.

Costs and expenses from sales of goods and services increased Ps 36.4 billion from Ps 206.5 billion in 2017 to Ps 242.9 billion in 2018, explained by a Ps 36.7 billion increase in personnel expenses in Ventas y Servicios due to the increase in employees required to serve the rising revenues from third-party clients and Banco de Occidente's migration from third-party providers to Ventas y Servicios, as mentioned above.

Net trading income

During 2018, the bank's net trading income[55] was Ps 104.8 billion, Ps 55.1 billion higher than the Ps 49.7 billion in 2017.

[55] Includes (i) net trading income from investment securities at FVTPL, which reflects the interest and gains/losses from mark-to-market valuation, in each case from equity and fixed income investment securities at FVTPL, and (ii) net trading income from derivatives, which reflects the gains/losses from mark-to-market valuation on derivatives different from that considered under hedge accounting.

Net trading income from investment securities at FVTPL decreased Ps 9.7 billion to Ps 36.1 billion in 2018. This decrease was mainly driven by a 350 basis points reduction in the average yield from 8.7% in 2017 to 5.2% in 2018, that resulted in a Ps 18.4 billion decrease in income. Partially offsetting the above-mentioned, there was a 31.5%, or Ps 165.2 billion, increase in the average balance of Banco de Occidente's fixed income and equity investments at FVTPL to Ps 689.8 billion, resulted in a Ps 8.6 billion increase in income.

Net trading income from derivatives increased Ps 64.8 billion from a gain of Ps 3.9 billion in 2017 to a gain of Ps 68.7 billion in 2018.

Total income from investment securities

Banco de Occidente's securities portfolio is classified in the following categories: (i) equity and fixed income investments at FVTPL (described in this section as net trading income in investment securities at FVTPL), (ii) fixed income investments at FVOCI and (iii) fixed income investments at AC (results from (ii) and (iii) are included in the net interest income section as interest income on investments in debt securities).

Total income from investment securities for the bank (comprised of interest income on investments in debt securities and net trading income in investment securities at FVTPL) was Ps 247.7 billion for 2018, 5.1% or Ps 12.1 billion higher than the Ps 235.5 billion registered during 2017. This was primarily driven by a Ps 965.6 billion increase in the average balance of total investment securities from Ps 4,864.6 billion in 2017 to Ps 5,830.3 billion in 2018, resulting in a Ps 41.0 billion increase in interest income. The average yield on investment securities decreased from 4.8% in 2017 to 4.3% in 2018, generating a Ps 28.9 billion decrease in interest income. As mentioned above, the contraction of the yield was primarily a consequence of prevailing market conditions during 2018.

Other income

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Foreign exchange gains (losses), net	(10.7)	52.1	(62.8)	(120.6)
Gains (losses) on sales of investments, net	10.5	13.6	(3.1)	(23.1)
Income from sales of noncurrent assets held for sale	0.4	0.4	0.0	5.5
Equity method investees	182.8	142.0	40.9	28.8
Dividend income	2.7	5.9	(3.2)	(54.0)
Gains on valuation of assets, net	(2.7)	32.6	(35.3)	(108.2)
Other	68.9	48.3	20.6	42.6
Other income	**252.0**	**294.8**	**(42.9)**	**(14.5)**

Other income decreased Ps 42.9 billion or 14.5% mainly driven by a (i) Ps 62.8 billion decrease in foreign exchange gains (losses), net as a compensation to the results in net trading income from derivatives described above and a (ii) Ps 35.3 billion decrease in gains on valuation of assets, net. These were partially offset by a Ps 40.9 billion increase in the equity method investees and a Ps 20.6 billion in other income.

Beginning in 2018, Banco de Occidente started to record Corficolombiana as an associate, rather than as an equity instrument available for sale. As a consequence of this change, Banco de Occidente recognized Ps 65.8 billion in equity method over Corficolombiana in 2018. Partially offsetting this result, there was a Ps 20.2 billion decrease in equity method from Porvenir, as the pension fund's results for the year were 14.7% less than in 2017.

Other income increased by Ps 20.6 billion mainly due to improving results from PILA ("*Planilla Integrada de Liquidación de Aportes*") processing services through the bank's network and through affiliate channels which increased by Ps 14.9 billion.

Other expense

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Losses from sales of noncurrent assets held for sale	(0.0)	(0.9)	0.9	(100.0)
Personnel expenses	(506.2)	(478.7)	(27.4)	5.7
Salaries and employee benefits	(468.7)	(471.9)	3.1	(0.7)
Bonus plan payments	(4.5)	(4.4)	(0.0)	1.1
Labor severances	(33.0)	(2.4)	(30.5)	1,258.2
Administrative and other expenses	(699.7)	(685.2)	(14.5)	2.1
Depreciation and amortization	(77.2)	(69.3)	(7.9)	11.4
Wealth tax	—	(15.1)	15.1	(100.0)
Impairment loss on other assets	(0.1)	(2.9)	2.8	(96.9)
Other expenses	(32.1)	(6.6)	(25.5)	385.3
Charitable and other donation expenses	(0.2)	(0.5)	0.3	(67.3)
Other	(31.9)	(6.1)	(25.8)	422.9
Other expense	**(1,315.2)**	**(1,258.7)**	**(56.5)**	**4.5**

Total other expenses increased by 4.5%, or Ps 56.5 billion to Ps 1,315.2 billion in 2018 as compared to 2017, mainly driven by an increase of 5.7% or Ps 27.4 billion in personnel expenses, a Ps 25.5 billion increase in other expenses, a 2.1% or Ps 14.5 billion increase in administrative and other expenses, and an 11.4% or Ps 7.9 billion increase in depreciation and amortization. Partially offsetting these increases, there was a Ps 15.1 billion reduction in the wealth tax, as the last installment was paid in 2017.

The Ps 27.4 billion increase in personnel expenses is mainly explained by a Ps 30.5 billion increase in labor severances related to a headcount optimization project executed throughout 2018, which reduced the financial entities' headcount from 10,869 in 2017 to 10,007 in 2018. Partially offsetting the increase, salaries and employee benefits decreased by 0.7%, or Ps 3.1 billion driven mainly by the impact of this project during 2018.

Other expenses increased by Ps 25.5 billion due to a Ps 12.5 billion increase in Banco de Occidente's provisions related to contingent loans and leases (e.g. loan commitments, financial guarantees and unused credit card balances) measured by expected credit loss (ECL), and a Ps 8.6 billion increase in losses on sale of property, plant and equipment.

Administrative and other expenses increased by Ps 14.5 billion to Ps 699.7 billion in 2018 from Ps 685.2 billion in 2017, mainly explained by a Ps 34.0 billion increase in computer equipment leases that was partially offset by a Ps 15.4 billion decrease in marketing.

Banco de Occidente's efficiency ratio deteriorated from 44.7% for 2017 to 47.8% for 2018. The ratio of personnel expenses and administrative and other expenses as a percentage of average assets remained stable at 3.2% for 2017 and 2018. The deterioration of the cost to income ratio was impacted by the labor severance payments mentioned above, which are not expected to occur in 2019.

Income tax expense

Income tax expense for Banco de Occidente decreased by Ps 151.2 billion, or 130.6%, to a Ps 35.5 billion tax recovery for the year ended December 31, 2018. The movement in income tax expense can be explained mainly by (i) a Ps 165.4 billion, or 45.9%, lower net income before taxes[56] that resulted in a Ps 66.2 billion lower income tax expense, (ii) a Ps 43.7 billion increase in current tax recoveries for prior periods, (iii) a deferred tax adjustment from previous periods that resulted in a Ps 24.2 billion tax recovery, (iv) lower non-deductible expenses that resulted in a Ps 19.6 billion decrease in income tax expense, (v) a positive impact of the Financing Law on deferred taxes which decreased the future expected tax rate from 33% to 30% (see Note 19 of Financial Statements), which resulted in a Ps 6.6 billion tax, and (vi) a lower statutory tax rate from 40% in 2017 to 37% in 2018 that resulted in a Ps 5.9 billion decrease in income tax expense in 2018.

[56] Net income before income tax expense minus equity method, minus dividends, plus wealth tax.

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Banco de Occidente's effective tax rate[57] decreased from 32.1% for the year ended December 31, 2017 to (18.2)% for the year ended December 31, 2018. This rate is expected to normalize in 2019 and to be closer to the statutory tax rate of 37%.

Net income attributable to non-controlling interest

Banco de Occidente's net income attributable to non-controlling interest increased by Ps 1.3 billion for 2018 as compared to 2017. The increase is primarily attributable to higher net income from Ventas y Servicios. Net income attributable to non-controlling interest is not a significant contributor to net income for Banco de Occidente, and is responsible for only 0.7% of net income for the year ended December 31, 2018.

Banco Popular

Net income

	Banco Popular Consolidated			
	For the year ended December 31,		Change December 2018 vs December 2017	
	2018	2017	#	%
	(in Ps billions)			
Total interest income	2,196.6	2,197.8	(1.2)	(0.1)
Total interest expense	(850.7)	(977.4)	126.7	(13.0)
Net interest income	**1,345.9**	**1,220.4**	**125.6**	**10.3**
Net impairment loss on financial assets	(157.0)	(232.5)	75.6	(32.5)
Net income from commissions and fees	163.0	142.1	20.8	14.7
Net income (expense) from sales of goods and services	(1.8)	31.4	(33.3)	(105.8)
Net trading income	22.1	21.2	0.9	4.4
Other income	183.4	59.0	124.4	211.0
Other expense	(1,047.7)	(927.0)	(120.7)	13.0
Income before income tax expense	**507.9**	**314.6**	**193.3**	**61.4**
Income tax expense	(152.9)	(108.9)	(44.0)	40.4
Net income for the year	**355.0**	**205.7**	**149.3**	**72.6**
Net income for the year attributable to:				
Owners of the parent	**343.3**	**187.0**	**156.3**	**83.6**
Non-controlling interest	**11.7**	**18.7**	**(7.0)**	**(37.7)**

Banco Popular's net income attributable to owners of the parent increased by 83.6%, or Ps 156.3 billion, to Ps 343.3 billion in 2018 as compared to Ps 187.0 billion in 2017. This increase is attributable to a Ps 125.6 billion increase in net interest income, a Ps 124.4 billion increase in total other income, a Ps 75.6 billion decrease in net impairment loss on financial assets, a Ps 20.8 billion increase in net income from commissions and fees, a Ps 0.9 billion increase in net trading income and Ps 7.0 billion decrease in non-controlling interest. Partially offsetting the above, there was a Ps 120.7 billion increase in total other expense, a Ps 33.3 billion decrease in income from sales of goods and services, and a Ps 44.0 billion increase in income tax expense.

[57] Calculated as income tax expense divided by income before income tax expense minus equity method, minus dividends, plus wealth tax.

Net interest income

	Year ended December 31, 2018	2017	Change, 2018 vs. 2017 #	%
	(in Ps billions)			
Interest income using the effective interest method:				
Commercial loans and leases	517.6	660.4	(142.9)	(21.6)
Consumer loans and leases	1,485.9	1,371.8	114.1	8.3
Mortgage loans and leases	62.7	50.0	12.7	25.4
Microcredit loans and leases	0.6	1.1	(0.5)	(42.7)
Interbank and overnight funds	1.7	2.1	(0.4)	(19.2)
Interest on loans and leases	**2,068.5**	**2,085.4**	**(16.9)**	**(0.8)**
Interest on investments in debt securities	128.2	112.4	15.8	14.0
Total interest income	**2,196.6**	**2,197.8**	**(1.2)**	**(0.1)**
Interest expense:				
Checking accounts	(0.6)	(1.7)	1.1	(65.6)
Time deposits	(376.6)	(411.5)	34.9	(8.5)
Savings deposits	(319.3)	(402.2)	82.9	(20.6)
Total interest expense on deposits	**(696.5)**	**(815.5)**	**118.9**	**(14.6)**
Borrowings from banks and others	(8.2)	(5.5)	(2.7)	48.7
Interbank borrowings and overnight funds	(29.1)	(31.4)	2.3	(7.4)
Bonds issued	(109.3)	(119.4)	10.0	(8.4)
Borrowings from development entities	(7.5)	(5.6)	(1.9)	32.9
Total interest expense	**(850.7)**	**(977.4)**	**126.7**	**(13.0)**
Net interest income	**1,345.9**	**1,220.4**	**125.6**	**10.3**

Banco Popular's net interest income increased by 10.3%, or Ps 125.6 billion, from Ps 1,220.4 billion in 2017 to Ps 1,345.9 billion in 2018. This increase was driven by a Ps 126.7 billion or 13.0% decrease in total interest expense partially offset by a Ps 1.2 billion or 0.1% decrease in total interest income. The decrease in total interest income is explained by the net of a Ps 16.9 billion decrease in interest income on total loans and leases[58] (driven by a decrease in interest income on loans and leases of Ps 16.5 billion to Ps 2,066.7 billion in 2018 and a Ps 0.4 billion decrease in interest income on interbank and overnight funds) and a Ps 15.8 billion increase in income on investments in debt securities.

The following table shows the impact on interest income on loans and leases derived from changes in the average balance and the average yield per type of loan.

	Average balance for the years ended December 31, 2018	2017	Change, 2018 vs. 2017 #	%	Average yield for the years ended December 31, 2018	2017	Impact on interest income due to changes in Balance	Yield	Total
	(in Ps billions)						(in Ps billions)		
Commercial loans and leases	7,552.6	7,145.8	406.8	5.7	6.9%	9.2%	27.9	(170.7)	(142.9)
Consumer loans and leases	10,170.7	9,110.6	1,060.1	11.6	14.6%	15.1%	154.9	(40.8)	114.1
Mortgage loans and leases	736.3	582.8	153.5	26.3	8.5%	8.6%	13.1	(0.4)	12.7
Microcredit loans and leases	6.8	7.3	(0.5)	(7.0)	9.0%	14.6%	(0.0)	(0.4)	(0.5)
Loans and leases	**18,466.4**	**16,846.6**	**1,619.8**	**9.6**	**11.2%**	**12.4%**	**181.3**	**(197.8)**	**(16.5)**

The decrease in interest earned on loans and leases mentioned above was explained by a 117 basis points decrease in the average yield of loans and leases from 12.4% in 2017 to 11.2% in 2018, which resulted in a Ps 197.8 billion decrease in interest income on loans and leases and was partially offset by an increase in the average balance of loans and leases portfolio of 9.6%, or Ps 1,619.8 billion from Ps 16,846.6 billion in 2017 to Ps 18,466.4 billion in 2018, which resulted in a Ps 181.3 billion increase in interest income. The decrease in the average yield was driven by (i) lower average interest rates as the average Central Bank rate declined from 6.13% in 2017 to 4.35% in 2018, and (ii) a more competitive landscape particularly in commercial loans and leases.

[58] Unless otherwise indicated, "total loans and leases" refers to loans and leases plus interbank and overnight funds and "loans and leases" refers to loans and leases excluding interbank and overnight funds.

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Interest earned on interbank and overnight funds decreased by Ps 0.4 billion from Ps 2.1 billion in 2017 to Ps 1.7 billion in 2018.

The Ps 15.8 billion increase to Ps 128.2 billion in 2018 in income on investments in debt securities mainly reflects a 24.2%, or Ps 499.5 billion, increase in the average balance of investments in debt securities from Ps 2,067.1 billion in 2017 to Ps 2,566.6 billion in 2018, which led to a Ps 24.9 billion increase in interest income. This increase was partially offset by a 44 basis points decrease in the yield from 5.4% in 2017 to 5.0% in 2018 resulting in a Ps 9.2 billion decrease in interest income. The decline in yield was primarily a consequence of prevailing market conditions in 2018.

The following table shows the impact on interest expense derived from changes in the average balance and the average rate paid per type of interest-bearing funding.

	Average balance for the years ended December 31,		Change, 2018 vs. 2017		Average rate paid for the years ended December 31,		Impact on interest expense due to changes in		
	2018	2017	#	%	2018	2017	Balance	Rate	Total
	(in Ps billions)						(in Ps billions)		
Checking accounts	1.0	0.9	0.0	4.6	60.6%	184.2%	(0.0)	1.2	1.1
Time deposits	6,460.1	5,636.1	824.1	14.6	5.8%	7.3%	(48.0)	82.9	34.9
Savings accounts	9,178.0	8,366.4	811.6	9.7	3.5%	4.8%	(28.2)	111.2	82.9
Total deposits	**15,639.1**	**14,003.4**	**1,635.7**	**11.7**	**4.5%**	**5.8%**	**(72.8)**	**191.8**	**118.9**
Borrowings from banks and others	241.1	208.5	32.6	15.6	3.4%	2.7%	(1.1)	(1.6)	(2.7)
Interbank borrowings and overnight funds	875.0	578.0	297.0	51.4	3.3%	5.4%	(9.9)	12.2	2.3
Bonds issued	1,635.4	1,569.3	66.0	4.2	6.7%	7.6%	(4.4)	14.4	10.0
Borrowings from development entities	223.0	124.2	98.9	79.6	3.4%	4.5%	(3.3)	1.5	(1.9)
Other funding	**2,974.5**	**2,480.0**	**494.4**	**19.9**	**5.2%**	**6.5%**	**(25.6)**	**33.4**	**7.8**
Total funding	**18,613.5**	**16,483.4**	**2,130.1**	**12.9**	**4.6%**	**5.9%**	**(97.4)**	**224.1**	**126.7**

On the other hand, total interest expense, decreased by 13.0%, or Ps 126.7 billion, to Ps 850.7 billion in 2018 as compared to 2017, mainly driven by a 136 basis points decrease in the average cost of funds from 5.9% in 2017 to 4.6% in 2018, which resulted in a Ps 224.1 billion decrease in interest expense. The decrease in the average cost of funds resulted from the decreasing interest rate environment in Colombia described above and was partially offset by an increase in the average balance of interest-bearing funding. The average balance of interest-bearing funding increased from Ps 16,483.4 billion in 2017 to Ps 18,613.5 billion in 2018 which resulted in a Ps 97.4 billion increase in interest expense. The decrease in interest expense was driven by a Ps 118.9 billion decrease in interest expense on interest-bearing deposits and a Ps 7.8 billion decrease in interest expense on other interest-bearing funding.

Average total interest earning assets[59] increased by 11.1%, or Ps 2,099.9 billion, to Ps 21,060.3 billion in 2018 as compared to Ps 18,960.4 billion in 2017 mainly driven by the growth on both the consumer loans and lease portfolio and the debt securities portfolio, and net interest income increased by 10.3%, or Ps 125.6 billion, from Ps 1,220.4 billion in 2017 to Ps 1,345.9 billion in 2018, which resulted in a 5 basis point decrease in net interest margin from 6.44% in 2017 to 6.39% in 2018. The slight decline in net interest margin was driven by the decline in the yield on the debt securities portfolio mentioned above.

Interest spread between the average yield earned on loans and leases and the average rate paid on deposits increased by 20 basis points from 6.5% in 2017 to 6.8% in 2018. The expansion of the spread between the average yield earned on loans and leases and the average rate paid on deposits was expected to occur given the portfolio mix of the bank (mainly exposed to fixed rate consumer loans), and the macroeconomic scenario in which the country was operating.

[59] Calculated as (i) gross loans including interbank and overnight funds, and (ii) fixed income investment securities at FVOCI and at AC.

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Net impairment loss on financial assets

	Year ended December 31, 2018	Year ended December 31, 2017	Change, 2018 vs. 2017 #	Change, 2018 vs. 2017 %
	(in Ps billions)			
Impairment loss on loans and other accounts receivable	(186.6)	(258.9)	72.3	(27.9)
Impairment (loss) recovery on other financial assets	0.9	—	0.9	N.A.
Recovery of charged-off financial assets	28.8	26.4	2.4	9.0
Net impairment loss on financial assets	**(157.0)**	**(232.5)**	**75.6**	**(32.5)**

	Year ended December 31,				Change, 2018 vs. 2017	
	2018		2017		Loans at least 91 days past due	Delinquency Ratio
	Loans at least 91 days past due	Delinquency Ratio(1)	Loans at least 91 days past due	Delinquency Ratio(1)	#	%
	(in Ps billions)					
Loans and leases	**504.4**	**2.6%**	**483.0**	**2.7%**	**21.4**	**(0.1)**
Commercial loans and leases	187.7	2.5%	170.7	2.3%	17.0	0.3
Consumer loans and leases	296.9	2.7%	299.2	3.2%	(2.3)	(0.4)
Mortgage loans and leases	18.8	2.3%	12.3	1.9%	6.5	0.4
Microcredit loans and leases	1.0	15.4%	0.8	10.8%	0.2	4.6

(1) Calculated as 91 days past due loans divided by total gross loans (excluding interbank and overnight funds)

Net impairment loss on financial assets decreased by Ps 75.6 billion, or 32.5% in 2018 as compared to 2017. This decrease was primarily driven by a Ps 72.3 billion decrease in impairment loss on loans and other accounts receivable (mainly in the commercial and consumer loan portfolios), a Ps 2.4 billion increase in recoveries of charged-off financial assets and a Ps 0.9 billion recovery in impairment (loss) recovery on other financial assets.

The Ps 72.3 billion decrease in impairment loss on loans and other accounts receivable was driven by a Ps 43.9 billion decrease in impairment loss on commercial loans and a Ps 32.0 billion decrease in impairment loss on consumer loans. The decrease in impairment loss on commercial loans was mainly driven by a 2.1% or Ps 160.2 billion decrease of the commercial loan and lease portfolio. The decrease in impairment loss on the consumer loan portfolio was mainly driven by an 0.4% improvement in the 91 days past due consumer loans and leases portfolio (the delinquency ratio of the consumer loan portfolio improved from 3.2% in 2017 to 2.7% in 2018). The improvement on consumer 91 days past due loans and leases was linked to the better economic performance of the year which benefited households.

The bank's cost of risk[60] improved 53 basis points from 1.5% for 2017 to 1.0% for 2018. The bank's cost of risk net of recoveries of charged-off financial assets[61] improved from 1.4% in 2017 to 0.9% in 2018. The decrease in impairment losses for the aforementioned commercial and consumer loans accounted for most of the decrease on both the cost of risk and the cost of risk net of recoveries of charged-off financial assets.

Charge-offs increased from Ps 115.5 billion for the year ended December 31, 2017 to Ps 169.0 billion for the year ended December 31, 2018. Allowance for impairment loss of loans and leases increased Ps 114.7 billion from Ps 665.9 billion as of December 31, 2017 to Ps 780.6 billion as of December 31, 2018, Banco Popular's coverage over its 91 days past due loans was 154.8% versus 137.9% as of December 31, 2017. The increases in coverage include the impact of its implementation of IFRS 9 on January 1, 2018, which impacted the opening balance of loan loss allowance for 2018.

The charge-offs to average loans increased from 0.7% in 2017 to 0.9% in 2018.

[60] Measured as impairment loss on loans and other accounts receivable divided by the average balance of loans and leases.
[61] Measured as impairment loss on loans and other accounts receivable, net of recoveries of charged-off assets divided by the average balance of loans and leases.

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Net income from commissions and fees

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Banking fees	168.8	143.5	25.4	17.7
Bonded warehouse services	59.2	61.9	(2.7)	(4.3)
Trust activities and portfolio management services	22.3	21.0	1.3	6.4
Pension and severance fund management	2.1	2.0	0.1	5.2
Income from commissions and fees	**252.5**	**228.4**	**24.1**	**10.6**
Expenses from commissions and fees	(89.5)	(86.2)	(3.3)	3.8
Net income from commissions and fees	**163.0**	**142.1**	**20.8**	**14.7**

Net income from commissions and fees increased by 14.7%, or Ps 20.8 billion, to Ps 163.0 billion in 2018 as compared to 2017 mainly explained by a Ps 25.4 billion increase in banking fees and a Ps 1.3 billion increase in trust activities. This increase was partially offset by a Ps 3.3 billion increase in expenses for commissions and fees and a Ps 2.7 billion decrease in bonded warehouse service fees in 2018.

The Ps 25.4 billion increase in banking fees was driven by a Ps 21.5 billion increase in banking services fees, and a Ps 4.2 billion increase in credit card fees, offset in part by a Ps 0.3 billion decrease in checking fees.

Net income (expense) from sales of goods and services

	Year ended December 31,		Change, 2019 vs. 2018	
	2018	2017	#	%
	(in Ps billions)			
Income from sales of goods and services	12.1	58.2	(46.1)	(79.2)
Costs and expenses from sales of goods and services	(14.0)	(26.8)	12.8	(47.8)
Net income (expense) from sales of goods and services	**(1.8)**	**31.4**	**(33.3)**	**(105.8)**

Net income (expense) from sales of goods and services decreased Ps 33.3 billion from Ps 31.4 billion in 2017 to a net expense of Ps 1.8 billion in 2018. This decrease is derived from the 2017 recognition of a sale of land of INCA, a subsidiary of Banco Popular.

Net trading income

During 2018, Banco Popular's net trading income[62] came in at Ps 22.1 billion, 4.4%, or Ps 0.9 billion higher than the Ps 21.2 billion obtained in 2017. This increase was driven by a Ps 7.8 billion increase in net trading income from derivatives partially offset by a Ps 6.9 billion decrease in net trading income from investment securities at FVTPL.

Net trading income from derivatives increased Ps 7.8 billion from a gain of Ps 0.6 billion in 2017 to a gain of Ps 8.4 billion in 2018.

The net trading income from investment securities at FVTPL decreased by 33.3%, or Ps 6.9 billion, to Ps 13.8 billion in 2018. This decrease in the net trading income from investment securities at FVTPL was mainly driven by a decrease in the average yield from 10.8% in 2017 to 6.3% in 2018, which resulted in a decrease in interest income of Ps 8.6 billion. In contrast, the increase in the average balance of the bank's investment securities at FVTPL from Ps 190.6 billion in 2017 to Ps 217.8 billion in 2018, resulted in a Ps 1.7 billion increase in net trading income.

[62] Includes (i) net trading income from investment securities at FVTPL, which reflects the interest and gains/losses from mark-to-market valuation, in each case from equity and fixed income investment securities FVTPL, and (ii) net trading income from derivatives, which reflects the gains/losses from mark-to-market valuation on derivatives different from that considered under hedge accounting.

Total income from investment securities

Banco Popular's securities portfolio is classified in the following categories: (i) equity and fixed income investments at FVTPL (described in this section as net trading income in investment securities at FVTPL), (ii) fixed income investments at FVOCI and (iii) fixed income investments at AC (results from (ii) and (iii) are included in the net interest income section as interest income on investments in debt securities).

Total income from investment securities for the bank (comprised of income on investments in debt securities and net trading income from investment securities at FVTPL) was Ps 141.9 billion for 2018, higher than the Ps 133.0 billion for 2017. This was primarily driven by a 23.3% or Ps 526.6 billion increase of the average balance of total investment securities, resulting in a Ps 26.8 billion increase in interest income. The average yield of total investment securities decreased from 5.9% in 2017 to 5.1% in 2018, resulting in a Ps 18.0 billion decrease in interest income.

As mentioned before, the contraction of the yield was primarily a consequence of prevailing market conditions in 2018.

Other income

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Foreign exchange gains (losses), net	1.3	4.7	(3.4)	(71.5)
Gains (losses) on sales of investments, net	(0.0)	(0.0)	(0.0)	620.3
Equity method investees	60.4	2.2	58.2	2,590.1
Dividend income	11.7	8.8	2.9	32.6
Gains on valuation of assets, net	8.2	1.9	6.3	334.9
Other	101.8	41.3	60.4	146.2
Other income	**183.4**	**59.0**	**124.4**	**211.0**

Total other income increased by Ps 124.4 billion to Ps 183.4 billion in 2018 from Ps 59.0 billion in 2017. This increase was mainly due to a Ps 60.4 billion increase in other income mainly attributable to gains in transactions associated with PP&E structure optimizations of Ps 23.0 billion in Banco Popular and Ps 37.5 billion in Alpopular, a subsidiary of Banco Popular. Also contributing to this increase was a Ps 58.2 billion increase in the equity method investees mainly due to the recognition of Corficolombiana as an associate investment in 2018 instead of an available for sale financial asset in 2017; Banco Popular became a member of Corficolombiana's Board of Directors in 2018, therefore, Banco Popular recognized the last four months of Corficolombiana's net income in the equity method which accounted for Ps 61.2 billion of the increase. Also impacting the income variation was a Ps 2.9 billion increase in dividend income from Corficolombiana and a Ps 6.3 billion increase in gains on valuation of assets, net. These increases were partially offset a Ps 3.4 billion decrease in foreign exchange gains (losses), net.

Other expense

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Losses from sales of noncurrent assets held for sale	(0.2)	—	(0.2)	N.A.
Personnel expenses	(415.1)	(345.6)	(69.6)	20.1
Salaries and employee benefits	(356.3)	(333.5)	(22.8)	6.8
Bonus plan payments	(31.2)	(5.2)	(26.0)	500.5
Labor severances	(27.6)	(6.9)	(20.7)	302.2
Administrative and other expenses	(564.3)	(508.2)	(56.1)	11.0
Depreciation and amortization	(50.8)	(45.4)	(5.4)	11.9
Wealth tax	—	(9.7)	9.7	(100.0)
Impairment loss on other assets	(0.0)	(9.9)	9.9	(99.8)
Other expenses	(17.2)	(8.1)	(9.1)	111.4
Charitable and other donation expenses	(1.8)	(1.6)	(0.2)	13.3
Other	(15.4)	(6.5)	(8.9)	135.5
Other expense	**(1,047.7)**	**(927.0)**	**(120.7)**	**13.0**

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Other expenses increased by 13.0%, or Ps 120.7 billion, in 2018 as compared to 2017, mainly driven by an increase of Ps 69.6 billion, or 20.1%, in personnel expenses, a Ps 56.1 billion, or 11.0%, increase in administrative and other expenses, a Ps 9.1 billion increase in other expenses and a Ps 5.4 billion increase in depreciation and amortization expense. These increases were offset in part by a Ps 9.9 billion decrease in impairment loss on other assets and a Ps 9.7 billion decrease in wealth tax (last installment paid in 2017).

The Ps 69.6 billion increase in personnel expenses was mainly driven by a Ps 46.7 billion increase in labor severances expenses associated with a headcount optimization plan in the bank executed in December 2018 decreasing the financial entities' headcount from 7,678 employees in 2017 to 7,352 in 2018. Also contributing to the increase in personnel expenses was a Ps 22.8 billion increase in salaries and employee benefits mainly due to the union labor agreement renegotiations.

Administrative and other expenses increased by Ps 56.1 billion to Ps 564.3 billion in 2018 from Ps 508.2 billion in 2017, explained by (i) a Ps 11.9 billion increase in consultancy, audit and other fees, which include consulting and legal fees among others; (ii) a Ps 14.0 billion increase in tax expenses; and (iii) a Ps 5.0 billion increase in transportation costs.

Banco Popular's efficiency ratio[63] deteriorated from 59.6% in 2017 to 60.8% for 2018. The ratio of personnel expenses and administrative and other expenses as a percentage of average assets increased from 4.0% for 2017 to 4.2% 2018. The deterioration of these ratios was mainly driven by the non-recurrent labor severance expenses mentioned above.

Income tax expense

Income tax expense for Banco Popular increased by Ps 44.0 billion, or 40.4%, to Ps 152.9 billion for the year ended December 31, 2018, primarily due to higher income before income tax expense. Banco Popular's effective tax rate[64] slightly increased from 34.8% for the year ended December 31, 2017 to 35.1% for the year ended December 31, 2018.

Net income attributable to non-controlling interest

Net income attributable to non-controlling interest decreased by Ps 7.0 billion to Ps 11.7 billion for the year ended December 31, 2018. The decrease in net income attributable to non-controlling interest was driven by a lower net income from Banco Popular's consolidated subsidiary INCA (44.6% owned by the bank), driven by a sale of land in 2017.

[63] Calculated as personnel and administrative and other expenses divided by net interest income, fees and other services income, net trading income and other income excluding other.
[64] Calculated as income tax expense divided by income before tax expense minus equity method, minus dividends, plus wealth tax.

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Banco AV Villas

Net income

	Banco AV Villas Consolidated			
	For the year ended December 31,		Change December 2018 vs December 2017	
	2018	2017	#	%
	(in Ps billions)			
Total interest income	1,384.7	1,310.6	74.2	5.7
Total interest expense	(370.0)	(423.1)	53.1	(12.5)
Net interest income	**1,014.7**	**887.5**	**127.2**	**14.3**
Net impairment loss on financial assets	(248.2)	(294.2)	46.0	(15.6)
Net income from commissions and fees	174.0	157.3	16.7	10.6
Net trading income	13.2	15.2	(2.0)	(13.0)
Other income	44.6	54.3	(9.7)	(17.8)
Other expense	(680.6)	(619.3)	(61.4)	9.9
Income before income tax expense	**317.8**	**200.9**	**116.9**	**58.2**
Income tax expense	(101.3)	(63.2)	(38.1)	60.4
Net income for the year	**216.5**	**137.7**	**78.8**	**57.2**
Net income for the year attributable to:				
Owners of the parent	**215.8**	**137.3**	**78.5**	**57.2**
Non-controlling interest	**0.7**	**0.4**	**0.3**	**74.9**

Banco AV Villas' net income attributable to owners of the parent increased by 57.2%, or Ps 78.5 billion, to Ps 215.8 billion for the year ended December 31, 2018 as compared to Ps 137.3 billion for the year ended December 31, 2017. This increase was driven by a Ps 127.2 billion increase in net interest income, a Ps 46.0 billion decrease in net impairment loss on financial assets and a Ps 16.7 billion increase in net income from commissions and fees. Partially offsetting these increases, there was a Ps 61.4 billion increase in total other expense, a Ps 9.7 billion decrease in total other income, a Ps 2.0 billion decrease in net trading income and a Ps 38.1 billion increase in income tax expense.

Net interest income

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Interest income using the effective interest method:				
Commercial loans and leases	217.4	259.9	(42.5)	(16.3)
Consumer loans and leases	917.7	815.6	102.1	12.5
Mortgage loans and leases	203.9	179.7	24.2	13.5
Microcredit loans and leases	0.2	0.4	(0.2)	(47.6)
Interbank and overnight funds	2.8	3.6	(0.8)	(22.1)
Interest on loans and leases	**1,342.0**	**1,259.2**	**82.8**	**6.6**
Interest on investments in debt securities	42.8	51.4	(8.7)	(16.9)
Total interest income	**1,384.7**	**1,310.6**	**74.2**	**5.7**
Interest expense:				
Checking accounts	(0.9)	(1.0)	0.1	(6.7)
Time deposits	(233.8)	(240.4)	6.6	(2.8)
Savings deposits	(104.9)	(142.9)	38.0	(26.6)
Total interest expense on deposits	**(339.5)**	**(384.2)**	**44.7**	**(11.6)**
Borrowings from banks and others	(4.7)	(2.8)	(1.9)	66.0
Interbank borrowings and overnight funds	(25.6)	(35.7)	10.1	(28.2)
Borrowings from development entities	(0.1)	(0.3)	0.1	(49.1)
Total interest expense	**(370.0)**	**(423.1)**	**53.1**	**(12.5)**
Net interest income	**1,014.7**	**887.5**	**127.2**	**14.3**

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Banco AV Villas' net interest income increased by 14.3%, or Ps 127.2 billion, from Ps 887.5 billion in 2017 to Ps 1,014.7 billion in 2018. This increase was driven by a Ps 74.2 billion increase in total interest income to Ps 1,384.7 billion in 2018 and a Ps 53.1 billion decrease in total interest expense to Ps 370.0 billion in 2018 (mostly due to a Ps 44.7 billion decrease in interest expense on deposits and a Ps 10.1 billion decrease in interest expense on interbank borrowings and overnight funds). The increase in total interest income was mainly a result of a 6.6%, or Ps 82.8 billion, increase in interest income on total loans and leases[65] to Ps 1,342.0 billion, partially offset by a 16.9%, or Ps 8.7 billion, decrease in interest income on investments in debt securities to Ps 42.8 billion in 2018.

The following table shows the impact on interest income on loans and leases derived from changes in the average balance and the average yield per type of loan.

	Average balance for the years ended December 31,		Change, 2018 vs. 2017		Average yield for the years ended December 31,		Impact on interest income due to changes in		
	2018	2017	#	%	2018	2017	Balance	Yield	Total
	(in Ps billions)						(in Ps billions)		
Commercial loans and leases	2,753.8	2,957.3	(203.5)	(6.9)	7.9%	8.8%	(16.1)	(26.4)	(42.5)
Consumer loans and leases	5,853.3	4,929.9	923.4	18.7	15.7%	16.5%	144.8	(42.7)	102.1
Mortgage loans and leases	2,075.3	1,799.5	275.8	15.3	9.8%	10.0%	27.1	(2.9)	24.2
Microcredit loans and leases	1.1	1.6	(0.5)	(30.9)	20.4%	26.9%	(0.1)	(0.1)	(0.2)
Loans and leases	**10,683.5**	**9,688.4**	**995.2**	**10.3**	**12.5%**	**13.0%**	**124.8**	**(41.1)**	**83.6**

The increase in total interest income mentioned above, was mainly due to the increase in interest earned on loans and leases of Ps 83.6 billion driven by an 10.3%, or Ps 995.2 billion, increase in Banco AV Villas' average loan and lease portfolio from Ps 9,688.4 billion in 2017 to Ps 10,683.5 billion in 2018, which resulted in a Ps 124.8 billion increase in income, offset in part by a 42 basis points decrease in the average yield on loans and leases from 13.0% in 2017 to 12.5% in 2018, which led to a Ps 41.1 billion decrease in interest income. Despite a 177 basis point decrease in the average Central Bank rate from 6.13% in 2017 to 4.35% in 2018, Banco AV Villas' average yield on loans and leases decreased less due to a (i) a focused strategy on higher yielding consumer portfolio (the bank grew its average balance of payroll lending by 41.4% or Ps 713.3 billion during 2018) as compared to the commercial portfolio and (ii) the banks strategy to regain market share in the mortgage business. Consumer and mortgage loans, which have a higher yield, increased their weight on the average portfolio from 50.9% and 18.6% in 2017 to 54.8% and 19.4% in 2018, respectively. Commercial loans, which have a lower yield, decreased their weight on the average portfolio from 30.5% to 25.8% in the same period.

Interest earned on interbank and overnight funds decreased by Ps 0.8 billion from Ps 3.6 billion in 2017 to Ps 2.8 billion in 2018.

The Ps 8.7 billion decrease to Ps 42.8 billion in interest on investments in debt securities in 2018, is explained by a 74 basis points decrease in the average yield of these investments from 4.9% in 2017 to 4.1% in 2018, which led to a Ps 7.8 billion decrease in interest income. Another driver for this decrease was a 2.0%, or Ps 21.4 billion, decrease in the average balance of fixed income investments at FVOCI and at AC from Ps 1,058.9 billion in 2017 to Ps 1,037.5 billion in 2018, which resulted in a Ps 0.9 billion decrease in interest income. The decline in the average yield was due to different market conditions seen in 2018 as compared to a strong yielding 2017.

The following table shows the impact on interest expense derived from changes in the average balance and the average rate paid per type of interest-bearing funding.

[65] Unless otherwise indicated, "total loans and leases" refers to loans and leases plus interbank and overnight funds and "loans and leases" refers to loans and leases excluding interbank and overnight funds.

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	Average balance for the years ended December 31,		Change, 2018 vs. 2017		Average rate paid for the years ended December 31,		Impact on interest expense due to changes in		
	2018	2017	#	%	2018	2017	Balance	Rate	Total
	(in Ps billions)						(in Ps billions)		
Checking accounts	145.1	155.2	(10.0)	(6.5)	0.6%	0.6%	0.1	0.0	0.1
Time deposits	4,305.7	3,643.0	662.7	18.2	5.4%	6.6%	(36.0)	42.6	6.6
Savings accounts	5,180.9	5,247.5	(66.6)	(1.3)	2.0%	2.7%	1.3	36.7	38.0
Total deposits	**9,631.8**	**9,045.7**	**586.1**	**6.5**	**3.5%**	**4.2%**	**(20.7)**	**65.4**	**44.7**
Borrowings from banks and others	180.8	154.7	26.1	16.9	2.6%	1.8%	(0.7)	(1.2)	(1.9)
Interbank borrowings and overnight funds	538.8	587.6	(48.7)	(8.3)	4.8%	6.1%	2.3	7.8	10.1
Borrowings from development entities	3.3	5.0	(1.7)	(33.3)	4.4%	5.8%	0.1	0.1	0.1
Other funding	**723.0**	**747.2**	**(24.3)**	**(3.3)**	**4.2%**	**5.2%**	**1.0**	**7.3**	**8.3**
Total funding	**10,354.7**	**9,792.9**	**561.8**	**5.7**	**3.6%**	**4.3%**	**(20.1)**	**73.1**	**53.1**

Total interest expense, on the other hand, decreased by 12.5%, or Ps 53.1 billion, in 2018 as compared to 2017, mainly driven by a 75 basis points decrease in the average cost of funds from 4.3% in 2017 to 3.6% in 2018, which led to a Ps 73.1 billion decrease in interest expense. The decrease in the average cost of funds resulted from the decreasing interest rate environment in Colombia described before. Partially offsetting this decrease, there was a 5.7%, or Ps 561.8 billion, increase in the average balance of interest-bearing funding from Ps 9,792.9 billion in 2017 to Ps 10,354.7 billion in 2018 which resulted in a Ps 20.1 billion increase in interest expense. The Ps 53.1 billion decrease in total interest expense was driven by a Ps 44.7 billion decrease in interest expense on interest-bearing deposits and a Ps 8.3 billion decrease in interest expense on other interest-bearing funding.

Average total interest earning assets[66] increased by 6.3%, or Ps 698.9 billion, from Ps 11,174.4 billion in 2017 to Ps 11,873.3 billion in 2018 driven by the consumer and mortgage loans mentioned before, and net interest income increased by 14.3% or Ps 127.2 billion from Ps 887.5 billion to Ps 1,014.7 billion, over the same period, which resulted in a 60 basis points increase in the net interest margin from 7.9% in 2017 to 8.5% in 2018 for the bank. The average spread between the average rate on loans and leases and the average rate paid on deposits increased by 30 basis points from 8.7% to 9.0% over the same period.

The expansion of the net interest margin during a decreasing rate scenario is explained by the structure of the bank's portfolio, as most of Banco AV Villas' loan portfolio is comprised of consumer and mortgage loans, by nature with fixed yields, which have historically shown less sensitivity than commercial loans to the movements in the Central Bank rate. This expansion in spreads and margins was expected to occur given the macro scenario in which the country was operating.

Net impairment loss on financial assets

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Impairment loss on loans and other accounts receivable	(297.3)	(327.8)	30.6	(9.3)
Impairment (loss) recovery on other financial assets	0.3	—	0.3	N.A.
Recovery of charged-off financial assets	48.8	33.7	15.1	45.0
Net impairment loss on financial assets	**(248.2)**	**(294.2)**	**46.0**	**(15.6)**

[66] Calculated as (i) gross loans including interbank and overnight funds, and (ii) fixed income investment securities at FVOCI and at AC.

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	Year ended December 31,				Change, 2018 vs. 2017	
	2018		2017		Loans at least 91 days past due	Delinquency Ratio
	Loans at least 91 days past due	Delinquency Ratio(1)	Loans at least 91 days past due	Delinquency Ratio(1)	#	%
	(in Ps billions)					
Loans and leases	**321.4**	**2.8%**	**302.5**	**3.0%**	**18.8**	**(0.2)**
Commercial loans and leases	98.5	3.3%	83.1	3.0%	15.4	0.4
Consumer loans and leases	137.9	2.2%	131.4	2.4%	6.6	(0.2)
Mortgage loans and leases	85.0	3.8%	88.0	4.6%	(3.1)	(0.8)
Microcredit loans and leases	0.0	1.0%	0.0	0.7%	(0.0)	0.3

(1) Calculated as 91 days past due loans divided by total gross loans (excluding interbank and overnight funds)

Net impairment loss on financial assets decreased by 15.6%, or Ps 46.0 billion, in 2018 as compared to 2017. This decrease was driven by a Ps 30.6 billion decrease in impairment loss on loans and other accounts receivable and a Ps 15.1 billion increase of recoveries of charged-off financial assets.

The decrease in impairment loss on loans and other accounts receivable of Ps 46.0 billion was mainly driven by a Ps 41.7 billion decrease in the bank's impairment loss on consumer loans, which in turn, was mainly driven by (i) the strategy of the bank to grow in payroll lending, the most secure of the consumer products given its low risk nature and (ii) a decrease in the delinquency ratio of the consumer loan portfolio from 2.4% in 2017 to 2.2% in 2018.

The bank's cost of risk[67] improved 60 basis points from 3.4% in 2017 to 2.8% for 2018. The bank's cost of risk net of recoveries of charged-off financial assets[68] improved from 3.0% in 2017 to 2.3% in 2018.

Charge-offs increased from Ps 280.6 billion for the year ended December 31, 2017 to Ps 283.2 billion for the year ended December 31, 2018 and the ratio of charge-offs to average loans and leases decreased from 2.9% for the year ended December 31, 2017 to 2.7% for the year ended December 31, 2018. The decrease in charge-offs is mainly explained by the decrease in impairments and delinquencies ratios registered during the period, accompanied by the bank's strategy to grow in low risk products.

Despite the slight increase of charge-offs and the decrease of impairment loss on loans and leases, the allowance for impairment losses of loans and leases increased by Ps 63.9 billion, from Ps 475.7 billion as of December 31, 2017 to Ps 539.6 billion as of December 31, 2018. As of December 31, 2018, Banco AV Villas' coverage over its 91 days past due loans was 167.9%, compared to 157.2% as of December 31, 2017. The increases in coverage include the impact of its implementation of IFRS 9 on January 1, 2018, which impacted the opening balance of loan loss allowance for 2018.

Net income from commissions and fees

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Banking fees	281.8	265.9	15.9	6.0
Income from commissions and fees	**281.8**	**265.9**	**15.9**	**6.0**
Expenses from commissions and fees	(107.8)	(108.6)	0.8	(0.7)
Net income from commissions and fees	**174.0**	**157.3**	**16.7**	**10.6**

[67] Measured as impairment loss on loans and other accounts receivable divided by the average balance of loans and leases.
[68] Measured as impairment loss on loans and other accounts receivable, net of recoveries of charged-off assets divided by the average balance of loans and leases.

Net income from commissions and fees increased by 10.6%, or Ps 16.7 billion, to Ps 174.0 billion in 2018 as compared to 2017 mainly driven by an increase of Ps 15.9 billion, or 6.0%, in banking fees to Ps 281.8 billion in 2018. The increase in banking fees was primarily due to a Ps 14.9 billion increase in commissions from banking services and a Ps 1.0 billion increase in branch network fees. Contributing to the increase in net income from commissions and fees was a Ps 0.8 billion, or 0.7%, decrease in expenses from commissions and fees.

Net trading income

During 2018, Banco AV Villas' net trading income[69] decreased by Ps 2.0 billion from Ps 15.2 billion in 2017 to Ps 13.2 billion in 2018, driven by a Ps 1.5 billion decrease in net trading income from investment securities at FVTPL from Ps 15.0 billion in 2017 to Ps 13.5 billion in 2018. Another driver for the decrease in net trading income was a Ps 0.5 billion decrease in net trading income from derivatives from a gain of Ps 0.2 billion in 2017 to a loss of Ps 0.3 billion in 2018.

Total income from investment securities

Banco AV Villas' securities portfolio is classified in the following categories (i) equity and fixed income investments at FVTPL (described in this section as net trading income in investment securities at FVTPL), (ii) fixed income investments at FVOCI and (iii) fixed income investments at AC ((ii) and (iii) are described above in the net interest income section as interest income on investments in debt securities).

Total income from investment securities for the bank (comprised of income on investments in debt securities and net trading income from investment securities at FVTPL) was Ps 56.3 billion for 2018, Ps 10.2 billion lower than the Ps 66.5 billion for 2017. This was primarily an effect of a 107 basis points decrease in the average yield of total investment securities from 5.1% in 2017 to 4.0% in 2018, which resulted in a Ps 13.9 billion decrease in interest income. Partially offsetting this decrease, there was a 7.0%, or Ps 91.5 billion, increase in the average balance of total investment securities, which resulted in a Ps 3.7 billion increase in interest income.

As mentioned before the contraction of the yield was primarily a consequence of prevailing market conditions.

Other income

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Foreign exchange gains (losses), net	1.1	1.3	(0.3)	(19.6)
Gains (losses) on sales of investments, net	4.0	—	4.0	N.A.
Income from sales of noncurrent assets held for sale	0.5	0.1	0.4	434.7
Equity method investees	(0.7)	2.2	(2.9)	(131.3)
Dividend income	3.0	2.7	0.3	12.2
Gains on valuation of assets, net	2.5	2.5	0.0	1.0
Other	34.1	45.5	(11.4)	(25.0)
Other income	**44.6**	**92.9**	**(48.3)**	**(52.0)**

Total other income decreased by 17.8%, or Ps 9.7 billion, to Ps 44.6 billion in 2018 as compared to 2017. This decrease was mainly driven by a Ps 11.4 billion decrease in other income mainly attributable to the changes in the number of banking correspondents in accordance with applicable regulation; and a Ps 2.9 billion decrease in income from equity method investees. Partially offsetting this decrease, there was Ps 4.0 billion gains on sales of investments, net, derived from the bank's strategy based on exiting and selling its fixed income securities portfolio and replaced them with longer-term securities.

[69] Includes (i) net trading income from investment securities at FVTPL, which reflects the interest and gains/losses from mark-to-market valuation, in each case from equity and fixed income investment securities FVTPL, and (ii) net trading income from derivatives, which reflects the gains/losses from mark-to-market valuation on derivatives different from that considered under hedge accounting.

Other expense

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Losses from sales of noncurrent assets held for sale	(0.1)	(0.1)	(0.0)	19.2
Personnel expenses	(234.7)	(211.7)	(23.0)	10.8
Salaries and employee benefits	(232.2)	(209.7)	(22.5)	10.7
Bonus plan payments	(1.9)	(1.6)	(0.3)	18.0
Labor severances	(0.6)	(0.4)	(0.2)	49.8
Administrative and other expenses	(408.1)	(370.7)	(37.3)	10.1
Depreciation and amortization	(33.4)	(29.9)	(3.5)	11.8
Wealth tax	—	(4.8)	4.8	(100.0)
Impairment loss on other assets	—	(0.0)	0.0	(100.0)
Other expenses	(4.3)	(2.0)	(2.3)	112.9
Charitable and other donation expenses	(0.0)	(0.2)	0.1	(84.9)
Other	(4.3)	(1.8)	(2.4)	131.3
Other expense	**(680.6)**	**(619.3)**	**(61.4)**	**9.9**

Total other expenses for the year ended December 31, 2018 increased by 9.9%, or Ps 61.4 billion, to Ps 680.6 billion in 2018 mainly driven by a Ps 37.3 billion increase in administrative and other expenses, a Ps 23.0 billion increase in personnel expenses, a Ps 3.5 billion increase in depreciation and amortization and a Ps 2.3 billion increase in other expenses. Partially offsetting these increases, there was a Ps 4.8 billion reduction in the wealth tax, as the last installment was paid in 2017.

The Ps 37.3 billion increase in administrative and other expenses was driven by (i) a Ps 14.4 billion increase in consultancy, audit and other fees, which include sales-force, consulting and legal fees among others, and (ii) a Ps 11.1 billion increase in leases (mainly from office space and information technology equipment).

The increase in personnel expenses was mainly driven by a Ps 22.5 billion, or 10.7%, increase in salaries and employee benefits to Ps 232.2 billion in 2018. Despite a decrease in Banco AV Villas' headcount from 7,897 employees in 2017 to 7,499 in 2018, the increase in salaries and employee benefits was mainly a consequence of the union labor agreement renegotiations that took place in December 2017.

Given that Banco AV Villas' personnel and administrative and other expenses increased by 10.4% and its income increased by 13.4% driven by the increase in net interest income, Banco AV Villas' efficiency ratio[70] improved from 54.5% to 53.0%. The ratio of personnel and administrative and other expenses as a percentage of average assets deteriorated 19 basis points from 4.7% in 2017 to 4.9% in 2018.

Income tax expense

Income tax expense increased by 60.4%, or Ps 38.1 billion, to Ps 101.3 billion for the year ended December 31, 2018. Banco AV Villas' effective tax rate[71] increased from 31.5% for the year ended December 31, 2017 to 32.1% for the year ended December 31, 2018. The main driver for the increase was the increase in income before tax expense[72] which was 57.1% during the same period.

[70] Calculated as personnel and administrative and other expenses divided by net interest income, fees and other services income, net trading income and other income excluding other.
[71] Calculated as income tax expense divided by income before tax expense minus equity method, minus dividends, plus wealth tax.
[72] Net income before income tax expense minus equity method, minus dividends, plus wealth tax.

Net income attributable to non-controlling interest

Net income attributable to non-controlling interest increased from Ps 0.4 billion for the year ended December 31, 2017 to Ps 0.7 billion for the year ended December 31, 2018. Banco AV Villas' net income attributable to non-controlling interest reflects ownership in A Toda Hora S.A. by other subsidiaries of Grupo Aval.

Corficolombiana

Net income

	Corficolombiana Consolidated			
	For the year ended December 31,		Change December 2018 vs December 2017	
	2018	2017	#	%
	(in Ps billions)			
Total interest income	586.7	609.1	(22.5)	(3.7)
Total interest expense	(781.0)	(852.5)	71.5	(8.4)
Net interest income (expense)	**(194.4)**	**(243.4)**	**49.0**	**(20.1)**
Net impairment loss on financial assets	(39.6)	(79.4)	39.8	(50.1)
Net income from commissions and fees	66.0	85.7	(19.7)	(23.0)
Net income (expense) from sales of goods and services	2,911.9	997.5	1,914.4	191.9
Net trading income	46.9	100.2	(53.4)	(53.2)
Other income	523.4	510.5	13.0	2.5
Other expense	(337.2)	(366.5)	29.2	(8.0)
Income before income tax expense	**2,977.0**	**1,004.7**	**1,972.3**	**196.3**
Income tax expense	(908.3)	(440.0)	(468.2)	106.4
Net income for the year	**2,068.7**	**564.6**	**1,504.1**	**266.4**
Net income for the year attributable to:				
Owners of the parent	**1,620.2**	**212.9**	**1,407.3**	**661.1**
Non-controlling interest	**448.4**	**350.7**	**97.7**	**27.9**

Corficolombiana's net income attributable to owners of the parent increased by 661.1%, or Ps 1,407.3 billion to Ps 1,620.2 billion in 2018 as compared to 2017, resulting from an improvement in the results of its non-financial companies and beginning of construction and progress of three of the four 4G projects during the year[73]. In addition to the strong results in the non-financial sector, net interest income improved by Ps 49.0 billion, net impairment loss on financial assets decreased by Ps 39.8 billion and other expenses decreased by Ps 29.2 billion. These positive impacts were partially offset by a Ps 53.4 billion decrease in net trading income and a Ps 19.7 billion decrease in net income from commissions and fees.

During 2018, Episol, a fully owned subsidiary of Corficolombiana, recorded an impairment of Ps 111.8 billion on its investment in Concesionaria Ruta del Sol 2. In 2017, an impairment of Ps 140.7 billion had already been recorded. As of December 31, 2018 the equity investment of Episol in Concesionaria Ruta del Sol 2 had been fully impaired. This impairment is recorded in the other expenses line item or Corficolombiana.

[73] Results for the year include the impact of applying IFRS 15 starting in January 1, 2018. For more detail, see Notes 2.5 and 16 of the consolidated financial statements.

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Net interest income

	For the year ended December 31,		Change, 2018 vs 2017	
	2018	2017	#	%
	(in Ps billions)			
Interest income using the effective interest method:				
Commercial loans and leases	313.6	346.2	(32.6)	(9.4)
Consumer loans and leases	74.2	65.5	8.6	13.2
Mortgage loans and leases	1.3	0.9	0.4	42.8
Interbank and overnight funds	65.9	116.1	(50.2)	(43.2)
Interest on loans and leases	**455.0**	**528.8**	**(73.8)**	**(14.0)**
Interest on investments in debt securities	131.7	80.3	51.3	63.9
Total interest income	**586.7**	**609.1**	**(22.5)**	**(3.7)**
Interest expense:				
Checking accounts	(0.5)	—	(0.5)	N.A.
Time deposits	(219.3)	(262.2)	42.9	(16.4)
Savings deposits	(20.8)	(31.3)	10.5	(33.6)
Total interest expense on deposits	**(240.6)**	**(293.5)**	**52.9**	**(18.0)**
Borrowings from banks and others	(240.8)	(269.7)	28.9	(10.7)
Interbank borrowings and overnight funds	(123.1)	(110.0)	(13.1)	11.9
Bonds issued	(170.0)	(172.6)	2.7	(1.5)
Borrowings from development entities	(6.6)	(6.7)	0.1	(2.1)
Total interest expense	**(781.0)**	**(852.5)**	**71.5**	**(8.4)**
Net interest income (expense)	**(194.4)**	**(243.4)**	**49.0**	**(20.1)**

Corficolombiana's net interest expenses were Ps 194.4 billion and Ps 243.4 billion in 2018 and 2017, respectively. These expenses are mainly the result of a net leverage position of the non-financial subsidiaries consolidated by Corficolombiana, as their average balance of interest earning assets is smaller the average of their interest-bearing funding.

Corficolombiana's consolidated non-financial subsidiaries' (such as Promigas and toll road concessions) net interest income has been and is expected to continue to be negative in the future as these entities are not financial entities and thus pay interest expenses to fund returns of assets that are mostly not considered "interest earning assets". The returns on those assets were registered in the net income (expense) from sales of goods and services and other income line item for 2018 and 2017, respectively. Net interest expense contribution for the non-financial subsidiaries was Ps 70.2 billion for 2017 and Ps 78.3 billion for 2018.

The improvement in consolidated net interest income, was driven by a Ps 71.5 billion decrease in interest expense, that was partially offset by a Ps 22.5 billion decrease in total interest income.

The decrease in total interest expense of Ps 71.5 billion to Ps 781.0 billion in 2018 as compared to 2017, was mainly the result of a decrease in the average cost of funds, from 6.7% in 2017 to 5.9% in 2018, in line with the decreasing rate scenario seen in Colombia, which resulted in a Ps 99.8 billion decrease in interest expense. This decrease was offset in part by a 3.8% or Ps 478.4 billion increase in the average of interest bearing liabilities from Ps 12,709.0 billion in 2017 to Ps 13,187.3 billion in 2018, that led to a Ps 28.3 billion increase in interest expense.

The Ps 22.5 billion decrease in interest income to Ps 586.7 billion in 2018 was the result of a 118 basis points decrease in the average yield of interest earning assets, from 13.0% in 2017 to 11.8% in 2018, resulting in a Ps 55.3 billion decrease in interest income. This was partially offset by a 5.9% or Ps 278.5 billion increase in the average interest earning assets from Ps 4,696.1 billion in 2017 to Ps 4,974.5 billion in 2018, leading to a Ps 32.8 billion increase in interest income.

Of the Ps 22.5 billion or 3.7% decrease in interest income in Corficolombiana, Ps 50.2 billion was mainly due to a decrease in interest income on interbank and overnight funds and Ps 23.6 billion due to a decrease in interest income on loans and leases. These were partially offset by a Ps 51.3 billion increase in interest income on investments in debt securities.

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The increase in interest income on investments in debt securities of Ps 51.3 billion was driven by a 28.1% or Ps 452.2 billion increase in the average balance of fixed income investments at FVOCI and at AC from Ps 1,610.3 billion in 2017 to Ps 2,062.5 billion in 2018, resulting in a Ps 28.9 billion increase in interest income. Furthermore, an increase in the average yield of these investments from 5.0% in 2017 to 6.4% in 2018, led to a Ps 22.5 billion increase in interest income. The liquidity provided by the capitalization process (see Note 1 of Financial Statements) and a less volatile market favored the carry and trading strategies implemented.

The Ps 23.6 billion decrease in interest income on loans and leases was mainly attributable to a 3.8% or Ps 96.3 billion decrease in the average balance of loans and leases from Ps 2,519.0 billion in 2017 to Ps 2,422.7 billion in 2018, which resulted in a Ps 15.5 billion decrease in interest income. In addition, a 32 basis points reduction in the average yield earned on loans and leases from 16.4% in 2017 to 16.1% in 2018, resulted in a Ps 8.1 billion decrease in interest income.

The decrease in interest income on interbank and overnight funds of Ps 50.2 billion was driven by a decrease in the average yield of these investments from 20.5% in 2017 to 13.5% in 2018 that led to a Ps 39.8 billion decrease in interest income. In addition, a 13.7% or Ps 77.4 billion decrease in the average balance of interbank and overnight funds from Ps 566.7 billion in 2017 to Ps 489.4 billion in 2018, resulted in a Ps 10.4 billion decrease in interest income.

Net impairment loss on financial assets

Corficolombiana’s net impairment loss on financial assets decreased by Ps 39.8 billion to Ps 39.6 billion in 2018 from Ps 79.4 billion in 2017. This decrease was driven by a Ps 39.2 billion decrease in impairment loss on loans and other accounts receivable and a Ps 0.7 billion recovery of impairment (loss) recovery on other financial assets.

The Ps 39.6 billion decrease in impairment loss on loans and other accounts receivable, was mainly driven by a lower impairment recognized by Corficolombiana on its exposure in Electricaribe S.A. E.S.P., which amounted to Ps 24.7 billion in 2018 as compared to Ps 48.1 billion in 2017. In addition, in 2018 Fiduciaria Corficolombiana recovered Ps 7.5 billion out of a Ps 7.6 billion impairment on other accounts receivable carried out in 2017, related to accrued commissions on the CRDS fiduciary trust.

Net income from commissions and fees

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Banking fees	17.9	26.9	(9.0)	(33.6)
Trust activities and portfolio management services	61.4	69.5	(8.1)	(11.6)
Income from commissions and fees	**79.3**	**96.4**	**(17.1)**	**(17.8)**
Expenses from commissions and fees	(13.3)	(10.8)	(2.6)	23.7
Net income from commissions and fees	**66.0**	**85.7**	**(19.7)**	**(23.0)**

Net income from commissions and fees decreased by Ps 19.7 billion, or 23.0% to Ps 66.0 billion in 2018 as compared to Ps 85.7 billion in 2017. This decrease was driven by a Ps 9.0 billion decrease in banking fees, a Ps 8.1 billion decrease in fees from trust activities and portfolio management services, and by a Ps 2.6 billion increase in commission and fee expenses.

Net income from sales of goods and services

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Income from sales of goods and services	7,923.7	5,575.1	2,348.6	42.1
Costs and expenses from sales of goods and services	(5,011.8)	(4,577.5)	(434.3)	9.5
Net income (expense) from sales of goods and services	**2,911.9**	**997.5**	**1,914.4**	**191.9**

Net income (expense) from sales of goods and services increased 191.9%, or Ps 1,914.4 billion from Ps 997.5 billion in 2017 to Ps 2,911.9 billion in 2018, mainly driven by the progress of construction of three toll road concession projects

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during the year (Covioriente, Covipacífico and Coviandina) and strong results in Promigas. The results also reflect the application of IFRS 15, starting on January 1, 2018 (for further information see Notes 2.5 and 16 of the consolidated financial statement).

Costs and expenses from sales of goods and services showed a Ps 434.3 billion increase from Ps 4,577.5 billion in 2017 to Ps 5,011.8 billion for 2018. The increase is mainly explained by a Ps 436.1 billion increase in costs related to acquisition of raw materials and production costs mainly in Corficolombiana's concessions and in Promigas.

Net trading income

Total net trading income[74] decreased by Ps 53.4 billion from Ps 100.2 billion in 2017 to Ps 46.9 billion in 2018, driven by a Ps 41.2 billion decrease in net trading income from investment securities at FVTPL and a Ps 12.2 billion decrease in income from derivatives.

Corficolombiana's net trading income from investment securities at FVTPL reached Ps 65.4 billion during 2018, Ps 41.2 billion lower than the Ps 106.6 billion reached during 2017. The Ps 41.2 billion decrease in net trading income from investment securities is explained by a Ps 51.4 billion decrease in income from fixed income held for trading portfolio, and a Ps 10.2 billion increase in income from equity investment securities at FVTPL.

The decrease in the net trading income from investment securities was primarily the result of a decrease in the average yield from 7.6% in 2017 to 4.4% in 2018, which resulted in a decrease in income of Ps 44.7 billion. The average balance of Corficolombiana's investment securities at FVTPL slightly increased from Ps 1,394.5 billion in 2017 to Ps 1,472.0 billion, resulting in a Ps 3.4 billion increase in net trading income.

Net trading income from derivatives, offset in foreign exchange gains (losses), net line, decreased Ps 12.2 billion from a loss of Ps 6.4 billion in 2017 to a loss of Ps 18.5 billion in 2018.

Total income from investment securities

Corficolombiana's securities portfolio is classified in the following categories: (i) equity and fixed income investments at FVTPL (described in this section as net trading income in investment securities at FVTPL), (ii) fixed income investments at FVOCI and (iii) fixed income investments at AC ((ii) and (iii) are described above in the net interest income section as interest income on investments in debt securities).

Total income from investment securities (comprised of income on investments in debt securities and net trading income from investment securities at FVTPL) was Ps 197.1 billion for 2018, 5.4% or Ps 10.1 billion higher than the Ps 186.9 billion registered during 2017. This increase is explained by an increase in the average balance of total investment securities from Ps 3,004.8 billion in 2017 to Ps 3,534.5 billion in 2018, which resulted in a Ps 29.5 billion increase in income. Partially offsetting the increase, there was a decrease in the average yield on total investment securities from 6.2% in 2017 to 5.6%, which resulted in a Ps 19.4 billion decrease in income.

[74] Includes (i) net trading income from investment securities at FVTPL, which reflects the interest and gains/losses from mark-to-market valuation, in each case from equity and fixed income investment securities FVTPL, and (ii) net trading income from derivatives, which reflects the gains/losses from mark-to-market valuation on derivatives different from that considered under hedge accounting.

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Other income

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Foreign exchange gains (losses), net	(10.0)	3.9	(13.9)	(357.3)
Gains (losses) on sales of investments, net	17.3	1.4	16.0	1,173.4
Income from sales of noncurrent assets held for sale	0.3	0.2	0.1	54.1
Equity method investees	184.4	159.2	25.2	15.8
Dividend income	63.8	46.5	17.4	37.3
Gains on valuation of assets, net	0.0	1.2	(1.1)	(97.6)
Net income from financial instruments mandatory at fair value	205.8	209.9	(4.1)	(2.0)
Other	61.7	88.2	(26.5)	(30.0)
Other income	**523.4**	**510.5**	**13.0**	**2.5**

Total other income grew by Ps 13.0 billion or 2.5%, mainly driven by (i) a Ps 25.2 billion increase from the equity method investees, (ii) a Ps 17.4 billion increase in dividend income, and (iii) a Ps 16.0 billion increase in gains on sales of investments, net.

These increases were partially offset by (i) a Ps 26.5 billion decrease in other income, (ii) a Ps 13.9 billion decrease in foreign exchange gains (losses), net discussed above as part of the trading strategy (the net result of these two accounts was a loss of Ps 28.6 billion in 2018 versus a loss of Ps 2.5 billion in 2017), (iii) a Ps 4.1 billion decrease in net income from financial instruments mandatory at fair value (which are the concession arrangements rights), and (iv) a Ps 1.1 billion decrease in gains on valuation of assets, net.

Income from the equity method investees increased by Ps 25.2 billion to Ps 184.4 billion in 2018 from Ps 159.2 billion in 2017. This increase was explained by an increase in equity method from Gases del Caribe and Cálidda.

The Ps 17.4 billion increase in dividend income to Ps 63.8 billion in 2018 from Ps 46.5 billion in 2017 was mainly driven by a Ps 13.8 billion increase in dividend income from Grupo Energía de Bogotá (GEB) and a Ps 4.7 billion increase from Sociedad Aeroportuaria de la Costa.

The Ps 16.0 billion increase in gains on sales of investments, net to Ps 17.3 billion in 2018 from Ps 1.4 billion in 2017 was driven by a Ps 14.6 billion income resulting from the liquidation of Banco Corficolombiana Panamá.

Other, which includes income on sales of foreclosed assets, property, plant and equipment and recoveries on other expenses, decreased by Ps 26.5 billion to Ps 61.7 billion in 2018 as compared to 2017, driven by (i) the absence of Ps 56.7 billion of fair value income recognized on Corficolombiana's investments in Covimar and Covipacífico derived from the purchase of owners of the parent in 2017 and (ii) lower income of Ps 5.2 billion from Fiduciaria Corficolombiana, which were partially offset by (i) a Ps 35.2 billion income from insurance compensations at Episol and (ii) Ps 11.7 billion of income from sales of assets under financial leasing in Promigas.

Net income from financial instruments mandatory at fair value reflect the fair value of concession arrangements entered between Promigas and the Colombian government decreased by Ps 4.1 billion to Ps 205.8 billion in 2018 as compared to 2017.

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Other expense

	Year ended December 31,		Change, 2018 vs. 2017	
	2018	2017	#	%
	(in Ps billions)			
Losses from sales of noncurrent assets held for sale	(0.2)	(5.5)	5.2	(95.5)
Personnel expenses	(99.6)	(93.6)	(6.0)	6.4
Salaries and employee benefits	(94.8)	(90.1)	(4.6)	5.1
Bonus plan payments	(4.7)	(3.0)	(1.7)	56.7
Labor severances	(0.2)	(0.5)	0.3	(56.6)
Administrative and other expenses	(95.3)	(104.5)	9.1	(8.7)
Depreciation and amortization	(7.7)	(5.9)	(1.9)	31.8
Wealth tax	—	(14.8)	14.8	(100.0)
Impairment loss on other assets	(133.6)	(141.3)	7.7	(5.5)
Other expenses	(0.6)	(0.9)	0.2	(27.0)
Charitable and other donation expenses	(0.0)	(0.1)	0.1	(100.0)
Other	(0.6)	(0.8)	0.2	(20.0)
Other expense	**(337.2)**	**(366.5)**	**29.2**	**(8.0)**

Corficolombiana's total other expenses decreased by Ps 29.2 billion or 8.0% to Ps 337.2 billion in 2018 as compared to 2017. This decrease was mainly driven by a Ps 14.8 billion reduction in the wealth tax as the last installment was paid in 2017, a Ps 9.1 billion decrease in administrative and other expenses, a Ps 7.7 billion decrease in impairment loss on other assets and a Ps 5.2 billion decrease in losses from sales of noncurrent assets held for sale. These decreases in expenses were partially offset by a Ps 6.0 billion increase in personnel expenses and a Ps 1.9 billion increase in depreciation and amortization expense.

The Ps 9.1 billion decrease in administrative and other expenses was mainly driven by a Ps 5.2 billion reduction in debt cancellations in Leasing Corficolombiana, and a Ps 4.8 billion decrease in operational taxes and a Ps 2.1 billion decrease in maintenance and repairs both in Corficolombiana.

The Ps 7.7 billion decrease in impairment loss on other assets for 2018 was mainly driven by the Ps 28.9 billion decrease in the impairment of Episol S.A.S.'s investment in CRDS. During 2018, Episol recorded an impairment of Ps 111.8 billion on its investment in CRDS, while in 2017 an impairment of Ps 140.7 billion had been recorded. As of December 31, 2018, the equity investment of Episol in CRDS had been fully impaired. This was partially offset by a Ps 18.2 billion expense to fully provision Corficolombiana's investment in Pizano S.A. (under liquidation).

Personnel expenses increased 6.4% or Ps 6.0 billion from Ps 93.6 billion in 2017 to Ps 99.6 billion in 2018 driven by a Ps 4.6 billion increase in salaries and employee benefits and a Ps 1.7 billion increase in bonus plan payments.

Income tax expense

Income tax expense for Corficolombiana increased by Ps 468.2 billion, or 106.4%, to Ps 908.3 billion for the year ended December 31, 2018. Corficolombiana's effective tax rate[75] decreased from 54.1% for the year ended December 31, 2017 to 33.3% for the year ended December 31, 2018. The increase in expense and change in the effective tax rate were mainly driven by (i) a Ps 620.6 billion increase in income tax expense from infrastructure companies, given the higher income from concessions. This was partially offset by the effect of the Financing Law, which decreased the future expected statutory tax rate from 33% to 30% (passed by Colombian Government on December 2018 – see Note 19 of Financial Statements), on these companies' deferred tax expenses by Ps 85.8 billion; (ii) lower effective tax rates for infrastructure companies versus others, due to the higher weight of deferred taxes as compared to current taxes; and (iii) a Ps 35.3 billion positive impact of the Financing Law on deferred taxes of non-infrastructure companies.

[75] Calculated as income tax expense divided by income before tax expense minus equity method, minus dividends, plus wealth tax.

Net income attributable to non-controlling interest

Net income attributable to non-controlling interest in Corficolombiana increased by 27.9%, or Ps 97.7 billion to Ps 448.4 billion in 2018 as compared to 2017. The increase is mainly explained by a Ps 53.7 billion increase in net income attributable to non-controlling interest from Promigas and a Ps 50.4 billion increase from Pizano S.A (under liquidation) given the loss of control to the liquidator of the company in March 2018 (Ps 50.4 billion loss in 2017 and no effect in 2018), which were partially offset by a Ps 7.5 billion decrease in income from Unipalma. The ratio of net income attributable to non-controlling interest to net income decreased from 62.1% in 2017 to 21.7% in 2018, given the higher weight of infrastructure companies in net income and the fact that they are mostly 100% owned by Corficolombiana.

B. Liquidity and capital resources

The following table sets forth our sources of funding at December 31, 2019 and 2018.

	At December 31,	
	2019	2018
	(in Ps billions)	
Liabilities and equity:		
Trading liabilities	962.4	811.3
Hedging derivatives liabilities	94.3	195.5
Customer deposits	175,491.4	164,359.5
Interbank borrowings and overnight funds	9,240.5	6,814.1
Borrowings from banks and others	19,803.3	20,610.8
Bonds issued	21,918.3	20,140.3
Borrowings from development entities	3,882.5	3,646.8
Provisions	868.6	695.3
Income tax liabilities	3,258.6	2,574.4
Employee benefits	1,235.0	1,264.9
Other liabilities	8,729.4	9,008.0
Total liabilities	**245,484.3**	**230,120.8**
Equity attributable to owners of the parent	19,850.6	17,789.7
Non-controlling interest	13,497.7	11,764.6
Total equity	**33,348.3**	**29,554.3**
Total liabilities and equity	**278,832.6**	**259,675.2**

Capitalization ratios

The following tables present consolidated capitalization ratios for our Colombian banking subsidiaries and Corficolombiana which are subject to capital requirements. As discussed in other sections of this document, Decree 1477 of 2018 modified the capital adequacy requirements applicable to financing entities in Colombia. As a result, our banking subsidiaries will migrate to Basel III capital requirements in January, 2021.

	At December 31, 2019					
	Grupo Aval entities					
(in percentages)	Banco de Bogotá	Banco de Occidente	Banco Popular	Banco AV Villas	Corficolombiana	Grupo Aval consolidated
Tangible equity ratio(1)	9.0%	10.8%	11.6%	11.4%	30.2%	9.2%
Tier 1 ratio(2)	9.1%	9.6%	8.5%	9.7%	31.3%	—
Solvency ratio(3)	12.8%	11.8%	10.6%	10.7%	33.5%	—

Source: Company calculations based on each entity's respective financial statements for the period indicated. Tangible equity ratio is calculated under IFRS. Tier 1 ratio and solvency ratio are calculated under Colombian IFRS applicable to Consolidated Financial Statements as required by the Superintendency of Finance.

(1) Tangible equity ratio is calculated as total equity minus intangible assets (calculated as goodwill plus other intangible assets excluding those related to concession arrangements rights) divided by total assets minus intangible assets

(calculated as goodwill plus other intangible assets excluding those related to concession arrangements rights). See “Item 3. Key Information—A. Selected financial data— Ratios and Measures of Financial Performance”.

(2) Tier 1 ratio is calculated as primary capital divided by risk-weighted assets.

(3) Solvency ratio is calculated as technical capital divided by risk-weighted assets. For a definition of technical capital, see “Item 4. Information on the Company—B. Business Overview—Supervision and regulation—Capital Adequacy Requirements”.

All of our banking subsidiaries (Banco de Bogotá, Banco de Occidente, Banco Popular and Banco AV Villas), Porvenir and Corficolombiana, are subject to inspection and supervision as financial institutions by the Superintendency of Finance. Grupo Aval is now also subject to the inspection and supervision of the Superintendency of Finance as a result of Law 1870 of 2017, also known as Law of Financial Conglomerates, which came in effect on February 6, 2019. Grupo Aval, as the holding company of its financial conglomerate is responsible for the compliance with capital adequacy requirements, corporate governance standards, risk management and internal control and criteria for identifying, managing and revealing conflicts of interest, applicable to its financial conglomerate. See “Item 4. Information on the Company—B. Business Overview—Supervision and regulation—Capital Adequacy Requirements”.

Funding

Our banking subsidiaries fund most of their loans with deposits. Other sources of funding include interbank borrowings and overnight funds, and borrowings from development banks and long-term bond issuances. For more information on funding, refer to Note 21—Financial Obligations of our audited consolidated financial statements.

The following table summarizes the funding structure of our banks on a consolidated basis at the dates indicated.

	At December 31,		
	2019	**2018**	**2017**
		(in Ps billions)	
Customer deposits	175,491.4	164,359.5	154,885.2
Interbank borrowings and overnight funds	9,240.5	6,814.1	4,970.4
Borrowings from banks and others	19,803.3	20,610.8	18,205.3
Bonds issued	21,918.3	20,140.3	19,102.2
Borrowings from development entities	3,882.5	3,646.8	2,998.1
Total funding	**230,336.0**	**215,571.4**	**200,161.3**

Total funding increased by 6.8% between December 31, 2019 and December 31, 2018 mainly as a result of an increase in deposits and borrowings from banks and others.

Between December 31, 2019 and December 31, 2018, interbank borrowings and overnight funds and bonds issued as a percentage of total funding increased by 85 basis points and 17 basis points, respectively. Borrowings from banks and others deposits and borrowings from development entities decreased as a percentage of total funding by 96 basis points, 5 basis points and 1 basis point, respectively.

Between December 31, 2018 and December 31, 2017, interbank borrowings and overnight funds, borrowings from banks and others and borrowings from development entities as a percentage of total funding increased by 68 basis points, 47 basis points and 19 basis points, respectively. Deposits and bonds issued decreased as a percentage of total funding by 114 basis points and 20 basis points, respectively.

Our Colombian funding base also benefits from the highest available local credit ratings for each of our banking subsidiaries and each of Corficolombiana and Porvenir, as assigned by BRC Investor Services S.A., an affiliate of Standard & Poor’s Investors Services LLC, or “S&P”. Banco Popular and Banco AV Villas have also achieved the highest available local credit ratings as assigned by Value and Risk Rating S.A. S.C.V.

The following table presents Grupo Aval’s and its subsidiaries international and local ratings as issuers.

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		International			Local				
		Moody's	Fitch Ratings	Standard & Poor's	Fitch Ratings Nacional	BRC Standard & Poor's	Outlook Moody's	Outlook Fitch	Outlook S&P
Grupo Aval	Foreign currency - Long term	Ba2	BBB				Negative	Negative	
	Local currency - Long term	Ba2	BBB			AAA			
Banco de Bogotá	Foreign currency - Long term	Baa2	BBB	BB+			Negative	Negative	Stable
	Foreign currency - Short term	P2	F2	B					
	Local currency - Long term	Baa2	BBB	BB+		AAA	Negative	Negative	Stable
	Local currency - Short term	P2	F2	B		BRC1+			
Banco de Occidente	Foreign currency - Long term		BBB		AAA	AAA		Negative	
	Foreign currency - Short term		F3		F1+	BRC+1			
	Local currency - Long term		BBB		AAA	AAA		Stable	
	Local currency - Short term		F3		F1+	BRC1+			
Banco Popular	Local currency - Long term					AAA			
	Local currency - Short term					BRC1+			
Banco AV Villas	Local currency - Long term					AAA			
	Local currency - Short term					BRC1+			
Corficolombiana	Foreign currency - Long term		BBB		AAA			Negative	
	Foreign currency - Short term		F2						
	Local currency - Long term		BBB		AAA	AAA		Stable	
	Local currency - Short term		F2		F1+	BRC1+			

Any adverse change in credit ratings may increase the cost of our funding. See "Item 3. Key Information—D. Risk factors—Risks relating to our businesses and industry—Risks relating to our banking business—Downgrades in our long-term credit ratings or in the credit ratings of our banking subsidiaries would increase the cost of, or impair access to, funding and may impact our ability to maintain regulatory capital ratios".

The following tables present our consolidated funding from deposits at the dates indicated.

	At December 31,		
	2019	2018	2017
	(in Ps billions)		
Interest-bearing customer deposits:			
Checking accounts	25,636.9	22,377.7	20,596.5
Time deposits	73,225.2	66,853.0	62,616.2
Savings deposits	59,352.8	57,221.4	55,778.7
Total interest-bearing customer deposits	**158,214.8**	**146,452.1**	**138,991.4**
Non-interest-bearing customer deposits:			
Checking accounts	16,812.8	17,325.2	15,421.1
Other deposits(1)	463.8	582.1	472.8
Total non-interest-bearing customer deposits	**17,276.6**	**17,907.3**	**15,893.9**
Total customer deposits	**175,491.4**	**164,359.5**	**154,885.2**

(1) Consists of deposits from correspondent banks, cashier checks and collection services.

Checking accounts. Our consolidated balance of checking accounts was Ps 42,449.7 billion at December 31, 2019, Ps 39,702.9 billion at December 31, 2018 and Ps 36,017.6 billion at December 31, 2017, representing 18.4%, 18.4% and 18.0% of total funding, respectively.

Time deposits. Our consolidated balance of time deposits was Ps 73,225.2 billion at December 31, 2019, Ps 66,853.0 billion at December 31, 2018 and Ps 62,616.2 billion at December 31, 2017, representing 31.8%, 31.0% and 31.3% of total funding, respectively.

The following table present time deposits held by amount and maturity for deposits at the date indicated.

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	At December 31, 2019		
	Peso-denominated	Foreign currency-denominated	Total
		(in Ps billions)	
Domestic			
Up to 3 months	5,243.1	7,319.6	12,562.7
From 3 to 6 months	3,803.4	1,302.9	5,106.2
From 6 to 12 months	8,473.6	1,248.5	9,722.1
More than 12 months	14,841.5	232.7	15,074.2
Time deposits less than U.S.$100,000(1)	4,596.3	183.9	4,780.1
Total domestic	**36,957.8**	**10,287.5**	**47,245.3**
Foreign	—	25,979.9	25,979.9
Total time deposits	**36,957.8**	**36,267.4**	**73,225.2**

(1) Equivalent to Ps 327.7 million at the representative market rate at December 31, 2019 of Ps 3,277.14 per U.S.$1.00.

Savings deposits. Our consolidated balance of savings deposits was Ps 59,352.8 billion at December 31, 2019, Ps 57,221.4 billion at December 31, 2018 and Ps 55,778.7 billion at December 31, 2017, representing 25.8%, 26.5%, 27.9% of total funding requirements, respectively, in each of those years.

Other deposits. Our consolidated balance of other deposits, which consist mainly of deposits from correspondent banks, cashier checks and collection services, was Ps 463.8 billion at December 31, 2019, Ps 582.1 billion at December 31, 2018 and Ps 472.8 billion at December 31, 2017, representing 0.2%, 0.3% and 0.2%, respectively.

Interbank borrowings and overnight funds. Our consolidated balance of interbank borrowings and overnight funds was Ps 9,240.5 billion at December 31, 2019, Ps 6,814.1 billion at December 31, 2018, and Ps 4,970.4 billion at December 31, 2017, representing 4.0%, 3.2% and 2.5% of total funding requirements, respectively.

The following table sets forth our short-term borrowings consisting of interbank borrowings at and for the year ended December 31, 2019.

	At and for the year ended December 31, 2019	
	Amount	Nominal weighted average rate
	(in Ps billions, except percentages)	
Short-term borrowings		
Interbank borrowings and overnight funds		
End of period	9,240.5	—
Average during period	7,898.2	4.8%
Maximum amount of borrowing at any month-end	10,903.3	—
Interest paid during the period	380.9	—

As part of their interbank transactions, our banks maintain a portfolio of government securities and private sector liquid debt instruments used to obtain overnight funds from other financial institutions or investment funds by selling such securities and simultaneously agreeing to repurchase them. Due to the short-term nature of this source of funding, these transactions are volatile and are generally composed of Colombian government securities.

Borrowings from banks and others. Our consolidated balance of borrowings from banks and others was Ps 19,803.3 billion at December 31, 2019, Ps 20,610.8 billion at December 31, 2018, and Ps 17,906.6 billion at December 31, 2017, representing 8.6%, 9.6% and 9.1% of total funding requirements, respectively.

Borrowings from development entities. Borrowings from banks are provided by correspondent banks and by governmental entities to promote lending to specific sectors of the Colombian economy. This funding, which mainly has fully matched maturities and interest rates with related loans, totaled Ps 3,882.5 billion at December 31, 2019, Ps 3,646.8 billion at December 31, 2018, and Ps 2,998.1 billion at December 31, 2017, representing 1.7%, 1.7% and 1.5% of total funding requirements, respectively.

Bonds issued. Grupo Aval and its subsidiaries issue bonds in the Colombian and international markets. Our consolidated balance of bonds issued outstanding was Ps 21,918.3 billion at December 31, 2019, Ps 20,140.3 billion at December 31, 2018 and Ps 19,102.2 billion at December 31, 2017, representing 9.5%, 9.3% and 9.5% of total funding requirements, respectively.

We and our subsidiaries have also issued bonds in pesos and USD in the local and international markets. The following bond issuances were placed in the market in 2019:

Issuer	Issuance date	Amount (in Ps billions)	Expiration date	Interest rate
Grupo Aval Acciones y Valores S.A.	2019	400.0	November 2024 and 2039	Fixed 6.42% and CPI + 3.69%
Banco de America Central Honduras S.A. (1)	2019	117.3	May 2020 to April 2022	0.75% to 9.50%
Banco de America Central S.A. El Salvador (1)	2019	196.6	April 2024 to August 2024	5.85%
Banco de Occidente S.A.	2019	400.0	September 2022, 2024 and 2029	Fixed 5.83%, CPI + 1.75% and CPI + 2.63%
Banco Popular S.A.	2019	346.8	February 2022 and 2024	Fixed 6.33% and 6.84%
Corporación Financiera Colombiana S.A.	2019	500.0	August 2022, 2029 and 2039	CPI + 2.16%, CPI + 3.07% and CPI + 3.90%
Promigas S.A.E.S.P. (1)(2)	2019	1,380.5	October 2029	Fixed 3.75%

(1) Translated to pesos using the representative market rate as computed and certified by the Superintendency of Finance at the date of each issuance.

(2) Promigas is included in our consolidated financial statements pursuant to IFRS rules on "control", however, pursuant to Colombian Regulation (Code of Commerce) Promigas is not a company under direct or indirect control of Grupo Aval.

Capital expenditures

Grupo Aval incurred in Ps 633.6 billion of net capital expenditures in tangible assets in 2019, as compared to Ps 460.1 billion in 2018.

C. Research and development, patents and licenses, etc.

N/A.

D. Trend information

During 2019, Grupo Aval's banking operation contributed 66.3% of its attributable net income, its merchant bank business contributed 19.5% and its pension fund business the remaining 14.2%.

Results for the banking business in 2019 were mainly driven by a relatively slow volume growth, especially in commercial loans, and competitive interest rate environment in Colombia (where most of our business is located) that led to a compression of the net interest margin, but was partially offset by an improvement in the cost of risk and a one-digit growth rate in other expenses. Interest rates for loans across the Colombian banking system were increasingly competitive,

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particularly during the second half of the year, as the improvement in credit quality was priced into new originations, especially in consumer loans.

Gross loans grew by 6.0% year-on-year in 2019, slightly lower than the 6.4% year-on-year growth registered in 2018. Growth trends in Colombia and Central America were opposite during the year.

In Colombia, year-on-year gross loan growth of 6.6% in 2019 was higher than the 3.3% registered in 2018, in line with the recovery of the Colombian economy. Growth for each gross loan portfolio was as follows: 4.3% in commercial loans (-0.9% in 2018), 9.8% in consumer loans (9.2% in 2018), 14.1% in mortgage loans (18.8% in 2018), and -3.6% in microcredit loans (3.9% in 2018). The pick-up of the commercial portfolio can be attributed to a generalized recovery of these loans in the system as the uncertainty over the tax-reform approved in late December (the Financing Law) waned.

In Central America, year-on-year gross loan growth slowed down to 4.6% (3.7% in U.S.$) in 2019 from 13.9% (4.6% in U.S.$) registered in 2018, impacted by the translation into Colombian pesos as 2019 saw a 0.8% year-on-year devaluation as compared to a 8.9% year-on-year devaluation in 2018. Slower gross loan growth denominated in U.S.$ (our Central American operation's functional currency) was driven by Panama, as the entire banking system was impacted by a slowdown of commercial loans, and by Nicaragua as the country's economic performance remained slow.

Net interest margin (NIM) for 2019 decreased by 14 basis points to 5.6% as a result of a lower NIM in Colombia, derived from increased price competition on loans, that was offset by a higher NIM in Central America, resulting from a higher mix of productive assets in countries with higher NIMs, such as Costa Rica and Guatemala, and a lower mix in lower NIM countries like Panama. These trends are expected to persist into 2020. On the other hand, the acquisition and incorporation of Multibank Inc., Panamá could lower the NIM of the Central American region as it could increase the share of productive assets in Panama, which as mentioned before, has a lower NIM than the other countries in the region.

Cost of risk net of recoveries was 2.2% for 2019, improving 17 basis points, as compared to 2018. Grupo Aval's cost of risk improved, mainly driven by a decrease in impairment loss on consumer loans, in line with the improvement in its asset quality, as measured by consumer loans classified as Stage 2 and Stage 3 over total consumer loans to 10.5% in 2019 from 11.9% in 2018.

Net trading income from investments was stronger in 2019 than in 2018, as it reflected valuation gains on our fixed income and equity portfolios derived from favorable market conditions throughout the year, that enabled our banks to realize gains on fixed income held at FVOCI.

Grupo Aval focused part of its efforts on a rigorous control of OPEX growth for 2019. Other expenses grew by 8.5% as compared to 2018, with our Colombian operation posting a 3.5% growth and our Central American operations a 17.4% growth (5.7% in U.S.$), impacted by the devaluation of the average translation exchange rate into Colombian pesos. The continued progress of our digital efforts and cost control initiatives across our subsidiaries were key drivers of this improvement. Some initiatives include (i) reformatting and closure of branches, (ii) business process optimizations, (iii) migration of transactions to digital channels and (iv) ATM network optimization.

During 2019, Grupo Aval's merchant banking business reflected a strong contribution from Corficolombiana's infrastructure projects. Results of operations of Grupo Aval's non-financial entities for 2020 are expected to be similar to 2019, as the constructions of Coviandina, Covipacifico, and Covioriente progress.

The pension fund business, which contributed to 14.2% of Grupo Aval's net income, reflected a higher average yield on its portfolio as compared to 2018 and a positive evolution in the number of clients. Porvenir's clients for mandatory, voluntary and severance funds at December 31, 2019 were 14.1 million (6.4% more customers than the 13.3 million at December 31, 2018). This result was driven by (i) an increase of 648 thousand clients to Porvenir's mandatory pension fund to 9.6 million (a 7.3% increase) and an increase of 195 thousand clients to severance funds to 4.4 million (a 4.6% increase). This was partially reflected in a 20.3% increase in Porvenir's AUMs related to these funds to Ps 131.0 trillion.

Grupo Aval's future results will be driven by the performance of our banking operation and thus will depend on how credit volumes, net interest margin, cost of risk and overall expenses behave. Results from our investments in the non-financial sector will be highly reliant on how investments in the infrastructure (construction progress) and energy & gas (distribution volumes) sectors perform; and in a lesser magnitude, performance of hotels, agribusiness and other sectors. Our pension fund business will depend on both the number of new clients and on market conditions, reflected on Porvenir's investment portfolios.

Notwithstanding global response, the COVID-19 pandemic has not been contained. As such, it is difficult to estimate the actual impact of coronavirus on global economic performance.

Loan growth dynamics in Colombia and Central America for 2020 may be affected by the effects of coronavirus on private consumption, production and trade. Public policies, as well as actions taken by the central banks and regulators, if adequate, may have a substantial effect in mitigating the impact of these shocks. See "Item 11. Quantitative and Qualitative Disclosures About Risk—Loss allowance" for more information on measures taken by Governments in the countries in which we operate, and particular measures taken by our banks to mitigate the effects of the current economic context.

On March 27, 2020, Colombia's Central Bank decided to reduce the intervention rate by 50 basis points from 4.25% to 3.75% after holding it steady for 23 consecutive months, in order to contribute to the recovery in domestic demand. Since March 16, 2020, the Central Bank has taken several measures to support liquidity of the financial sector, which include among others: (i) decreasing the reserve requirement on checking and savings accounts from 11% to 8% and on time deposits (with maturities below 18-months) from 4.5% to 3.5%, both starting on April 22, 2020; the liquidity provided by this measure will be partially offset by the newly established mandatory investments in solidarity notes, (ii) extending liquidity auctions (repos) from Ps 12.0 trillion to Ps 23.5 trillion, and granting access to various participants of the financial system, (iii) extending the maturities of repos over public debt instruments from 1 to 60 days and of repos over private debt instruments from 30 to 90 days, (iv) authorizing the Central Bank to purchase private instruments issued by credit institutions with remaining maturities of less than or equal to 3 years, and (v) authorizing the Central Bank to directly purchase Colombian sovereign debt (TES) for up to Ps 2 trillion in the last week of March 2020, and an additional Ps 2 trillion starting on April 15, 2020 and for the remainder of the month. See "Item 4. Information on the Company—B. Business overview—Supervision and regulation" for more information on reserve requirements and mandatory investments.

On April 6, 2020, the Colombian Government launched a guarantee program through the National Guarantees Fund (*Fondo Nacional de Garantías*) for micro, small and medium enterprises (individuals or entities with sales of up to Ps 52.0 billion per year) for Ps 12.0 trillion to mitigate the impacts of coronavirus, intended to avoid liquidity problems and massive lay-offs. The program will cover up to 60% of loans amounting to a maximum of Ps 3.3 billion with grace periods of up to 4 months and maturities between 12 and 36 months. Notwithstanding, this program was modified on April 15, 2020 and April 22, 2020, to increase its coverage to up to 90% of the unpaid balance of the loan depending on the credit line conditions and characteristics of the borrower.

A slowdown in originations may be reasonably expected as demand softens amidst nationwide quarantines and its effects on economic performance, especially on financial conditions of households and small and medium enterprises. Likewise, changes in customer patterns could impact our clients' liquidity and therefore deposit growth dynamics. Liquidity might also be affected by monetary and public policy.

Our NIM is affected by the decisions of central banks in the countries in which we operate. Lower central bank rates could lead to a margin compression of our commercial loans, which often float with a spread over central bank rate linked benchmarks, but could favor margins on consumer loans that reprice at a lower speed.

Trends in cost of risk net of recoveries will greatly depend on the impact of previously mentioned events on our credit models (probability of default, loss given default, significant increase in credit risk and delinquency). Certain sectors of the economy, to which we are exposed, are more sensitive than others to the impacts of COVID-19 and the measures taken by Governments to mitigate the negative effects of coronavirus and could evidence an increase in their ECL. Delinquency on loans may vary as a result of the impacts of coronavirus and relief measures.

Our fee income could be negatively impacted by the relief of certain banking fees given by our banks to customers and by lower income resulting from a decrease in transactions due to quarantines and the slowdown of the economy in countries in which we operate. Given that Porvenir's performance fees charged to non-contributing mandatory pension fund clients and third-party sponsored pension liability funds are directly related to AUM performance, we could see varying results from this type of commissions. Fees charged to contributing mandatory pension fund clients and to voluntary pension fund clients could be impacted if risks were to materialize regarding an increase in unemployment.

The performance of our investments in the non-financial sector could also be negatively impacted by quarantines and their effects on economic performance. In particular, we could experience a temporary slowdown of construction progress in our infrastructure projects. However, we believe that infrastructure construction is one of the first sectors that would reactivate. Promigas' results could be negatively affected by lower consumption of gas from industrial customers. Other sectors with minor contributions to Corficolombiana's net income, such as hospitality, could also be impacted by the current context.

Net trading income on fixed income and equity investments, as well as valuation and realization of gains on fixed income investments held at FVOCI for 2020 will greatly depend on global market conditions. As of March 31, 2020, our subsidiaries' investment portfolios experienced declines in their value in line with declining prices of assets across the world. However, it is still early to estimate if this will be transitory and to what extent they could recover considering positive corrections in global markets recorded in the first weeks of April 2020.

We will continue focusing on cost control initiatives that strengthen our efficiency and minimize the possible negative impacts of the current scenario on our net income. Other expenses could increase at a slightly higher pace in 2020 than that of 2019, if growth dynamics accelerate in connection with a quick economic recovery. In addition, the exchange rate of the Colombian peso can impact our U.S.$ denominated expenses, as well as our banks' capital adequacy ratios through an increase in U.S.$ denominated risk weighted assets and intangibles that are deducted from primary capital (Tier I).

E. Off-balance sheet arrangements

In the ordinary course of business, our banking subsidiaries have entered into various types of off-balance sheet arrangements, including credit lines, letters of credit and financial guarantees. Our banking subsidiaries utilize these instruments to meet their customers' financing needs. The contractual amount of these instruments represents the maximum possible credit risk should the counterparty draw down the entire commitment or our bank fulfill its entire obligation under the guarantees, and the counterparty subsequently fails to perform according to the terms of the contract. Our banking subsidiaries may hold cash or other liquid collateral to support these commitments, and they generally have legal recourse to recover amounts paid but not recovered from customers under these instruments. Most of these commitments and guarantees expire undrawn. As a result, the total contractual amount of these instruments does not represent our banking subsidiaries' future credit exposure or funding requirements. In addition, some of these commitments, primarily those related to consumer financing, are cancelable by our banks upon notice.

The following table presents the maximum potential amount of future payments under these instruments and other contingencies at the dates presented for Grupo Aval on a consolidated basis.

	At December 31,		
	2019	2018	2017
Grupo Aval		(in Ps billions)	
Unused credit card limits	23,125.2	20,816.1	18,025.6
Issued and confirmed letters of credit	1,133.4	1,186.7	1,177.7
Unused lines of credit	2,935.3	3,105.7	2,787.8
Bank guarantees	3,341.6	3,446.6	3,495.9
Approved credits not disbursed	1,619.1	2,370.7	1,736.2
Civil demands against our banks	305.2	391.3	453.6
Other	865.4	321.2	1,498.7
Total	**33,325.2**	**31,638.2**	**29,065.6**

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F. Tabular disclosure of contractual obligations

The following tables present our contractual obligations at December 31, 2019.

	At December 31, 2019				
	Payments due by period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
	Grupo Aval (in Ps billions)				
Liabilities:					
Long-term debt obligations	21,918.3	2,479.0	5,579.6	3,904.5	9,955.2
Time deposits	73,225.2	48,273.8	16,007.4	4,000.7	4,943.3
Long-term borrowings from banks and others	19,803.3	10,739.2	2,638.1	1,284.7	5,141.3
Interbank and overnight funds	9,240.5	9,240.5	—	—	—
Borrowings from development entities	3,882.5	663.9	2,286.1	476.5	456.0
Employee benefit plans	1,235.0	571.5	206.1	101.9	355.4
Other liabilities	8,729.4	6,117.3	2,129.0	34.6	448.5
Total	**138,034.1**	**71,967.9**	**26,717.2**	**9,768.5**	**20,851.2**

See Note 21 to our audited consolidated financial statements at December 31, 2019.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and senior management

Board of Directors

The Board of Directors of Grupo Aval is composed of seven principal members and seven alternate members, each of whom serves a one-year term and may be reelected indefinitely. The term for the current directors expires on March 31, 2020.

The current members of the Board of Directors were appointed at a shareholders' meeting held on March 30, 2020. The following table presents the names of the current principal and alternate members of the board of directors.

Board member	Alternate
Luis Carlos Sarmiento Angulo	Mauricio Cárdenas Müller
Alejandro Figueroa Jaramillo	Juan María Robledo Uribe
María Lorena Gutiérrez Botero	Juan Camilo Ángel Mejía
Álvaro Velásquez Cock (1)(3)	Ana María Cuéllar de Jaramillo
Fabio Castellanos Ordóñez (1)(2)(3)	Luis Fernando López R. (2)
Miguel Largacha Martínez	César Prado Villegas
Esther América Paz Montoya(1)(2)(3)	Germán Villamil Pardo(2)

(1) Member of the Audit committee.

(2) Independent director under Colombian requirements.

(3) Independent director under SEC Audit Committee rules.

Luis Fernando Pabón Pabón is the secretary of our Board of Directors.

Biographical information of the principal members of our board of directors and the secretary of our board is set forth below. Ages of members of our board of directors throughout this annual report are as of April 17, 2020.

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Luis Carlos Sarmiento Angulo, age 87, has served as the Chairman of the board of directors of Grupo Aval since 1999. Mr. Sarmiento Angulo is the founder and controlling shareholder of Grupo Aval and, since 1985, has served as a member of the board of directors of Organización Luis Carlos Sarmiento Angulo Ltda., an affiliate of our controlling shareholder. Since 2010 he has served as principal member of the Board of Directors of Casa Editorial El Tiempo and of CEET TV. He also serves as Chairman of the board of directors of the following not-for-profit entities: Fundación Grupo Aval, Fundación Luis Carlos Sarmiento Angulo, and Fundación Centro de Tratamiento e Investigación del Cáncer—"CTIC". He is sponsoring, among other initiatives, Corporación Microcrédito Aval, a microfinance not-for-profit organization, the CTIC, Corporación Excelencia en la Justicia, and Fundación para el Futuro de Colombia—Colfuturo. He holds a degree in Civil Engineering from Universidad Nacional de Colombia. He is the father of the President of Grupo Aval, Mr. Luis Carlos Sarmiento Gutiérrez. Mr. Sarmiento Angulo's business address is Carrera 13 No. 26A-47, Bogotá, D.C., Colombia.

Alejandro Figueroa Jaramillo, age 78, has served as a principal member on the board of directors of Grupo Aval since 1999. Mr. Figueroa Jaramillo has been the President of Banco de Bogotá since 1988. He has been employed with Banco de Bogotá since 1973, where he also served as Executive Vice President and Vice President of Finance. He is the Chairman of the board of directors of Porvenir and has been a board member of Porvenir since 1991. He has also been a member of the board of directors of Corficolombiana since 1998 and of Fundación Grupo Aval since 2011. He previously served as Vice-Minister and Deputy Minister of Economic Development of Colombia. He holds a degree in Civil Engineering from Facultad de Minas de la Universidad Nacional in Antioquia and a Master of Arts degree and PhD candidate in Economics from Harvard University. Mr. Figueroa Jaramillo's business address is Calle 35 No. 7-47, Bogotá, D.C., Colombia.

María Lorena Gutiérrez Botero, age 51, has served as President of Corficolombiana since August, 2018. Ms. Gutiérrez previously served as Minister of Commerce, Industry and Tourism from 2017 to 2018, Ambassador of Colombia in Germany from 2016 to 2017 and Minister to the Presidency from 2010 to 2016. She has also served in the past as Dean of the Business School at Universidad de Los Andes. She holds a degree in Industrial Engineering with a specialization in finance from Universidad de los Andes, a Master of Business Administration (MBA) and a PhD in Finance from the A.B. Freeman School of Business at Tulane University. Her principal business address is Carrera 13 No. 26-35, Bogotá, D.C., Colombia.

Álvaro Velásquez Cock, age 80, has served as a principal member of the board of directors of Grupo Aval since 2013 and previously as an alternate member thereof since 2008. Mr. Velásquez Cock has served as advisor to Grupo Ethuss since 1994. He has acted as Dean of the Faculty of Economics of the Universidad de Antioquia, Chief of the Departamento Nacional de Estadística—DANE, President of Pedro Gómez & Cía. S.A. and as a member of the Advisory Committee of the Superintendency of Finance. He has been a member of the board of directors of Banco de Bogotá since 2001, of Banco de Bogotá—Panamá since 1984, of Corficolombiana since 1992, of Unipalma since 1996 and of BAC Credomatic entities since 2011. He holds a degree in Economics from the Universidad de Antioquia. Mr. Velásquez Cock's business address is Calle 69 No. 9-58, Bogotá, D.C., Colombia.

Fabio Castellanos Ordóñez, age 63, has served as a principal member of the Board of Directors of Grupo Aval since March 2018 and previously as an alternate member since September 2015. He was, until last year, the local representative in Colombia of AMF (Ascending Markets Financial Guaranty Corporation) and has previously acted as Chief Country Officer and Executive Director of ABN-AMRO Bank (Colombia) S.A., The Royal Bank of Scotland (Colombia) S.A., Scotiabank Colombia S.A. and Vice President and Corporate Finance Executive of the Representative Office in Colombia of The Chase Manhattan Bank, N.A. Mr. Castellanos serves as member of the Board of Directors of Ignacio Gómez IHM S.A. and Corporación Umabarí. Mr. Castellanos Ordóñez' business address is Calle 112#1-10 E, T 5, Bogotá, D.C., Colombia.

Miguel Largacha Martínez, age 56, has served as President of Porvenir since 2008. Mr. Largacha Martínez previously served as President of Horizonte Sociedad Administradora de Fondos de Pensiones y de Cesantías S.A., and held other positions within BBVA Colombia S.A., including Executive Vice President and Vice President of Banco Ganadero (the predecessor to BBVA Colombia S.A.) and has been a member of the board of directors of Fundación Grupo Aval since 2011. He holds a law degree from Universidad Javeriana and has further completed graduate studies in Financial Legislation and Executive Management at the Universidad de los Andes. His business address is Carrera 13 No. 27-75, Bogotá, D.C., Colombia.

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Esther América Paz Montoya, age 65, has served as a principal member on the board of directors of Grupo Aval since 2010, and previously as an alternate member thereof since 2005. Ms. Paz Montoya is a former President of Banco AV Villas, where she also served as Vice President of Finance and Vice President of Operations, and a former President of Ahorramás Corporación de Ahorro y Vivienda. Ms. Paz Montoya has served as a member of the board of directors of Agremiación Cívica Centro Internacional San Diego S.A. since 2009. She holds a degree in Business Administration from the Universidad del Valle and graduate studies in finance from Universidad de Los Andes. Ms. Paz Montoya's business address is Carrera 13 No. 26A-47, Bogotá, D.C., Colombia.

Biographical information of the alternate members of our board of directors is set forth below.

Mauricio Cárdenas Müller, age 50, has served as an alternate member of the board of directors of Grupo Aval since 2015. Previously, he served as a principal member on the board of directors of Grupo Aval from 2010 until 2014, and as an alternate member thereof since 2002 until 2010. Mr. Cárdenas Müller has acted as chief advisor to Luis Carlos Sarmiento Angulo since 2004. He is a member of the board of directors of Seguros Alfa S.A. and of Seguros de Vida Alfa S.A. since 2014, and previously served from 2002 until 2011. He has also served as a member of the board of directors of Fundación para el Futuro de Colombia – Colfuturo since 2007, of Porvenir since 2008, and of Casa Editorial El Tiempo since 2011. Mr. Cárdenas holds a degree in Electronic Engineering from Universidad Javeriana and a MBA from Escuela de Dirección y Negocios de la Universidad de la Sabana – INALDE. Mr. Cárdenas Müller's business address is Carrera 13 No. 26A–47, Bogotá, D.C., Colombia.

Juan María Robledo Uribe, age 75, has served as an alternate member on the board of directors of Grupo Aval since 2000. Mr. Robledo Uribe has acted as Executive Vice President of Banco de Bogotá from 1990 to 1992, from 1993 to 2001 and since 2003. He has been employed with Banco de Bogotá for over 50 years, where he has also served as Vice President of Banking Services and Vice President of Commercial Banking. He has been a member of the board of directors of Corficolombiana from 1993 to 2001 and since 2006, of Fidubogotá since 2007, of Porvenir since 1991 and of Fundación Grupo Aval since 2011. He holds a degree in Economics from the Universidad del Rosario. He is also the former President of Banco del Comercio (which merged with Banco de Bogotá in 1992) and of Corficolombiana from 2003 until 2005. Mr. Robledo Uribe's business address is Calle 35 No. 7-47, Bogotá, D.C., Colombia.

Juan Camilo Ángel Mejía, age 54, has served as an alternate member on the board of directors of Grupo Aval since 2008. Mr. Ángel Mejía has been the President of Banco AV Villas since 2007, and previously acted as its Vice President of Credit and Portfolio, Vice President of Asset Regularization and Vice President of Real Estate. Previously he was an advisor in the Offerings Department of Banco Central Hipotecario and Project Manager in the Capital Markets division of Corfinsura. He has also been a member of the board of directors of Asociación Bancaria de Colombia since 2007, of Titularizadora Colombiana S.A. since 2008 and of Fundación Grupo Aval since 2011. He holds a degree in Civil Engineering from the Universidad de Medellín with graduate studies in finance from Universidad Eafit. Mr. Ángel Mejía's business address is Carrera 13 No. 26A-47, Bogotá, D.C., Colombia.

Ana María Cuéllar de Jaramillo, age 66, has served as an alternate member of the board of directors of Banco de Bogotá since 2007 and also serves as a member of the board of directors of Megalínea, Biomax S.A. and of BAC Credomatic entities since 2011. Ms. Cuéllar de Jaramillo is an independent consultant who specializes in systems and procedures for financial control and has formerly served as Director of the Dirección de Impuestos y Aduanas Nacionales DIAN and in several positions in Citibank. She holds a degree in accounting from Universidad Jorge Tadeo Lozano. Ms. Cuéllar de Jaramillo's business address is Carrera 13 No. 26A-47, Bogotá, D.C., Colombia.

Luis Fernando López Roca, age 63, has served as an alternate member on the board of directors of Grupo Aval since March 23, 2018. Mr. López Roca is a partner of López Montealegre Abogados S.A., Director of the Financial Law Department at Universidad Externado de Colombia, Alternate Judge of the Constitutional Court for the 2018-2019 period and arbitrator. Mr. López Roca has acted as Superintendent of Securities, President of the Colombian Association of Commercial Financing Companies, and Advisor to the Inter-American Development Bank. He also held several positions in the Superintendency of Corporations, the Chamber of Commerce of Bogotá and the Superintendency of Banks. Mr. López Roca holds a Law Degree and PhD from Universidad Externado de Colombia, with an LLM in International Business Law at Universidad Francisco Vitoria and graduate studies in Economic, Commercial and Financial law at Universidad Externado de Colombia and Universidad de los Andes. Mr. López Roca's business address is Carrera 13 No. 26A-47, Bogotá, D.C., Colombia.

César Prado Villegas, age 48, has served as President of Banco de Occidente since September 2018 and as member of the board of directors of Grupo Aval since March 29, 2019. Mr. Prado previously served as Administrative Vice-president of Banco de Bogotá from April to September 2018, President of Fiduciaria Bogotá from 2010 to 2018 and Superintendent of Finance from 2007 to 2008. He holds a law degree from Universidad del Rosario, a graduate degree in commercial law from Universidad de los Andes and an LLM from The London School of Economics. His business address is Carrera 4 No. 7-61, Cali, Colombia.

Germán Villamil Pardo, age 60, has served as an alternate member on the board of directors of Grupo Aval since 2010 and previously as a principal member thereof since 2006. Mr. Villamil Pardo is a partner of Gómez Pinzón Abogados S.A. He has served as a member of the board of directors of Gómez Pinzón Abogados S.A. since 1997. Mr. Villamil Pardo formerly served as a member of the board of Inversiones Inmobiliarias Arauco Alameda S.A.S and Inversiones Inmobiliarias Barranquilla Arauco S.A.S. He previously held several positions in the Ministry of Finance of Colombia as well as in Banco de la República. He holds a law degree with graduate studies in tax law from the Universidad de los Andes. Mr. Villamil Pardo's business address is Calle 67 No. 7-35 Oficina 1204, Bogotá, D.C., Colombia.

Luis Fernando Pabón Pabón, age 61, has served as Secretary of the Board of Grupo Aval since 2000. Mr. Pabón Pabón formerly served as Legal Vice President of Banco de Colombia and as Legal Counsel to the President of Banco de Bogotá. He has been a member of the board of directors of Banco AV Villas since 1998, of Porvenir since 2003, of Almaviva S.A. since 2007, of Organización Luis Carlos Sarmiento Angulo Ltda. since 2006 and of Casa Editorial El Tiempo and CEET TV since 2011. He also serves as legal counsel to Organización Luis Carlos Sarmiento Angulo Ltda. Mr. Pabón Pabón holds a law degree from Universidad Javeriana and graduate studies in financial law from the Universidad de los Andes. Mr. Pabón Pabón's business address is Carrera 13 No. 26A-47, Bogotá, D.C., Colombia.

Executive officers

The executive officers of Grupo Aval are responsible for the day-to-day management of our company. Although the Presidents of Banco Popular and BAC Credomatic are not represented in the board of directors or in the management of Grupo Aval, they are key individuals in our group's Colombian and Central American banking businesses.

The following table lists the names and positions of our executive officers and the presidents of our banking subsidiaries, Corficolombiana, Porvenir and BAC Credomatic. Certain of our executive officers are also members of the boards of directors of our subsidiaries.

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Name	Position
Luis Carlos Sarmiento Gutiérrez	President
Diego Fernando Solano Saravia	Chief Financial Officer
Luz Karime Vargas Hurtado	Chief Risk Management Officer
Rodolfo Vélez Borda	Chief of Information Technology
Rafael Eduardo Neira Torres	Chief of Internal Control
Jorge Adrián Rincón Plata	Chief Legal Counsel
María Edith González Flórez	Vice President of Accounting
Banco de Bogotá	
Alejandro Figueroa Jaramillo	President
Banco de Occidente	
César Prado Villegas	President
Banco Popular	
Carlos Eduardo Upegui Cuartas	President
Banco AV Villas	
Juan Camilo Ángel Mejía	President
Corficolombiana	
María Lorena Gutiérrez Botero	President
Porvenir	
Miguel Largacha Martínez	President
BAC Credomatic	
Rodolfo Tabash Espinach	President

Biographical information of our executive officers and key employees who are not directors is set forth below. Ages of our executive officers throughout this annual report are as of April 17, 2020.

Luis Carlos Sarmiento Gutiérrez, age 58, has served as President of Grupo Aval since 2000. Mr. Sarmiento Gutiérrez acted as President of Cocelco S.A. from 1997 until 2000. Previously he served as Executive Vice President at First Bank of the Americas in New York and as an analyst and financial manager at Procter & Gamble's corporate headquarters. He has been the Chairman of the board of directors of Banco de Bogotá since 2004 and of Corficolombiana since 2006. He holds a Bachelor of Science degree, magna cum laude, in civil engineering from the University of Miami and a MBA with a concentration in Finance from the Johnson Graduate School of Management at Cornell University. Mr. Sarmiento Gutiérrez is the son of the Chairman of the board of directors of Grupo Aval, Mr. Sarmiento Angulo. Mr. Sarmiento Gutiérrez's business address is Carrera 13 No. 26A-47, Bogotá, D.C., Colombia.

Diego Fernando Solano Saravia, age 54, has served as Chief Financial Officer since 2010, and formerly as Vice President of Corporate Planning, of Grupo Aval since 2006. He previously served as associate principal at McKinsey & Co. and Corporate Banking Vice President at Banco Santander Colombia. He holds a degree in Systems Engineering from the Universidad de los Andes and a MBA from the Wharton School at the University of Pennsylvania. His business address is Carrera 13 No. 26A-47, Bogotá, D.C., Colombia.

Luz Karime Vargas Hurtado, age 47, has served as Chief Risk Management Officer since 2019, and formerly as Chief Internal Audit in Grupo Aval since 2012. Previously served as Audit Manager for financial sector at PriceWaterhouseCoopers. Additionally, she worked as Inspector at the Colombia Stock Exchange –BVC, and the Securities Market Self Regulator Corporation (AMV). She also worked as auditor at KMPG and in the treasury area of Banco Coopdesarrollo. She holds a degree in Public Accountant from Universidad Santo Tomás, and graduate studies in Financial Law and Capital Market from Universidad Javeriana de Colombia. Ms. Vargas Hurtado is certified in International Auditing by the Association of Chartered Certified Accountants –ACCA-, with studies in International Financial Reporting Standard –IFRS- and Securities Market Operation. Her business address is Carrera 13 No. 26A–47, Bogotá D.C., Colombia.

Rodolfo Vélez Borda, age 55, has served as Chief of Information Technology at Grupo Aval since 2012 and formerly as Vice President of Technology and Operations of Banco AV Villas and Corporación Ahorramás. He has been a member of the board of directors of Fondo de Empleados FEVI since 2012, ACH Colombia S.A. since 2006 and A Toda Hora S.A.

ATH since 2005. He holds a degree in Systems Engineering from the Universidad de Los Andes, graduate studies in Telecommunications from the Universidad de Los Andes and a Business Management specialty from Aden Business School and MIT. Mr. Vélez Borda's business address is Carrera 13 No. 26A-47, Bogotá, D.C., Colombia.

Rafael Eduardo Neira Torres, age 64, has served as Chief of Internal Control of Grupo Aval since 2009. Mr. Neira Torres acted as Deputy Financial Superintendent, and formerly as Adjunct Financial Superintendent, at the Superintendency of Finance from 2006 to 2008. He previously worked as Operations Vice President at Banco Davivienda. He holds a degree in Accounting from the Universidad Jorge Tadeo Lozano and graduate studies in Banking Management from the Universidad de los Andes. Mr. Neira Torres' business address is Carrera 13 No. 26A-47, Bogotá, D.C., Colombia.

Jorge Adrián Rincón Plata, age 40, has served as our Chief Legal Counsel since May 2012. Mr. Rincón previously served as Legal Counsel to Banco de Bogotá. He holds a degree in law from the Universidad Autónoma de Bucaramanga and a Masters in International Business Law from Queen Mary University & Westfield College, University of London. Mr. Rincón Plata's business address is Carrera 13 No. 26A-47, Bogotá, D.C., Colombia.

María Edith González Flórez, age 61, has served as Vice President of Accounting since 2010, and formerly as Financial and Administrative Manager, of Grupo Aval since 2004. Ms. González Flórez previously worked as Financial Manager at Cocelco S.A. and Movistar. She holds a degree in Public Accounting from the Universidad de Santiago de Cali and graduate studies in finance from Universidad ICESI. Ms. González Flórez's business address is Carrera 13 No. 26A-47, Bogotá, D.C., Colombia.

Carlos Eduardo Upegui Cuartas, age 58, has served as President of Banco Popular since June 2014. Mr. Upegui previously served as Executive Vice-president of Banco Popular, legal representative of Ripley Compañía de Financiamiento S.A. from 2012 to 2014 and President of BCSC S.A. from 2009 to 2012. He has also served in the past as member of the Board of Directors in several financial entities including Metlife Colombia Seguros de Vida S.A., Titularizadora Colombiana S.A., Depósito Centralizado de Valores de Colombia—Deceval S.A. He holds a degree in business administration with graduate studies in markets from Universidad de los Andes. His business address is Calle 17 No. 7-43, Bogotá, D.C., Colombia.

Rodolfo Tabash Espinach, age 51, has served as Chief Executive Officer of BAC Credomatic since July, 2016. He has previous acted in several key management positions in BAC Credomatic for the past 20 years, including Country Manager for BAC International Bank and its Panamanian subsidiaries, General Manager of BAC International Bank, Regional Chief Operating Officer for BAC Credomatic's Banking Business and Commercial Banking Manager of Banco BAC San José. He is also a member of the board of directors of several BAC Credomatic subsidiaries. Mr. Tabash Espinach holds a degree in business administration from Universidad Internacional de las Américas and a MBA from INCAE. His business address is Centro Corporativo Plaza Roble, Edificio Terrazas B, Escazú, San José, Costa Rica.

B. Compensation

Our common shareholders must approve the compensation of our board of directors at the shareholders' ordinary meeting held in March of every calendar year.

Each member of our board of directors, including alternates, receives a fee based on attendance at each board of directors' session. Members of our audit committee also receive an additional fee for attending audit committee meetings.

For the April 1, 2019 to March 31, 2020 period, the board of directors and the audit committee' session fee was Ps 2,500,000 per board member. For the April 1, 2020 to March 31, 2021 period, the board of directors and the audit committee' session fee is Ps 2,600,000 per board member.

We are not required under Colombian law to publish information regarding the compensation of our individual executive officers, and we do not make this information public. Our shareholders, however, can request this information before our general shareholders' meetings. The aggregate amount of compensation, inclusive of bonuses, which we and our subsidiaries paid to directors, alternate directors and senior executive officers was Ps 59.0 billion in 2019. We pay bonuses to our executive officers which vary according to each officer's performance and the achievement of certain goals, and, therefore, the amounts paid may vary for each officer.

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We do not have, and have not had in the past, any share option plans.

C. Board practices

Principal differences between Colombian and U.S. corporate governance practices

Grupo Aval, as a listed company that qualifies as a foreign private issuer under the NYSE listing standards in accordance with the NYSE corporate governance rules, is permitted to follow home-country practice in some circumstances in lieu of the provisions of the corporate governance rules contained in Section 303A of the NYSE Listed Company Manual that are applicable to U.S. companies. We follow corporate governance practices applicable to Colombian companies and those described in our Corporate Governance Code, which in turn follow Colombian corporate governance rules. The Corporate Governance Code is available at Grupo Aval's website at www.grupoaval.com. Information on our website is not incorporated into this annual report.

The following is a summary of the significant differences between the corporate governance practices followed by Grupo Aval and those applicable to domestic issuers under the NYSE listing standards.

Independence of directors

Under NYSE corporate governance rules, a majority of a U.S. company's board of directors must be composed of independent directors, although as a foreign private issuer and a company that is controlled, directly or indirectly, by Mr. Luis Carlos Sarmiento Angulo, we would not be required to comply with this rule. Law 964 of 2005 requires that our board of directors consist of five to ten members and that at least 25% of such members be independent directors, and Decree 3923 of 2006 regulates their election. "Independence" within the meaning of Law 964 of 2005 is primarily concerned with independence from management and the absence of material related-party transactions between the director and the company. See "Item 10. Additional Information—B. Memorandum and articles of association". In compliance with Colombian law and our by-laws, Grupo Aval's board of directors is composed of seven members, of which two are independent under Colombian rules. In addition, Colombian law mandates that all directors exercise independent judgment under all circumstances.

Non-executive director meetings

Pursuant to the NYSE listing standards, non-executive directors of U.S. listed companies must meet on a regular basis without management being present. Under Colombian regulations, there is no prohibition against officers being members of the board of directors, and it is our practice that each president of our banks be a member of our board of directors. The non-executive directors of Grupo Aval do not meet formally without management present.

Committees of the board of directors

Under NYSE listing standards, all U.S. companies listed on the NYSE must have an audit committee, a compensation committee and a nominating/corporate governance committee, each with a written charter addressing certain minimum specified duties, and all members of such committees must be independent. In each case, the independence of directors must be established pursuant to highly detailed rules promulgated by the NYSE and, in the case of the audit committee, the NYSE and the SEC. We have established an audit committee, a corporate matters committee and a compensation committee as further described below.

Audit committee

Our audit committee is composed of three members, appointed by the board of directors: Esther América Paz Montoya, Álvaro Velásquez Cock and Fabio Castellanos Ordóñez. Fabio Castellanos Ordóñez is the financial expert on the audit committee. All members of our audit committee are independent under the NYSE and SEC corporate governance rules applicable to us. Company officers are not members of the audit committee; however, the meetings and work product of the audit committee are supported by reports and presentations by company officers. Pursuant to Colombian Securities regulation (Law 964 of 2005), the audit committee has a charter approved by the board of directors, which sets forth the main aspects related to the operation of such committee, including, among others, its composition and duties. The audit committee charter addresses various corporate governance subjects. Our external auditor KPMG, as our independent registered public accounting firm, is invited to attend the meetings of the audit committee. Pursuant to Colombian law, the audit committee must meet at least quarterly.

Our audit committee advises the board of directors generally on internal control matters, and it specifically undertakes to:

- review financial statements prior to their submission to the board of directors and to the general shareholders' meeting;
- supervise the internal auditor to verify if its actions address the internal control needs of the company and to identify limitations with respect to its duties;
- review all internal control reports of the company and supervise compliance with such reports by the company's management;
- issue its opinion on the independence of the external auditor, based on standards set forth by Colombian and U.S. regulations;
- monitor the company's levels of risk exposure at least every six months and propose mitigation measures as needed;
- propose to the board of directors control systems to prevent, detect and adequately respond to the risk of fraud and improper conduct by company employees;
- provide assistance to our board of directors in fulfilling its responsibilities with respect to our compliance with legal and regulatory requirements;
- make recommendations to the general shareholders meeting concerning the engagement of the independent accounting firm; and
- issue reports to the board of directors on matters deemed relevant.

Corporate matters committee

Our corporate matters committee is composed of the same members as the audit committee. The corporate matters committee is responsible for overseeing the activities executed by the internal control of Grupo Aval and its subsidiaries.

Compensation committee

Our compensation committee is composed of two directors: Mr. Luis Carlos Sarmiento Angulo and Mauricio Cárdenas Müller. Our Board of Directors may change the members of the committee at any time. The compensation committee advises the board on remuneration matters and specifically undertakes to (i) review the remuneration of our President and (ii) review the criteria upon which our President will determine the remuneration of our senior management and employees. Colombian law does not require the creation of a compensation committee and the Board of Directors is not required by law to adopt a compensation committee charter.

D. Employees

At December 31, 2019, on a consolidated basis, we employed 111,192 individuals, with 72,623 direct employees, 8,433 personnel provided by staffing service companies and 30,136 outside contractors.

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The following table presents the approximate breakdown of the employees, personnel provided by staffing service companies and outside contractors of our banking subsidiaries, Corficolombiana, Porvenir and Grupo Aval (separate), at December 31, 2019.

	Banco de Bogotá(1)(2)	Banco de Occidente(3)	Banco Popular(4)	Banco AV Villas(5)	Corficolombiana(6)	Porvenir(7)	BAC Credomatic	Grupo Aval (separate)	Total
Employees	12,034	16,379	4,281	5,286	11,580	2,889	20,055	119	72,623
Personnel provided by staffing service companies	2,235	—	1,159	715	3,388	18	918	—	8,433
Outside contractors	3,892	1,971	2,263	1,708	17,608	240	2,449	5	30,136
Total	**18,161**	**18,350**	**7,703**	**7,709**	**32,576**	**3,147**	**23,422**	**124**	**111,192**

(1) Excludes employees of Porvenir, BAC Credomatic and their subsidiaries.

(2) 52.04% (5,253) of Banco de Bogotá's (separate) direct employees (10,094) are represented by unions and 55,98% (5,651) of such employees are covered by collective bargaining agreements that expire in August 2021.

(3) 46.38% (3,483) of Banco de Occidente's (separate) direct employees (7,510) are represented by unions and are covered by collective bargaining agreements that expire in December 2021.

(4) 64.06% (2,273) of Banco Popular's (separate) direct employees (3,548) are represented by unions and 95.29% (3,381) of such employees are covered by collective bargaining agreements that expire in December 2020.

(5) 12.23% (542) of Banco AV Villas' (separate) direct employees (4,431) are represented by unions and 73.57% (3,260) of such employees are covered by collective bargaining agreements that expire in December 2020.

(6) Corficolombiana's total employees reflect 31,385 employees from non-financial entities and 1,191 employees from financial entities.

(7) 0.11% (3) of Porvenir's (separate) direct employees (2,639) are represented by unions.

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E. Share ownership

Mr. Sarmiento Angulo beneficially owns 97.5% of our outstanding common shares and 42.7% of our preferred shares as determined under SEC rules at April 17, 2020. See "Item 7. Major Shareholders and Related Party Transactions—A. Major shareholders". The following table provides the names of our other directors and key executive officers who owned shares of Grupo Aval at April 17, 2020.

Shareholder	Common shares	Percentage of outstanding common shares	Preferred shares	Percentage of outstanding preferred shares
Esther América Paz Montoya	251,718	*	423,076	*
Diego Fernando Solano Saravia	49,586	*	152,078	*
Luis Fernando Pabón Pabón	78,237	*	115,384	*
Mauricio Cárdenas Müller	40,616	*	76,923	*
Germán Villamil Pardo	33,058	*	—	*
Álvaro Velásquez Cock	8,264	*	11,538	*
Juan Camilo Ángel Mejía	7,319	*	22,666	*
Rodolfo Vélez Borda	7,112	*	11,538	*
Ana María Cuéllar de Jaramillo	—	*	50,846	*
César Prado Villegas	—	*	—	*
Alejandro Figueroa Jaramillo	—	*	—	*
Fabio Castellanos Ordóñez	—	*	—	*
Juan María Robledo Uribe	—	*	—	*
Luis Fernando López Roca	—	*	—	*
Luis Carlos Sarmiento Gutiérrez	—	*	—	*
Rafael Eduardo Neira Torres	—	*	—	*
Jorge Adrián Rincón Plata	—	*	—	*
María Edith González Flórez	—	*	—	*
Luz Karime Vargas Hurtado	—	*	—	*
Carlos Eduardo Upegui Cuartas	—	*	—	*
María Lorena Gutiérrez Botero	—	*	—	*
Miguel Largacha Martínez	—	*	—	*
Rodolfo Tabash Espinach	—	*	—	*

* less than 0.1%.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major shareholders

Mr. Luis Carlos Sarmiento Angulo controls Grupo Aval and was the beneficial owner of 80.0% of our issued and outstanding share capital at December 31, 2019. He retained 97.5% of our voting power by virtue of his beneficial ownership of 97.5% of our outstanding common shares, and beneficially owned 42.7% of our outstanding preferred shares, as determined under SEC rules, at April 17, 2020. Beneficial ownership is defined in Form 20-F and generally includes voting or investment power over securities. Percentage of beneficial ownership is based on 22,281,017,159 of our aggregate equity securities outstanding comprising of 15,135,161,111 common shares outstanding and 7,145,856,048 preferred shares outstanding at April 17, 2020.

The principal shareholder, as a common shareholder and a preferred shareholder, does not have any different or special voting rights in comparison to any other common shareholder or preferred shareholder, respectively.

The following table sets forth information, as of December 31, 2019, regarding the beneficial ownership of our equity securities by:

- Mr. Sarmiento Angulo, who beneficially owns 80.0% of our outstanding equity securities;
- all directors and executive officers as a group; and
- other shareholders.

	At December 31, 2019			
Principal beneficial owners	Common shares	Percentage of outstanding common shares	Preferred shares	Percentage of outstanding preferred shares
Luis Carlos Sarmiento Angulo	14,761,004,300	97.5%	3,053,066,569	42.7%
Other directors and officers as a group*	475,910	0.0%	864,049	0.0%
Other shareholders	376,309,764	2.5%	4,089,296,567	57.2%
Total	**15,137,789,974**	**100.0%**	**7,143,227,185**	**100.0%**

* less than 0.1%.

As of December 31, 2019, we had 26,809 holders of preferred shares registered in Colombia in addition to JPMorgan Chase Bank, N.A. as depositary of the American Depositary Receipts, or "ADRs", evidencing ADSs. As of April 17, 2020, there were a total of 3,132 ADR holders of record and 58,522,745 ADRs outstanding, representing 1,170,454,900 preferred shares or 16.4% of outstanding preferred shares. Since some of these ADRs are held by nominees, the number of record holders may not be representative of the number of beneficial holders.

B. Related party transactions

We currently engage in, and expect from time to time in the future to engage in, financial and commercial transactions with "related parties" (within the meaning of the SEC rules). Unless otherwise indicated below, such transactions are conducted on an arm's-length basis in the ordinary course of business, on terms that would apply to transactions with third parties.

Loans or deposits involving related parties

The following chart presents outstanding amounts of related party transactions involving loans or deposits between Grupo Aval and its consolidated subsidiaries, and each of the following individuals and entities.

	Transactions between Grupo Aval and its subsidiaries, and			
	Grupo Aval's directors and key management and their affiliates(1)	Close family members of Mr. Sarmiento Angulo and their affiliates	Mr. Sarmiento Gutiérrez and his affiliates	Mr. Sarmiento Angulo and his affiliates
	(in Ps billions)			
At December 31, 2019				
Outstanding loans granted by us(2)	145.5	2.9	0.0	2,647.0
Outstanding loans granted to us(3)	—	—	—	—
Deposits(4)	35.4	273.2	0.7	1,385.6
At December 31, 2018				
Outstanding loans granted by us(2)	180.9	2.7	0.1	2,895.7
Outstanding loans granted to us(3)	—	—	—	—
Deposits(4)	48.0	100.2	0.7	638.0

(1) Excludes Mr. Sarmiento Angulo and Mr. Sarmiento Gutiérrez and their affiliates. Key management includes executive officers of Grupo Aval as well as each of the presidents of our banks, Corficolombiana, Porvenir and BAC Credomatic.

(2) Figures based on disbursed loans. See "—Loans granted to related parties by our banking subsidiaries".

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(3) Figures based on disbursed loans. See "—Loans granted to Grupo Aval and its subsidiaries by shareholders of Grupo Aval and their affiliates".

(4) All deposits, including time deposits and investment portfolios, of all related parties held with us are made in the ordinary course of business, held at market rates and on terms and conditions not materially different from those available to the general public.

For information on related party transactions in accordance with IFRS disclosure rules, see Note 34 to our audited consolidated financial statements. For the purposes of Note 34 to our audited consolidated financial statements, "related parties" includes entities and persons that must be identified as such pursuant to IAS 24. For the purposes of this section, and as required by SEC rules, "related parties" includes enterprises that control, or are under common control with Grupo Aval, associates, individuals owning directly or indirectly an interest in the voting power that gives them significant influence over Grupo Aval, close family members, key management personnel (including directors and senior management) and any enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any of the persons listed above. We determine beneficial ownership under SEC rules. See "—A. Major shareholders".

In the past, affiliates of Mr. Sarmiento Angulo, have obtained authorizations of Grupo Aval's Board of Directors to acquire either common or preferred shares of Grupo Aval. On November 28, 2018, Grupo Aval's Board of Directors authorized companies controlled by Mr. Sarmiento Angulo to acquire up to one hundred million common and/or preferred shares of the company in one or multiple operations, during a term of up to one year. Pursuant to such authorizations, as of December 31, 2019 through affiliate companies, Mr. Sarmiento Angulo acquired 2,724,247 common shares or Ps 3.3 billion (U.S.$1.0 million) and 1,702,800 preferred shares or Ps 1.9 billion (U.S.$0.6 million) in open market transactions. More recently, on February 12, 2020, Grupo Aval's Board of Directors authorized companies controlled by Mr. Sarmiento Angulo to acquire up to one hundred million common and/or preferred shares of the company in one or multiple operations, during a term of up to two years.

As of April 17, 2020, Mr. Luis Carlos Sarmiento Angulo has acquired 1,724,001 preferred shares. Certain members of our board of directors and key management own shares of Grupo Aval which, other than in the case of Mr. Sarmiento Angulo, were acquired in the open market or in one of our public offerings and represent less than 0.1% of our total outstanding shares.

Loans granted to Grupo Aval and its subsidiaries by shareholders of Grupo Aval and their affiliates

There are no outstanding loans granted to Grupo Aval by shareholders of Grupo Aval and their respective affiliates since December 20, 2013.

Business and financial reasons for borrowing from entities affiliated with Mr. Sarmiento Angulo

There are no outstanding loans from companies beneficially owned by Mr. Sarmiento Angulo to Grupo Aval since December 20, 2013. In the past, we have borrowed from entities beneficially owned by Mr. Sarmiento Angulo. These loans have been entered into on an arm's-length basis with us, the holding company, at a rate substantially consistent with rates that would have been available to the holding company from other lenders at the time those borrowings were entered into. In addition to the global and local bond markets, companies affiliated with our controlling shareholder are among our funding alternatives. Even though we may consider this option in the future, so far Grupo Aval has chosen not to borrow from competing banks at the holding company level considering that affiliated companies provide us with a stable source of financing at rates that are substantially consistent with rates available to us from other lenders. In addition, these loans are executed in a shorter timeframe and at lower transaction costs than if borrowed from other potential sources of funding.

Loans granted to related parties by our banking subsidiaries

Key management of Grupo Aval and our banks, and their respective affiliates, who meet our credit eligibility requirements may subscribe to loans in the ordinary course of business, on market terms and conditions available to the general public.

All outstanding loans with our related parties are made in the ordinary course of business and on terms and conditions, including interest rates and collateral, not materially different from those available to the general public and did not involve more than the normal risk of collectability or present other unfavorable features.

In connection with our Preferred Shares Local Offering, certain members of our board of directors and key management were granted loans by our banking subsidiaries for the purpose of acquiring Grupo Aval preferred shares. These loans were granted at market rates and on terms and conditions not materially different from those available to other purchasers of Grupo Aval shares.

Other transactions with Mr. Sarmiento Angulo and his affiliates

Beneficial ownership in our banking subsidiaries (outside of Grupo Aval)

In addition to his beneficial ownership in Grupo Aval, Mr. Sarmiento Angulo beneficially owns at April 17, 2020, 8.3% of Banco de Bogotá, 13.3% of Banco de Occidente, 15.5% of Banco AV Villas, 0.8% of Banco Popular, and 11.0% of Corficolombiana.

Except as stated above, Mr. Sarmiento Angulo does not have any other beneficial ownership in our banking subsidiaries. For information on the dividend history of our banking subsidiaries, see “Item 10. Additional Information—F. Dividends and paying agents—Dividend history of our banking subsidiaries”.

Insurance services

Seguros de Vida Alfa S.A., or “Vida Alfa”, a life insurance affiliate of Mr. Sarmiento Angulo, provides insurance required by law, as well as annuities, relating to the mandatory pension funds managed by Porvenir. The insurance provider is selected by Porvenir through a competitive bidding process once every four years. Premiums under this insurance policy are deducted by Porvenir from the individual customers’ account and transferred to Vida Alfa on behalf of the individual customer.

The table below presents the insurance premiums paid for the periods indicated.

Period	Amount (in Ps billions)
For the year ended December 31,	
2019	1,254.0
2018	1,157.8
2017	1,034.5

Vida Alfa also provides:

- life insurance, as sole provider and as co-insurer with non-affiliated insurers (pursuant to a competitive bidding process), for individual borrowers of our banking subsidiaries to cover the risk of non-payment upon death. Premiums are paid by the borrowers; and

- labor risks insurance for all employees of Grupo Aval and its subsidiaries (except BAC Credomatic).

Seguros Alfa S.A., or “Alfa”, a property and casualty insurance affiliate of Mr. Sarmiento Angulo, provides fire and earthquake insurance for mortgage loans granted by certain of our banks. In addition, Alfa provides surety bonds and property insurance for our subsidiaries. Our banking subsidiaries also provide insurance products affiliated with Vida Alfa and Alfa through their bancassurance lines. These transactions are conducted on an arm’s-length basis in the ordinary course of business. Alfa has in the past, but not currently, provided bankers’ blanket bond coverage to us and our subsidiaries, reinsured under prevailing market conditions, and surety bonds for Corficolombiana’s toll road concessions.

Other

The following companies are beneficially owned by Mr. Sarmiento Angulo, and may continue to provide services to us and our subsidiaries for amounts that are immaterial: Construcciones Planificadas S.A. (office renovations), Vigía S.A. (security services), ADL Digital Lab S.A.S. (digital devolpment) and Corporación Publicitaria (advertising).

C. Interests of experts and counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated statements and other financial information

Financial statements

See "Item 18. Financial Statements", which contains our audited consolidated financial statements prepared in accordance with IFRS.

Legal proceedings

We, our banking subsidiaries, Corficolombiana, Porvenir and our other subsidiaries are party to lawsuits and administrative proceedings incidental to the normal course of our business.

We record contingency provisions when the risk of loss is probable, in which case, we would consider settling. In cases where we litigate a claim, we record a provision for our estimate of the probable loss based on historical data for similar claims. As of December 31, 2019 and 2018, we and our banking subsidiaries had recorded consolidated provisions relating to administrative fines, indemnifications and legal proceedings for a total amount of Ps 194.6 billion and Ps 125.9 billion, respectively. These figures are presented before minority interest and thus do not reflect their potential impact on Grupo Aval's net income attributable to owners of the parent.

Constitutional actions

We, our banking subsidiaries, Corficolombiana, Porvenir and our other subsidiaries are also party to collective or class actions ("*acciones populares*" or "*acciones de grupo*", respectively). Collective actions are court actions where an individual seeks to protect collective rights and prevent contingent damages, obtain injunctions and damages caused by an infringement of collective rights of which the following are the most significant.

All administrators of pension funds in Colombia, including Porvenir, are subject to one collective action in which certain persons allege that pension funds managers have caused damages to their clients by excess collections for the concept of commission for the administration of contributions to mandatory pension funds. No provisions have been established in relation to this constitutional action because the amount is not quantifiable, and we consider the probability of loss remote.

Banco de Bogotá, Banco de Occidente, Banco Popular, and Corficolombiana are subject to a constitutional action filed by certain individuals on behalf of the Department of Valle del Cauca (*Departamento del Valle del Cauca*) against several financial institutions (including Banco de Bogotá, Banco de Occidente, Banco Popular and Corficolombiana) claiming that the Department has paid interest in a manner prohibited by law, in connection with a credit facility granted to the Department. In addition, the plaintiffs are claiming that the defendants did not pay the alleged real value of the shares of Sociedad Portuaria de Buenaventura and Empresa de Energía del Pacífico, on a sale transaction of said shares. We consider the probability of loss in connection with this constitutional action to be low (*remote*) and, therefore, have not recorded any provision.

Banco AV Villas is subject to some constitutional and ordinary actions brought against several companies in the financial sector in Colombia in connection with the recalculation of mortgage interests that allegedly damaged several mortgage lenders. We believe that the probability of loss in connection with these constitutional actions is remote.

Other litigation

On December 21, 2016, the United States Department of Justice announced that Odebrecht S.A., a global construction conglomerate based in Brazil, pled guilty and agreed to pay a monetary penalty to resolve charges with authorities in the United States, Brazil and Switzerland arising out of their schemes to pay approximately U.S.$800 million in bribes to government officials in twelve countries around the world, including U.S.$11.5 million in Colombia, where the company admitted to offering bribes in order to obtain and amend infrastructure contracts, including the toll road concession *Ruta del Sol Sector 2* awarded to the Concessionaire in 2009. Episol, a wholly-owned subsidiary of Corficolombiana, is a minority (33%) non-controlling shareholder in the Concessionaire and Odebrecht is the majority controlling and operating shareholder with a participation of 62%. A third shareholder, CSS Constructores S.A., participates with 5%.

Following the public announcement made by the United States Department of Justice relating to Odebrecht’s admission of bribery, the Fiscalía initiated an investigation on December 22, 2016 establishing that Odebrecht effected payments directly from its Brazilian headquarters through its “division of structured operations” to obtain government contracts in Colombia, including: (i) a payment in the amount of U.S.$6.5 million to Gabriel García Morales, Vice Minister of Transportation and acting manager of the INCO (a government agency later replaced by the ANI), in order to award toll road concession *Ruta del Sol Sector 2* in December 2009 and, (ii) a payment in the amount of U.S.$4.6 million to former congressman Otto Nicolas Bula Bula for the adjudication of the Ocaña-Gamarra tranche that was added to toll road concession *Ruta del Sol Sector 2* through Amendment N° 6, executed on March 14, 2014 by the director of the National Infrastructure Agency, Luis Fernando Andrade.

Additional investigations and proceedings relating to *Ruta del Sol Sector 2* and relating to admissions made by Odebrecht and public servants were initiated by other judicial, arbitral and administrative authorities such as the *Tribunal Administrativo de Cundinamarca*, arbitral proceedings before the Chamber of Commerce of Bogotá, the Superintendency of Industry and Commerce, the Superintendency of Corporations, the Superintendency of Transportation and the *Procuraduría General de la Nación* (the country’s general prosecutor of public servants, or the “PGN”). Grupo Aval, Corficolombiana and Episol and members of its management, have been included or have voluntarily intervened in some of these investigations and proceedings and there can be no assurance that Grupo Aval or any of its subsidiaries and employees will not be included in future additional proceedings or voluntarily participate in such or other future additional proceedings to defend its rights and interests.

Specifically, with respect to these proceedings, our companies are defendants in the antitrust investigation conducted by the Superintendency of Industry and Commerce, the *Tribunal Administrativo de Cundinamarca*’s Class Action; additionally, our companies have voluntarily asked to be admitted as part of the Arbitral Proceeding conducted before the Chamber of Commerce of Bogotá, described as follows:

- *Class Action before the Tribunal Administrativo de Cundinamarca:*

  In January 2017, the PGN filed a class action complaint against the ANI and the Concessionaire before the *Tribunal Administrativo de Cundinamarca*, asserting the violation of administrative morality, protection of public goods and access to public services as collective rights, in connection with the corrupt acts related to the awarding of the toll road concession contract for *Ruta del Sol Sector 2*.

  Through the Class Action, the PGN sought: (i) a court order to the ANI to adopt the required measures to ensure the continuity of the public service of transport in the *Ruta del Sol Sector 2* project; (ii) a court order addressed to the Concessionaire, Odebrecht and the Concessionaire’s remaining shareholders to pay U.S.$11.1 million in connection with the bribes paid by Odebrecht in connection with the awarding of the Concession Contract No. 001 of 2010, according to Odebrecht’s agreement with the Department of Justice; (iii) a court order addressed to the Concessionaire and its shareholders holding them responsible for any damage or prejudice caused to the government or others in connection with the corrupt acts related to the awarding of the toll road concession contract for *Ruta del Sol Sector 2*; (iv) a court order declaring that the decision shall prevail over other judicial decisions regarding the same matters; and (v) a court order to convene a monitoring committee composed by representatives of public authorities, in order to ensure the proper use of public resources and the fulfillment, transparency, effectiveness and efficiency of the measures to be taken.

On February 9, 2017, the *Tribunal Administrativo de Cundinamarca* issued a preventive injunction (*medidas cautelares*) including, among others, the following interim measures: the interim suspension of the effects of the Concession Contract No. 001 of 2010, a court order addressed to the President of Colombia to choose and appoint a governmental entity to take over the concession and related contracts and assets, the seizure (freezing) up to the amount of Ps 191.1 billion (approximately U.S.$64.0 million) of the bank accounts and any future dividends declared by the following companies: the Concessionaire, Construtora Norberto Odebrecht S.A. (Sucursal Colombia), Odebrecht Latinvest Colombia S.A.S., Episol S.A.S. and CSS Constructores S.A.

On February 15, 2017, Episol appealed the interim measures issued by the *Tribunal Administrativo de Cundinamarca* and a final decision is now to be reached by the *Consejo de Estado* (Supreme Court competent on administrative law matters). It is not possible to estimate when the *Consejo de Estado* will reach a decision on this matter, however, the interim measure remains in force and has resulted in the seizure of bank accounts of Episol in the amount of Ps 24.9 billion (approximately U.S.$ 8.3 million).

As a defendant in this Class Action, Episol presented legal arguments to discard any allegations of joint and several liability resulting from the illegal conduct of Odebrecht as controlling shareholder of the Concessionaire. However, the *Tribunal Administrativo de Cundinamarca* ruled in December, 2018 that Episol, as shareholder of Concesionaria Ruta del Sol SA.S. (33%), along with Odebrecht, controlling shareholder of CRDS (62%) and other defendants, including the former president of Corficolombiana, were jointly liable for the damages caused relating the Ruta del Sol Project Sector 2, and ordered the defendants to jointly and severally pay the Transportation Ministry Ps 715.6 billion, and debarred them from contracting with Colombian state entities and from assuming government positions for a period of 10 years. Episol and the other defendants filed an appeal of this ruling before Colombia's Supreme Court for Administrative Law Matters (Consejo de Estado) and as a result, the *Tribunal Administrativo de Cundinamarca's* order is not final or enforceable. It is not possible to estimate when the *Consejo de Estado* will reach a decision on this matter.

- *Arbitral Proceedings conducted before the Chamber of Commerce of Bogotá:*

In August 2015, the Concessionaire initiated an arbitral proceeding against the ANI to resolve certain contractual and monetary disputes in connection with the construction of toll road concession *Ruta del Sol Sector 2*. On January 18, 2017, as a result of Odebrecht's admission of guilt and the results of the investigation conducted by the *Fiscalía*, the ANI requested the arbitration tribunal to declare null and void the Concession Contract No. 001 of 2010 for the construction of toll road concession *Ruta del Sol Sector 2*.

As of December 2016, approximately 52% of the toll road had been built. In connection with the ANI's request, the arbitration tribunal ordered and received several testimonies and expert reports regarding the amounts invested in the construction of the partially-built toll road concession *Ruta del Sol Sector 2*, along with other evidence requested by the parties and the arbitration tribunal itself.

In order to defend its interest as shareholder of Concesionaria Ruta del Sol and in particular, its right to recover the amount of its investment in the Concessionaire, on October 3, 2017, Episol requested and was later admitted as a joint litigant *(Litisconsorte)* to the proceedings conducted before the Arbitration Tribunal that will resolve the differences between the Concessionaire and the ANI regarding the termination and liquidation of toll road concession *Ruta del Sol Sector 2* and related matters.

On August 6, 2019, the Tribunal declared the Ruta del Sol contract null and ordered the Colombian government to pay Ps 211 billion of the Ps 1.2 trillion owed to the Concessionaire's creditors (approximately half of this amount corresponded to loans granted by Grupo Aval's subsidiaries). The government has already paid approximately Ps 1.5 trillion to the project's employees, suppliers and banks since the contract ended in February, 2017.

Episol, creditors of the Concessionaire, which include certain of our banking subsidiaries, and other parties affected by this decision, filed a motion to annul the arbitration ruling based on gross arithmetic errors, lack of competence of the Tribunal to decide over certain matters, and failure to follow the applicable legal statutes. The Consejo de Estado will hear the appeal and reach a final decision, which could take several months.

Although a final decision regarding the liquidation value has not yet been reached, as of December 31, 2019, our banking subsidiaries provisioned 100% of their exposure to the Concessionaire.

- *Superintendency of Industry and Commerce:*

  In January 2017, the Superintendency of Industry and Commerce ("SIC"), Colombia's Antitrust Authority, initiated an administrative proceeding to investigate whether any anti-competitive behavior had been conducted in the public bidding process for the awarding of the Concession Contract. Following its investigation, on September 13, 2018, the SIC issued Resolution No. 67837 containing allegations relating to violations of Colombian antitrust regulations against Grupo Aval, Corficolombiana, Episol, Grupo Aval's president, Grupo Aval's chief financial officer, Corficolombiana's Vice-president of Investments, Corficolombiana's Vice-president of Investment Banking, the former president of Corficolombiana and other defendants. Grupo Aval, Corficolombiana, and Episol, as well as its employees, filed answers to these allegations in October 2018. The proceeding is ongoing.

- *Investigations by the U.S. Department of Justice and Securities and Exchange Commission:*

  Grupo Aval received inquiries from the United States Department of Justice ("DOJ") and United States Securities and Exchange Commission ("SEC") concerning the Ruta del Sol 2 project. Grupo Aval is cooperating with these investigations, as they have done with all prior government inquiries into this matter.

- *Jose Elías Melo:*

  On May 9, 2017, the Fiscalía announced an investigation of Mr. José Elías Melo Acosta, who served as President of Corficolombiana for 8 years until May 2016. On December 7, 2017, the Fiscalía filed an indictment against Mr. Melo, charging him with undue interest in the arrangement of contracts (*Interés Indebido en la Celebración de Contratos)* and bribery (*Cohecho por Dar u Ofrecer*) in connection with the 2009 bid for the Ruta del Sol Project Sector 2. Mr. Melo pled innocent and denied the charges. The trial against Mr. Melo commenced on January 21, 2019 and concluded with closing arguments on March 21 and March 22. On April 1, 2019, Jose Elias Melo, the former president of Corficolombiana, was found guilty in a court of first instance of bribery and undue interest in connection with the 2009 bid for the Ruta del Sol Project Sector 2. Mr. Melo filed an appeal in May, 2019. The Tribunal Superior de Bogotá will decide on the appeal, which could take a couple of years.

We, our banking subsidiaries, Corficolombiana, Porvenir, BAC Credomatic, and our other subsidiaries are, from time to time, subject to claims and parties to legal proceedings incidental to the normal course of our business, including in connection with our lending activities, employees, taxation matters and other general commercial matters. Due to the inherent difficulty of predicting the outcome of legal disputes, we cannot predict the eventual outcome of these pending matters, the timing of the ultimate resolution of these matters or the eventual loss, fines or penalties related to each pending matter may be. We believe that we have recorded adequate provisions for the anticipated costs in connection with these claims and legal proceedings and believe that liabilities related to such claims and proceedings should not, taken together, have a material adverse effect on our business, financial conditions, or results of operations. However, in light of the uncertainties involved in such claims and proceedings, the ultimate resolution of these matters may exceed the provisions that we have currently recorded. As a result, the outcome of a particular matter could be material to our operating results for a particular period.

B. Significant changes

A discussion of the significant changes in our business can be found under "Item 4. Information on the Company—A. History and development of the company".

ITEM 9. THE OFFER AND LISTING

A. Offering and listing details

Not applicable.

B. Plan of distribution

Not applicable.

C. Markets

Market price and volume information

Trading history of our ADSs

Our ADSs began trading on the NYSE under the symbol "AVAL" on September 23, 2014.

Trading history of our preferred shares

Our preferred shares have been listed since February 1, 2011 on the Colombian Stock Exchange under the symbol "PFAVAL" and we first issued preferred shares on May 12, 2011 at the conclusion of the Preferred Shares Local Offering.

Trading on the Colombian Stock Exchange

The Colombian Stock Exchange is the sole trading market for our common and preferred shares. There are no official market makers or independent specialists on the Colombian Stock Exchange to assure market liquidity and, therefore, orders to buy or sell in excess of corresponding orders to sell or buy will not be executed. The aggregate equity market capitalization of the 81 companies listed on the Colombian Stock Exchange at April 17, 2020 was Ps 323.6 trillion.

Regulation of Colombian Securities Markets

Colombian securities markets are subject to the supervision and regulation of the Superintendency of Finance, which was created in 2005 following the merger of the Superintendency of Banking and the Superintendency of Securities. The Superintendency of Finance is an independent regulatory entity ascribed to the Ministry of Finance. The Superintendency of Finance has the authority to inspect, supervise and control the financial, insurance and securities exchange sectors and any other activities related to the investment or management of public savings. Accordingly, we are subject to the control of the Superintendency of Finance as an issuer of securities, and our subsidiaries are subject to its control, supervision and regulation as financial institutions and issuers of securities. See "Item 4. Information on the Company—B. Business Overview—Supervision and regulation—Colombian banking regulators—Ministry of Finance" and "—Superintendency of Finance".

Registration of the ADR Program and Investment in Our ADSs by Non-Residents of Colombia

The International Investment Statute of Colombia as provided by Decree 2080 of 2000, as amended, regulates the manner in which foreign investors may participate in the Colombian securities markets and undertake other types of investment, prescribes registration with the Colombian Central Bank of certain foreign exchange transactions and specifies procedures under which certain types of foreign investments are to be authorized and administered.

The International Investment Statute provides specific procedures for the registration of ADR programs as a form of foreign portfolio investment, which is required for the acquisition of the preferred shares to be offered in the form of ADSs. In addition, a holder of our ADSs or preferred shares may under certain circumstances be required to comply directly with certain registration and other requirements under the foreign investment regulations. Under these regulations, the failure of a non-resident investor to report or register foreign exchange transactions relating to investments in Colombia with the Colombian Central Bank on a timely basis may prevent the investor from obtaining remittance payments, including for the payment of dividends, and constitute an exchange control violation and/or result in a fine.

Each individual investor who deposits preferred shares into the ADR facility in exchange for our ADSs (other than in connection with this offering) will be required, as a condition to acceptance by Fiduciaria Bogotá S.A., or "Fidubogotá", as custodian of such deposit, to provide or cause to be provided certain information to Fidubogotá and/or the Depositary to enable it to comply with the registration requirements under the foreign investment regulations relating to foreign exchange. A holder of ADSs who withdraws preferred shares from the ADS deposit facility under certain circumstances may be required to comply directly with certain registration and other requirements under the foreign investment regulations. Under these regulations, the failure of a non-resident investor to report or register foreign exchange transactions relating to investments in Colombia with the Central Bank on a timely basis may prevent the investor from obtaining remittance payments, including for the payment of dividends, constitute an exchange control violation and/or result in a fine.

Under Colombian law, foreign investors receive the same treatment as Colombian citizens with respect to the ownership and voting of our ADSs and preferred shares. See "Item 3. Key Information—D. Risk factors—Risks relating to our businesses and industry—Risks relating to our preferred shares and ADSs" and "Item 4. Information on the Company—B. Business overview—Supervision and regulation—Restrictions on foreign investment in Colombia".

D. Selling shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share capital

Not applicable.

B. Memorandum and articles of association

The following is a summary of certain significant provisions of our by-laws, Colombian corporate law, the rules and regulations of the Superintendency of Finance and the Listing Rules of the Colombian Stock Exchange that pertain to our capital, management, periodical and occasional disclosures, as well as other corporate issues applicable to us. The description below includes the material provisions of our by-laws and Colombian corporate law. In Colombia, by-laws are the principal governing document of a corporation.

Our by-laws provide for an authorized share capital of 120,000,000,000 shares of par value of Ps 1.00 each, which may be either of two classes: common shares or shares with a preferred dividend, liquidation preference and no voting. At April 17, 2020, we had 15,135,161,111 common shares outstanding, and 7,145,856,048 preferred shares outstanding.

Our by-laws also provide for the conversion of common shares into preferred shares only when such conversion is approved or authorized at a general shareholders' meeting. A shareholders' meeting must define, in each case, the procedure to be followed for such conversion and must determine, among other matters, the maximum number or percentage of shares that may be converted. The shareholders' meeting may also authorize the Board of Directors or the President of our Company to approve the agreements, forms and other documents to be executed in order to give effect to a conversion.

Our shareholders' meeting held on December 7, 2010, determined that outstanding common shares may be converted into preferred shares on a 1-to-1 basis. Conversion of common shares into preferred shares may only be made once a month, provided that, as required by Colombian law and in accordance with our by-laws, our preferred shares shall not exceed 50% of our subscribed capital.

For a description of offerings of our shares see "Item 4. Information on the Company—A. History and development of the company—Our history".

Voting Rights

Common Shares

The holders of common shares are entitled to vote on the basis of one vote per share on any matter subject to approval at a general shareholders' meeting according to articles 14 through 19 of the by-laws, as amended from time to time. These general meetings may be ordinary meetings or extraordinary meetings. Ordinary general shareholders' meetings occur once a year, no later than the last business day of March, for the following purposes:

- to review the general situation of the Company;
- to determine the general economic policy of the Company;
- to consider the approval of our report for the preceding year ending on December 31, as applicable, including the financial statements for the above-mentioned term;
- to review the report prepared by the external auditor for the preceding year ending on December 31;
- to elect directors and the external auditor (on an annual basis);
- to determine the compensation of the members of the board of directors and the external auditor (on an annual basis); and
- to determine the dividend to be distributed and the allocation of profits, if any, of the preceding year ending on December 31, as well as any retained earnings from twelve months.

Pursuant to Law 964 of 2005, at least 25% of the members of our board of directors must be independent within the meaning of Colombian rules. A person who is an "independent director" is understood to mean a director who is not:

- an employee or executive officer of the issuer or any of its parent or subsidiary companies, including any person acting in such capacity during the year immediately preceding that in which they were appointed to the board, except in the case of an independent member of the board of directors being re-elected;
- a shareholder, who either directly or by virtue of an agreement directs, guides or controls the majority of the entity's voting rights or who determines the majority composition of the administrative, directing or controlling bodies of this same entity;

- a partner or employee of any association or firm that provides advisory or consultancy services to the issuer or to companies belonging to the same economic group to which such issuer belongs, in the event that income obtained from such services represent for said association or firm at least twenty percent (20.0%) of its total operating income;

- an employee or executive officer of a foundation, association, partnership or corporation that receives significant donations from the issuer. The term "significant donations" is quantified as twenty percent (20.0%) or more of the total amount of donations received by the respective institution;

- an administrator of any entity on whose board of directors a legal representative of the issuer participates; or

- a board member who receives from the issuer any kind of remuneration other than fees as a member of the board of directors, member of the audit committee or any other committee established by the board of directors.

Pursuant to Decree 3923 of 2006, the election of independent directors must be in a ballot separate from the ballot to elect the rest of the directors, unless the reaching of the minimum number of independent directors required by law or by the by-laws is assured, or when there is only one list that includes the minimum number of independent directors required by law or by the by-laws.

Both elections are made under a proportional representation voting system named electoral quotient "*cociente electoral*" (except for the elections unanimously approved by the general shareholders' meeting). Under that system:

- each holder of common shares is entitled at the annual general shareholders' meeting to nominate candidates for the election of directors;

- each nomination of one or more directors by a shareholder constitutes a list for the purposes of the election;

- each list of nominees must contain a hierarchy as to the order of preference for nominees in that list to be elected;

- once all lists have been nominated, holders of common shares may cast one vote for each common share held in favor of a particular list of nominees. Votes may not be cast for particular nominees in a list; they may be cast only for the entire list;

- the total number of votes cast in the election is divided by the number of directors to be elected. The resulting quotient is the quota of votes necessary to elect particular directors. For each time that the number of votes cast for a list of nominees is divisible by the quota of votes, one nominee from that list is elected, in the order of the hierarchy of that list; and

- when no list has enough remaining votes to satisfy the quota of votes necessary to elect a director, any remaining board seat or seats are filled by electing the highest remaining nominee from the list with the highest number of remaining votes cast until all available seats have been filled.

There is no maximum age limit requirement for the election or retirement of directors. No minimum number of shares is required for a director's qualification. Directors may be removed by shareholders entitled to vote prior to the expiration of their term.

Extraordinary general shareholders' meetings may take place when duly called for a specified purpose or purposes, or, without prior notice, when holders representing all outstanding shares entitled to vote on the issues presented are present at the meeting. Extraordinary meetings of shareholders may be called by our president, our board of directors or the certified public accountant, directly or by request of a plural number of shareholders representing no less than 25.0% of the company's common voting shares, in which case an announcement must be made by the board of directors, the legal representative or the certified public accountant. In addition, meetings may be called by the Superintendency of Finance, directly or by request of shareholders holding at least 15.0% of the common voting shares. Notice of extraordinary meetings should be given at least five days in advance.

Quorum for ordinary and extraordinary general shareholders' meetings to be convened at first call requires the presence of multiple shareholders who represent at least 50.0% plus one of the outstanding shares entitled to vote at the relevant meeting. If no quorum is present for a general shareholders' meeting, a subsequent meeting may be called within 10 to 30 business days at which the presence of two or more shareholders entitled to vote at the relevant meeting constitutes quorum, regardless of the number of shares represented.

Notice of ordinary general meetings must be published in one newspaper of wide circulation, at least 15 business days prior to the proposed date of a general shareholders' meeting. Notice of extraordinary general meetings, listing the matters to be addressed at such meetings, must be published in one newspaper of wide circulation, at least five calendar days prior to the proposed date of an extraordinary general shareholders' meeting.

Except where Colombian law requires a supermajority, decisions made at a shareholders' meeting must be approved by a majority of the shares present. Pursuant to Colombian law and/or our by-laws, special-majorities are required in the following cases:

- the vote of at least 70.0% of the shares present and entitled to vote at a shareholders' meeting is required to approve the issuance of common shares not subject to preemptive rights;

- the Company must distribute (i) at least 50.0% of the annual's net profits according to Article 155 of the Colombian Code of Commerce, or (ii) at least 70.0% of the annual's net profits if the total amount segregated in the legal, statutory and other reserves exceeds the Company's outstanding capital, according to Article 454 of the Colombian Code of Commerce; however, the vote of at least 78.0% of the shares represented and entitled to vote may approve the distribution of a lower percentage of dividends;

- the vote of at least 80.0% of the shares present and entitled to vote is required to approve the payment of dividends in shares; however, according to Law 222 of 1995, if a "situation of control" exists, whereby the decision-making power is subject to the will of a person or group of persons, a company may only pay dividends by issuing shares, to the shareholders that so accept;

- unanimity is required to replace a vacancy on the board of directors without applying the electoral quotient system described above; and

- the vote of 70.0% of the issued and outstanding common shares and 70.0% of the outstanding and issued preferred shares is required to approve any amendment that may impair the rights of the preferred shares.

The adoption by a shareholders' meeting of certain corporate actions such as mergers, spin-offs, and share conversions are also subject to authorization by the Superintendency of Finance.

Preferred Shares

The holders of preferred shares are not entitled to receive notice of, attend or vote at any general shareholders' meeting of holders of common shares, except as described below.

The holders of preferred shares will be entitled to vote on the basis of one vote per share at any shareholders' meeting, whenever a shareholder vote is required on the following matters:

- in the event that amendments to our by-laws may impair the conditions or rights assigned to such preferred shares and when the conversion of such shares into common shares is to be approved. In both such cases, the vote of 70.0% of the outstanding and issued common shares and preferred shares is required; and

- if at the end of any accounting period, our profits are not sufficient to pay the minimum dividend on the preferred shares and the Superintendency of Finance, by its own decision or upon request of holders of at least 10.0% of preferred shares, determines that benefits were concealed or shareholders were misled with regard to benefits thereby decreasing the profits to be distributed, the Superintendency of Finance may resolve that holders of preferred shares should participate with deliberation and voting rights at the general shareholders' meeting, in the terms established by law.

We must issue a notice of any meeting at which holders of preferred shares are entitled to vote. The notice must be published in a newspaper of wide circulation. Depending on the matters to be subjects of the shareholders meeting, notice to preferred shareholders must be delivered at least 15 business days prior to the ordinary meeting or 5 calendar days before the extraordinary meetings. Each notice must contain the following:

- the date of the meeting;
- a description of any resolution to be proposed for adoption at the meeting on which the holders of preferred shares are entitled to vote; and
- instructions for the delivery of proxies.

Redemption

All shareholders (whether holders of common or preferred shares) have, at their option, a redemption right in the following cases:

- if, as a result of a merger, transformation or spin-off of the Company, (a) the shareholders must assume a higher level of liability (i.e., by transforming a corporation into a partnership), or (b) the economic rights of the shareholders are impaired. In these events, the shareholders that were not present at the meeting in which the decision was taken or voted against it, these may exercise the redemption right.

Pursuant to Colombian Law (Article 12 of Law 222 of 1995), the economic rights of shareholders are deemed to be impaired if:

- their ownership percentage is reduced as a result of the merger, transformation or spin-off of the Company;
- the equity value or the par value of the shares is reduced (in the latter case, only to the extent that the reduction of the par value implies a decrease in the Company's stock capital); and
- the negotiability of the shares is restricted or diminished.
- If the Company decides to withdraw the listing of its shares from a stock exchange or its registration before the National Registry of Shares and Issuers.

The exercise of this right is regulated by Articles 15 and 16 of Law 222 of 1995. According to Article 15, within five days following notice of the exercise of this right by a shareholder, the Company must offer to the other shareholders the shares owned by the exercising shareholder. Within the following 15 days, the other shareholders may acquire the shares on a pro rata basis. If all or a part of the shares are not acquired by the other shareholders, then the Company must reacquire them to the extent there are profits or reserves built up by the Company for those purposes. If neither the shareholders nor the Company acquires all of the shares owned by the exercising shareholder, then pursuant to Article 16 of Law 222 of 1995, such exercising shareholder is entitled to the reimbursement of the capital contributions made to the Company.

In both cases, the redemption price of the shares will be established by the agreement of seller and buyer. In the absence of such agreement, the redemption price will be determined by an expert appraiser. Notwithstanding the above, the by-laws may establish other methods for determining the redemption price to be paid in the foregoing circumstances. Our current by-laws do not contemplate such other methods.

Dividends

Common Shares

Following the approval of the financial statements at a general shareholders' meeting, shareholders may determine the allocation of distributable profits, if any, of the preceding accounting period by a resolution approved by the majority of the holders of common shares present at the ordinary general shareholders' meeting, pursuant to the recommendation of the board of directors and management.

Under the Colombian Code of Commerce, a company must, after payment of income taxes and appropriation of legal reserves, and after off-setting losses from prior periods distribute at least 50.0% of net profits to all shareholders, payable in cash, or as determined by the shareholders, within a period of one year following the date on which the shareholders determine the payment of dividends. If the total amount segregated in the legal, statutory and occasional reserves of a company exceeds its outstanding capital, this percentage is increased to 70.0%. The minimum common shares dividend payment requirement of 50.0% or 70.0%, as the case may be, may be waived by a favorable vote of the holders of 78.0% of a company's common shares present at the meeting, in which case the shareholders may distribute any percentage of the net profits. The dividends may be paid in shares if such proposal is approved by representatives of eighty (80%) of the shares present at the meeting.

Under Colombian law and our by-laws, net profits obtained in each accounting period are to be allocated as follows:

- first, an amount equivalent to 10.0% of net profits is segregated to build a legal reserve, until that reserve is equal to at least 50.0% of our subscribed capital;

- second, payment of the minimum dividend on the preferred shares; and

- third, allocation of the balance of the net profits is determined by the holders of a majority of the common shares entitled to vote on the recommendation of the board of directors and the president and may, subject to further reserves required by the by-laws, be distributed as dividends.

Under Colombian law, the dividends payable to the holders of common shares, for each common share, cannot exceed the dividends per share payable to holders of the preferred shares, for each preferred share. All common shares that are fully paid-in and outstanding at the time a dividend or other distribution is declared are entitled to share equally in that dividend or other distribution. Common shares that are only partially paid-in participate in a dividend or distribution in the same proportion as the shares have been paid in at the time of the dividend or distribution.

The general shareholders' meeting may allocate a portion of the profits to, among others, welfare, education or civic services.

Preferred Shares

Holders of preferred shares are entitled to receive a minimum dividend after deducting losses affecting the capital, and deducting any amounts set aside for legal reserve, but before creating or accruing for any other reserve and before any declared dividends are paid to holders of common shares, so long as dividends have been approved by the shareholders' meeting of Grupo Aval. Dividends to holders of common and preferred shares must be approved by the shareholders. If no dividends are declared, no holder of Grupo Aval's preferred or common shares will be entitled to payment. Pursuant to the offering memorandum of the preferred shares, the minimum dividend will be equal to Ps 1.00 in each calendar semester, so long as this value is higher than the dividend paid to the holders of common shares. If the minimum preferred dividend is not equal or higher than the per share dividend on the common shares, the minimum dividend will be equal to the dividend paid to the holders of common shares, if any.

Payment of the preferred dividend shall be made at the time and in the manner established in the general shareholders' meeting and with the priority indicated by Colombian law.

Grupo Aval is under a "situation of control" (whereby the decision-making power is subject to the will of a person or group of persons). As a result, the Company may only pay stock dividends to the shareholders that so accepts it. Those shareholders that do not accept to receive a stock dividend, are entitled to receive their dividend in cash.

For additional information regarding dividends, see "—F. Dividends and paying agents—Dividend policy of Grupo Aval".

General Aspects Involving Dividends

The dividend periods may be different from the periods covered by the balance sheet. In the general shareholders' meeting, shareholders will determine such dividend periods, the effective date, and the method and the place for payment of dividends.

Dividends declared on the common shares and the preferred shares will be payable to the record holders of those shares, as they are recorded on our share registry, on the appropriate dates as determined in the general shareholders' meeting. However, in accordance with Decree 4766 of December 14, 2011 (which amended articles 2.23.1.1.4 and 2.23.1.1.5 of Decree 2555 of 2010), issued by the Ministry of Finance:

- companies whose shares are registered with the National Registry of Shares and Issuers must establish a period of at least three trading days between the date that they receive approval to distribute profits from the General Shareholders Assembly and the date of payment; and

- the ex-dividend period (*fecha ex-dividendo*) is the period during which it is understood that a purchase of shares does not include the right to receive dividends. The ex-dividend date shall be set forth by stock exchanges, and it cannot be less than two trading days. According to Colombian Stock Exchange regulations, a transaction is "ex-dividend" if it takes place between the first day of dividend payment and the four trading days preceding that date.

Liquidation Rights

We will be dissolved if certain events take place, including the following:

- Pursuant to our by-laws, unless otherwise extended by the shareholders, our term of existence will expire at May 25, 2044;

- losses cause the decrease of our shareholders' equity below 50% of the amount of outstanding share capital, unless one or more of the corrective measures described in the Colombian Code of Commerce are adopted by the shareholders within six months;

- by decision at the general shareholders' meeting; and

- in certain other events expressly provided by law and in the by-laws.

Upon dissolution, a liquidator must be appointed by a general meeting of the shareholders to wind up the affairs of our company.

Upon liquidation, and out of the surplus assets available for distribution to shareholders, holders of fully paid preferred shares are entitled to a preference in the reimbursement of their contribution ("*aporte*" as provided by article 63 of Law 222 of 1995) to Grupo Aval. This reimbursement, if any, is payable in pesos before any distribution or payment may be made to holders of common shares. If, upon any liquidation, assets that are available for distribution among the holders of preferred shares are insufficient to pay in full their respective liquidation preferences, such assets will be distributed among those holders pro rata.

Subject to the preferential liquidation rights of holders of preferred shares, and provided there are still sufficient assets remaining, all fully paid common shares will be entitled to participate in any distribution upon liquidation. Partially paid common shares must participate in a distribution upon liquidation in the same proportion that those shares have been paid at the time of the distribution.

To the extent there are surplus assets available for distribution after full payment to the holders of preferred and common shares of their contribution to Grupo Aval, the surplus assets will be distributed among all holders of shares of share capital (common or preferred), pro rata, in accordance with their respective holdings of shares.

Preemptive Rights and Other Anti-Dilution Provisions

Pursuant to the Colombian Code of Commerce, we are allowed to have an outstanding amount of share capital that is less than the authorized share capital set out in our by-laws. Under our by-laws, the holders of common shares determine the amount of authorized share capital, and our board of directors has the power to (1) order the issuance and regulate the terms of subscription of common shares up to the total amount of authorized share capital, and (2) regulate the issuance of preferred shares, when expressly delegated at the general shareholders' meeting. The issuance of preferred shares must be approved by the general shareholders' meeting, which shall determine the nature and extent of any rights, according to our by-laws and Colombian law.

At the time of incorporation of a Colombian company, its outstanding share capital must represent at least 50% of the authorized capital. Any increases in the authorized share capital or decreases in the outstanding share capital must be approved by the majority of shareholders required to approve a general amendment to the by-laws.

Colombian law requires that, whenever we issue new common shares, we must offer to the holders of common shares the right to subscribe a number of common shares sufficient to maintain their existing ownership percentage of the aggregate share capital. These rights are preemptive rights. On the other hand, holders of preferred shares are entitled to preemptive rights only in the specific situations that the shareholders' meeting so decides. See "Item 3. Key Information—D. Risk factors—Risks relating to our businesses and industry—Risks relating to our preferred shares and ADSs".

Common shareholders at a general shareholders' meeting may waive preemptive rights of common shares with respect to a particular capital increase by the favorable vote of at least 70.0% of the shares represented at the meeting. Preemptive rights must be exercised within the period stated in the share placement terms of the increase, which cannot be less than 15 business days following the publication of the notice of the public offer of that capital increase. From the date of the notice of the share placement terms, preemptive rights may be transferred separately from the corresponding shares.

The Superintendency of Finance will authorize a decrease in the outstanding share capital approved by the holders of common shares only if:

- we have no outstanding liabilities;
- our creditors consent in writing; or
- the outstanding share capital remaining after the reduction represents at least twice the amount of our liabilities.

Restrictions on Purchases and Sales of Share Capital by Related Parties

Pursuant to the Colombian Code of Commerce, the members of our board of directors and certain of our principal executive officers may not, directly or indirectly, buy or sell shares of our share capital while they hold their positions, unless they obtain the prior approval of the board of directors passed with the vote of two-thirds of its members (excluding, in the case of transactions by a director, such director's vote). Furthermore, pursuant to Article 262 of the Colombian Code of Commerce, Grupo Aval's subsidiaries are prohibited from owning (directly or indirectly) shares of Grupo Aval.

In addition, as our shares are publicly traded on the Colombian Stock Exchange, the transfer of the shares is subject to the applicable securities regulation and the rules of the Colombian Stock Exchange.

Pursuant to Article 23 of Law 222 of 1995, the members of our board of directors and our legal representatives generally must perform their duties according to the principles of good faith, due diligence and loyalty. In particular, the directors and legal representatives must refrain from entering into any transaction (including any sale and purchase of shares) which may imply competition with the Company or a conflict of interest, unless they obtain the prior approval of the General Shareholders Meeting, which, in any case, shall only be granted if the respective transaction does not harm the Company's interests. The Company, in the ordinary course of its business, may enter into transactions with its directors.

Under the Company's by-laws, directors have no power to vote on compensation to themselves or any members of the Board of Directors. This task is specifically assigned to the shareholders entitled to vote.

Transfer and Registration of Shares

Grupo Aval's common and preferred shares are listed on the Colombian Stock Exchange. According to Colombian regulations, shares listed on a stock exchange must be sold and transferred only through such exchange, unless such shares were issued outside Colombia and are transferred outside Colombia, or unless the share purchase transaction amounts to a value that is lower than the regulatory threshold of 66,000 UVRs, as required by Article 6.15.1.1.2 of Decree 2555 of 2010. In addition, among others, the following transactions are not required to be undertaken through the relevant stock exchange:

- transfers between shareholders with the same beneficial owner;
- transfers of shares owned by financial institutions that are being liquidated under the control and supervision of the Superintendency of Finance;
- issuer repurchases;
- transfers by the State; and
- any other transactions as may be authorized by the Superintendency of Finance.

Under Colombian law, shares may be traded either in physical form or electronic form. Transfers of shares are subject to a registry system which differs depending on whether the shares are evidenced in electronic form or physical form. Transfers of shares evidenced by electronic certificates must first be registered with a securities central depositary through a stockbroker. The main purpose of the securities central depositary is to receive, safe keep and manage securities certificates issued by corporations in order to keep a record of the transactions undertaken over such securities, including transfers, pledges and withdrawals. Accordingly, they are not allowed to hold, invest or otherwise use the securities held under their custody.

Transfer of shares evidenced by electronic or physical certificates, as the case may be, must be registered on the company's share ledger. Only those holders registered on the share ledger are recognized as shareholders. Registration requires endorsement of the certificates or a written instruction from the holder. In the case of electronic certificates, the securities central depositary notifies us regarding the transfer of shares after registering it in its system.

All of our shares are currently deposited with the securities central depositary (Deceval).

C. Material contracts

On September 19, 2012, we entered into an indenture in connection with our issuance of U.S.$1.0 billion (Ps 1,795.7 billion at the date of the issuance) of 4.75% Senior Notes due 2022. The indenture was among us, as guarantor, Grupo

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Aval Limited, as Issuer, Deutsche Bank Trust Company Americas, as Trustee, Registrar, Paying Agent and Transfer Agent and Deutsche Bank Luxembourg S.A., as Luxembourg Paying Agent and Transfer Agent.

On February 4, 2020, we entered into an indenture in connection with our issuance of U.S.$1.0 billion (Ps 3,401.6 billion at the date of the issuance) of 4.375% Senior Notes due 2030. The indenture was among us, as guarantor, Grupo Aval Limited, as Issuer, Deutsche Bank Trust Company Americas, as Trustee, Registrar, Paying Agent and Transfer Agent.

D. Exchange controls

Restrictions on Foreign Investment in Colombia

Colombia's foreign investment statute regulates the manner in which non-residents are permitted to invest in Colombia and participate in the Colombian securities market. Among other requirements, Colombian law requires foreign investors to register certain foreign exchange transactions with the Colombian Central Bank and obtain authorization for certain types of investments. Certain foreign exchange transactions, including those between residents and non-residents, must be made through authorized foreign exchange intermediaries.

Non-residents are permitted to hold portfolio investments in Colombia, through a registered stock brokerage firm, a trust company or an investment firm. Investors would only be allowed to transfer dividends abroad after the foreign investment registration procedure with the Colombian Central Bank has been completed. The failure of a non-resident investor to report or register foreign exchange transactions with the Colombian Central Bank relating to investments in Colombia on a timely basis may prevent the investor from remitting dividends, or an investigation, that may result in a fine, may be commenced.

E. Taxation

The following summary contains a description of certain Colombian and U.S. federal income tax considerations in connection with ownership and disposition of ADSs and preferred shares, but it does not purport to be a comprehensive description of all of the Colombian and United States tax considerations. The summary is based upon the tax laws of Colombia and regulations thereunder and on the tax laws of the United States and regulations thereunder as of date hereof, which are subject to change. A change in such laws and regulations could apply retroactively and could affect the validity of this summary.

Colombian Tax Considerations

For Colombian tax purposes, the residence status is triggered depending on the type of individual as follows:

- *Aliens*: Residence is established by the continuous or discontinuous presence in the country for more than 183 days including entry and exit days, within any period of 365 consecutive calendar days. For this purpose, when the continuous or discontinuous presence in the country takes place in more than one taxable year, the person would be considered as a Colombian resident for the second taxable year.

- *Diplomatic employees of the Colombian State and their companions*: These persons are totally or partially exempted from income tax or capital gains tax in the country in which they are performing their work, according to the Vienna Conventions on Diplomatic and Consular Relations.

- *Colombian Nationals*:

  Individuals:

  A national individual can be considered a tax resident under different circumstances, one of them implies the permanence in Colombian territory either continuously or discontinuously - considering entry and leaving days-

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for 183 days in a given 365-day period. If the 365-day period covers more than one taxable year, the individual will be deemed as a taxpayer for the second year

Notwithstanding the prior rule, the domestic tax law also deems as a tax residents those individuals who hold the Colombian nationality and fulfill at least one of the following requirements in the corresponding taxable year: (i) the individual's spouse or permanent companion or dependent children are Colombian tax residents in the corresponding tax year; or, (ii) 50% or more of the income is considered to be Colombian-source income; or, (iii) 50% or more of their assets are managed within Colombia; or, (iv) 50% or more of their assets are deemed to be possessed in Colombia; or, (v) if once required by the Tax Authorities, the Colombian national fails to demonstrate that the tax residence is held abroad or, (vi) the tax residence is held in a tax haven as defined by the Colombian government.

Legal entities:

For Colombian tax purposes, a legal entity is considered a tax resident generally when its place of effective management is located in Colombia during the relevant taxable year. In addition, a Legal Entity incorporated under the laws of Colombia or whose principal place of business is located in Colombia, is also considered a Colombian resident.

Pursuant to the Colombian Tax Code, resident individuals and Colombian entities are subject to tax over their worldwide income, while non-resident individuals and foreign entities are only taxed on their Colombian-source income. Foreign entities with permanent establishments or branches in Colombia are subject to taxation over the worldwide income which is attributable to the branch or permanent establishment.

Colombian Tax Law includes a definition of permanent establishment for foreign entities or individuals that is applicable when the entity or individual trigger the events that are described in Article 20-1 of the Colombian Tax Code. In this case, as stated before, the permanent establishment is considered a Colombian taxpayer in regard to its attributable worldwide income.

Taxation of Dividends

As a general rule, dividends distributed out of profits that were not subject to tax at the level of a Colombian entity (e.g., because there was an application of the tax benefit, book to tax difference, Net Operating Loses –NOLs– amortization, etc.), will be subject to the corresponding Income Tax rate applicable in the year in which the dividends are paid or registered as being payable to the shareholder. In this case, the Colombian entity must apply a withholding income tax that could be credited by the shareholder against its income tax liability.

Law 1819 of 2016 modified the tax treatment applicable to the dividend payments. As of January 1st, 2017, dividend payments distributed by a Colombian entity out of profits generated as of tax year 2017 are subject to a special withholding tax. The applicable tax rate depends on the type of shareholder and its tax residence.

As of January 1, 2019, Law 1943 of 2018 modified the above-mentioned tax treatment applicable by increasing the withholding tax rates on dividend payments made by Colombian tax resident companies to tax resident individuals and to non-Colombian tax residents, to the extent that such payments are not covered by a Tax Treaty. In addition, Law 1943 established that special withholding tax should apply on dividend payments made to Colombian entities, that was not applicable under Law 1819, 2016.

Afterwards, Law 2010 of 2019 increased the withholding tax rate applicable to dividend distributions made to nonresidents (including payments made to permanent establishments held by non-tax residents) from 7.5% to 10%. In addition, Law 2010 reduced the withholding tax rate applicable on dividend payments made to tax resident individuals from 15% to 10%.

Any dividends paid out of retained profits generated prior to 2017, which were subject to taxation at the corporate level, will not be subject to any dividend tax. In any case, dividends paid out of retained profits generated prior to 2017, that

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were not subject to taxation at the corporate level would still be subject to an income tax withholding at the applicable income tax rate.

Based on the above, the following table summarizes the tax treatment of dividends in the absence of a tax treaty:

Dividend	Paid before 2016	Paid in 2017	Paid in 2018	Paid in 2019	To be paid as of 2020
Dividend distribution made out of **pre-2017** profits that were subject to tax at the Colombian corporate level distributed to Tax Resident Individuals, Colombian entities and Non-Colombian Tax Residents.	0%	0%	0%	0%	0%
Dividend distribution to **Colombian Tax Residents Individuals** made out of **pre-2017** profits that did **NOT** pay tax at the Colombian corporate level	Income tax rate varies from 0 to 33% **Withholding (WTH)**– 20% (1) or 33%	Income tax rate varies from 0 to 33% **WTH** – 20% (2) or 33%	Income tax rate varies from 0 to 33% **WTH** – 20% (3) or 33%	Income tax rate to 33% **WTH** – 20% (4) or 33%	Income tax rate varies from 0 to 33% **WTH** – 20% (5) or 33%
Dividend distribution to **Colombian entities** made out of **pre-2017** profits that did **NOT** pay tax at the Colombian corporate level	Corporate Income Tax (CIT) 33% (6) **WTH** 20%	CIT 34% WTH 20%	CIT 33% WTH 20%	CIT 33% WTH 20%	CIT and WTH 32% for 2020 31% for 2021 30% for 2022
Dividend distribution to **Non-Colombian Tax Residents** made out of **pre-2017** profits that did **NOT** pay tax at the Colombian corporate level	CIT 33% (7)	CIT 33% (8)	CIT 33% (9)	CIT 33% (10)	CIT 33% (11)
Portfolio Investments: Dividend distribution to **Non-Colombian Tax Residents** made out of **pre-2017** profits that did **NOT** pay tax at the Colombian corporate level	25%	25%	25%	25%	25%
WTH on Dividend distributions paid to **Tax Resident Individuals** out of **post-2016** profits that did pay tax at the Colombian corporate level	N/A	Marginal rates 0% (12),5% (13) and10% (14)	Marginal rates 0% (15) 5% (16), 10% (17)	Marginal rates 0% (18) or 15% (19)	Marginal rates 0% (20) or10% (21)
WTH on Dividend distributions paid to **Colombian entities** out of **post-2016** profits that did pay tax at the Colombian corporate level	N/A	N/A	N/A	7.5% (22)	7.5% (23)

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WTH on Dividend distributions paid to **Non-Colombian Tax Residents (including dividend distributions made to permanent establishments)** out of post-2016 profits that did pay tax at the Colombian corporate level	N/A	5%	5%	7.5%	10%
Dividend distribution paid to **tax residents individuals** out of post-2016 profits that did **NOT** pay tax at the Colombian corporate level	N/A	35% on the distributed amounts. The 0%, 5% or 10% WTH (24) dividend tax will apply on the distributed amounts net the 35%.	35% on the distributed amounts. The 0%, 5% or 10% WTH (25) dividend tax will apply on the distributed amounts net the 35%.	33% on the distributed amounts. The 0% or 15% WTH (26) dividend tax will apply on the distributed amounts net the 33%.	32% for 2020 31% for 2021 30% for 2022 The 0% or 10% WTH (27) dividend tax will apply on the distributed amounts net the 32%, 31% or 30%.
Dividend distribution paid to **Colombian entities** out of post-2016 profits that did **NOT** pay tax at the Colombian corporate level	N/A	N/A	N/A	38.03%	37.10% for 2020 36.18% for 2021 35.25% as of 2022
Dividend distribution paid to **Non-Tax Residents (including dividend distributions made to permanent establishments)** out of post-2016 profits that did **NOT** pay tax at the Colombian corporate level	33%	38.25%	38.25%	38.03%	38.80% for 2020 37.90% for 2021 37% as of 2022
Portfolio Investments: Dividend distribution paid to **Non-Tax Residents (including dividend distributions made to permanent establishments)** out of post-2016 profits that did **NOT** pay tax at the Colombian corporate level	N/A	28.75%	28.75%	30.63%	32.50%

(1) The 20% withholding income tax applied when the shareholder is a Tax Resident Individual obliged to file income tax. The 20% rate applied also when the Tax Resident Individual was not obliged to file income tax return, but the dividend payment did not exceed 1,400 UVT (Ps 41,654,200 at 2016).

(2) The 20% withholding income tax applied when the shareholder is a Tax Resident Individual obliged to file income tax. The 20% rate applied also when the Tax Resident Individual was not obliged to file income tax return, but the dividend payment did not exceed 1,400 UVT (Ps 44,602,600 at 2017).

(3) The 20% withholding income tax applied when the shareholder is a Tax Resident Individual obliged to file income tax. The 20% rate applied also when the Tax Resident Individual was not obliged to file income tax return, but the dividend payment did not exceed 1,400 UVT (Ps 46,418,400 at 2018).

(4) The 20% withholding income tax applied when the shareholder is a Tax Resident Individual obliged to file income tax. The 20% rate applied also when the Tax Resident Individual was not obliged to file income tax return, but the dividend payment did not exceed 1,400 UVT (Ps 47,978,000 at 2019).

(5) The 20% withholding income tax applied when the shareholder is a Tax Resident Individual obliged to file income tax. The 20% rate applied also when the Tax Resident Individual was not obliged to file income tax return, but the dividend payment did not exceed 1,400 UVT (Ps 49,849,800 at 2020).

(6) Tax rate in 2016 includes the Corporate Income Tax of 25% and the Corporate Income Tax for CREE of 8%.

(7) This tax is paid through the withholding practiced by the Colombian entity that distributes dividends.

(8) According to article 246-1 of the Colombian Tax Code, dividend distributions out of un-taxed profits obtained before 2017 are subject to a 33% corporate income tax.

(9) Ibid.

(10) Ibid.

(11) Ibid.

(12) This rate applied on dividend distributions that did not exceed 600 UVT (Ps 19,115,000 in 2017)

(13) This rate applied on dividend distributions that did not exceed 1,000 UVT (Ps 31,859,000 in 2017). The taxable basis is calculated by taking the amount of dividends distributed restated in UVT minus 600 UVT.

(14) This rate applied on dividend distributions exceeding 1,000 UVT (Ps 31,859,000 in 2017). The taxable basis is calculated by taking the amount of dividends distributed restated in UVT minus 1,000 UVT. The withholding tax rate will be applied to the latter value and increased in 20 UVT (Ps 637,000 in 2017)

(15) This rate applied on dividend distributions that did not exceed 600 UVT (Ps 19,854,000 in 2018)

(16) This rate applied on dividend distributions that did not exceed 1,000 UVT (Ps 33,156,000 in 2018). The taxable basis is calculated by taking the amount of dividends distributed restated in UVT minus 600 UVT.

(17) This rate applied on dividend distributions exceeding 1,000 UVT (Ps 33,156,000 in 2018). The taxable basis is calculated by taking the amount of dividends distributed restated in UVT minus 1,000 UVT. The withholding tax rate will be applied to the latter value and increased in 20 UVT (Ps 663,000 in 2018).

(18) This rate applied on dividend distributions that did not exceed 300 UVT (Ps 10,281,000 in 2019).

(19) This rate applied on dividend distributions exceeding 300 UVT (Ps 10,281,000 in 2019). The taxable basis is calculated by taking the amount of dividends distributed restated in UVT minus 300 UVT.

(20) This rate applied on dividend distributions that did not exceed 300 UVT (Ps 10,682,000 in 2020).

(21) This rate applied on dividend distributions exceeding 300 UVT (Ps 10,682,000 in 2020). The taxable basis is calculated by taking the amount of dividends distributed restated in UVT minus 300 UVT.

(22) This 7.5% dividend withholding tax is also applicable over domestic distributions and will be charged only on the first distribution of dividends between Colombian entities. Such withholding tax may be credited against the dividend tax due once the ultimate Colombian company makes a distribution to its shareholders (nonresident shareholders, entities or individuals, or to Colombian individual residents). The aforementioned 7.5% withholding tax will not apply on the first distribution between entities belonging to a business group duly registered before the Chamber of Commerce or the Colombian Holding Regime.

(23) Ibid.

(24) Please See Note 12, 13 and 14.

(25) Please See Note 15, 16 and 17.

(26) Please see Notes 18 and 19.

(27) Please see Notes 20 and 21.

Dividend payment approved at the General Meeting of Shareholders of Grupo Aval of March 29, 2019 was paid out of profits generated by the company before December 31, 2016; accordingly, payment of such dividends will not be subject to income taxes according to Article 246-1 of the Colombian Tax Code, introduced by Article 9 of Law 1819 of 2016.

Dividends paid to non-resident holders of ADSs through the depositary will be subject to income taxes and withholding in Colombia as mentioned in the previous chart.

As a general rule, foreign companies, foreign investment funds, and individuals that are not Colombian residents are not required by law to file an income tax return in Colombia either provided the dividend distribution was subject to the applicable withholding tax, which could either be the combined income tax and the dividend tax, or the dividend tax only.

"UVT" or "Unidad de Valor Tributario" refers to a tax unit established each year by the Colombian Tax Authority ("DIAN") for the calculation of tax returns. UVT for 2019 amounts to Ps 34,270 (U.S.$10.55).

Taxation of Capital Gains Derived from the Sales of ADSs in Colombia

Pursuant to Article 24 of the Colombian Tax Code, gains derived by non-resident entities or non-resident individuals of Colombia from the sale of the ADSs are not subject to income, withholding, remittance or other taxes in Colombia. If the holder is a resident in Colombia, this capital gain will be taxed in Colombia according to the general tax rules.

Taxation of Capital Gains Derived from the Sales of Shares in Colombia

According to Article 36-1 of the Colombian Tax Code, capital gains obtained in a sale of shares listed on the Colombian Stock Exchange are not subject to income tax in Colombia, provided that the shares sold by the same beneficial owner during each fiscal year do not represent more than 10% of the issued and outstanding shares of the listed company. The Colombian government may implement changes in the tax rules applicable to the sale of the offered securities which may adversely affect our shareholders.

ADSs do not have the same tax benefits as equity investments in Colombia. Although ADSs represent our preferred shares, they are subject to a different tax regulatory regime. Accordingly, the tax benefits applicable in Colombia to equity investments, are not applicable to ADSs.

Tax on Foreign Capital Investment Portfolio Income in Colombia

The 2012 Tax Reform (see "Item 4. Information on the Company—B. Business Overview—Supervision and regulation—Regulation on Payroll Loans") established a new tax regime for foreign capital portfolio investments. Investors will be required to pay income tax for the profits obtained in the development of their activities, regardless of the vehicle used to carry them out, pursuant to Article 18-1 of the Colombian Tax Code. The withholding rate of such tax is generally 14%; however, a 5% rate will apply for investments in fixed income securities or in derivatives whose underlying assets is a fixed income security, and a 25% rate will apply to investors domiciled in a tax haven jurisdiction. Article 260-7 of Colombian Tax Code was modified by Law 1819 of 2016 which establishes a new legal framework and provides criteria pursuant to which certain jurisdictions may be classified as non-cooperative jurisdictions with low or no taxation or as jurisdictions with preferential tax regimes.

Payment of this tax will be accomplished through withholding that is performed on a monthly basis by the administrator of such investment portfolio, based on the profits earned by the investor during the corresponding month. When the income corresponds to dividends, the withholding will be made by the company paying the dividend at the time of payment.

As a general rule, the withholding, performed according to the rules established in the Colombian Tax Code, shall constitute a final tax and investors will not be required to file an income tax return. However, if the investor sells shares of stock that are listed on the Colombian Stock Exchange in an amount that is above the 10% limit as set forth in Article 36-1 of the Colombian Tax Code (as described in the above paragraph under "—Taxation of Capital Gains Derived from the Sales of Shares"), the investor will be required to file the corresponding income tax return, which will be filed by the administrator of the portfolio on his/her behalf.

Other Colombian Taxes

As of the date hereof, there is no income tax treaty and no inheritance or gift tax treaty in effect between Colombia and the United States. Pursuant to Articles 24 and 36-1 of the Colombian Tax Code, transfers of ADSs from non-residents or residents to non-residents of Colombia by gift or inheritance are not subject to Colombian income tax. Transfers of ADSs by gift or inheritance from residents to residents or from non-residents to residents will be subject to Colombian income tax at the income tax rate applicable for capital gains obtained by residents of Colombia. There is no Colombian stamp, issue, registration, transfer or similar taxes or duties payable by holders of preferred shares or ADSs.

United States Federal Income Taxation Considerations for U.S. Holders

The following is a description of the material U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of our ADSs or preferred shares, but it does not purport to be a comprehensive description of all tax considerations that may be relevant to a particular person's decision to hold the securities. This discussion applies only to a U.S. Holder that holds our ADSs or preferred shares as capital assets for U.S. federal income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of the U.S. Holder's particular circumstances, including alternative minimum tax consequences, the potential application of certain provisions of the Internal Revenue Code of 1986, as amended (the "Code") known as the Medicare contribution tax, and tax consequences applicable to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- dealers in securities or currencies or traders in securities that use a mark-to-market method of tax accounting;
- persons holding ADSs or preferred shares as part of a hedging transaction, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the ADSs or preferred shares;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes;
- tax-exempt entities, "individual retirement accounts" or "Roth IRAs";
- persons that own or are deemed to own ten percent or more of the voting power or value of our stock;
- persons who acquired our ADSs or preferred shares pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding our ADSs or preferred shares in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds our ADSs or preferred shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding our ADSs or preferred shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the ADSs or preferred shares.

This discussion is based on the Code, administrative pronouncements, judicial decisions, and final, temporary and proposed Treasury regulations, all as of the date hereof, any of which is subject to change, possibly with retroactive effect. It is also based in part on representations by the depositary and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms.

A “U.S. Holder” is a beneficial owner of our ADSs or preferred shares that is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, a U.S. Holder who owns ADSs will be treated as the owner of the underlying preferred shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying shares represented by those ADSs.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and non-U.S. tax consequences of owning and disposing of our ADSs or preferred shares in their particular circumstances.

Except as described in “─Passive Foreign Investment Company Rules” below, this discussion assumes that we have not been, and will not become, a passive foreign investment company, or “PFIC”, for any taxable year.

Taxation of Dividends

The preferred shares constitute equity of our company for U.S. federal income tax purposes. Distributions paid on our ADSs or preferred shares will be treated as dividends to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. Holders as dividends. Subject to applicable limitations (including a minimum holding period requirement), dividends paid to certain non-corporate U.S. Holders that constitute “qualified dividend income” will be taxable at rates applicable to long-term capital gains. Dividends paid on our ADSs will generally constitute qualified dividend income, provided the ADSs are readily tradable on an established securities market in the United States (such as the NYSE, where our ADSs are traded). It is unclear whether these reduced rates will apply to dividends paid with respect to our preferred shares that are not backed by ADSs. U.S. Holders should consult their tax advisers regarding the availability of the reduced tax rate on dividends in their particular circumstances.

The amount of a dividend generally will include any amounts withheld by our company in respect of Colombian taxes. The amount of the dividend will generally be treated as foreign-source dividend income to U.S. Holders and will not be eligible for the dividends-received deduction generally available to U.S. corporations under the Code. Dividends will be included in a U.S. Holder’s income on the date of the depositary’s receipt of the dividend, in the case of ADSs, or on the date actually or constructively received by the U.S. Holder, in the case of the preferred shares. The amount of any dividend income paid in Colombian pesos will be the U.S. dollar amount calculated by reference to the exchange rate in effect on the applicable date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the applicable date of receipt, a U.S. Holder should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt.

Subject to applicable limitations (including a minimum holding period requirement), some of which vary depending upon the U.S. Holder’s circumstances, Colombian income taxes withheld from dividends on ADSs or preferred shares generally will be creditable against the U.S. Holder’s U.S. federal income tax liability. In lieu of claiming a foreign tax credit, U.S. Holders may, at their election, deduct foreign taxes, including the Colombian tax, in computing their taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all foreign taxes paid or accrued in the taxable year. The rules governing foreign tax credits are complex. U.S. Holders should consult their tax advisers regarding the creditability of Colombian taxes in their particular circumstances and the relevant foreign tax credit basket, particularly in the case of high-taxed distributions of earnings not previously subject to Colombian tax.

Sale, Redemption or Other Taxable Disposition of ADSs or Preferred Shares

Subject to the PFIC rules described below, for U.S. federal income tax purposes, gain or loss realized on the sale, redemption or other taxable disposition of our ADSs or preferred shares will be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder held the ADSs or preferred shares for more than one year, provided that in the case of redemption, (i) the U.S. Holder does not actually or constructively own any of our voting stock or (ii) the redemption is not otherwise treated as essentially equivalent to a dividend under the Code. The amount of the gain or loss will equal the difference between the U.S. Holder's tax basis in the ADSs or preferred shares disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. This gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes.

Passive Foreign Investment Company Rules

Based on proposed Treasury regulations, including those which are proposed to be effective for taxable years beginning after December 31, 1994, we believe we were not a PFIC for U.S. federal income tax purposes for the 2019 taxable year. However, because the proposed Treasury regulations may not be finalized in their current form, because the application of the proposed regulations is not entirely clear and because the composition of our income and assets will vary over time, there can be no assurance that we were not or will not be a PFIC for any taxable year. The determination of whether we are a PFIC is made annually and is based upon the composition of our income and assets (including the income and assets of, among others, entities in which we hold at least a 25% interest) and the nature of our activities. In general, we will be a PFIC for any taxable year in which at least 75% of our gross income is passive income, or at least 50% of the value (determined on a quarterly basis) of our assets is attributable to assets that produce or are held for the production of passive income.

If we were a PFIC for any taxable year during which a U.S. Holder held our ADSs or preferred shares, any gain recognized by a U.S. Holder on a sale or other disposition of ADSs or preferred shares (including certain pledges) would be allocated ratably over the U.S. Holder's holding period for the ADSs or preferred shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year within the holding period would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the tax on such amount. Further, any distribution in respect of ADSs or preferred shares in excess of 125% of the average of the annual distributions on ADSs or preferred shares received by the U.S. Holder during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation in the same manner as described immediately above with respect to gains. Certain elections may be available that would result in alternative treatments (such as mark-to-market treatment) of the ADSs or preferred shares. U.S. Holders should consult their tax advisers to determine whether any of these elections would be available and, if so, what the consequences of the alternative treatments would be in their particular circumstances.

If we were a PFIC or, with respect to a particular U.S. Holder, were treated as a PFIC for the taxable year in which we paid a dividend or for the prior taxable year, the favorable dividend rates discussed above with respect to qualified dividend income paid to non-corporate holders would not apply. In addition, if we are a PFIC for any taxable year during which a U.S. Holder owned our ADSs or preferred shares, the U.S. Holder will generally be required to file IRS Form 8621 (or any successor form) with their annual U.S. federal income tax returns, subject to certain exceptions.

Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.- related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is an exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

Certain U.S. Holders who are individuals (and certain specified entities) may be required to report information relating to their ownership of shares of a non-U.S. entity or non-U.S. accounts through which such shares are held. U.S. Holders are urged to consult their tax advisers regarding any reporting obligation with respect to our ADSs or preferred shares.

F. Dividends and paying agents

Dividend policy of Grupo Aval

The amount of dividends, if any, that we pay will be dependent, in large part, on the amount of dividends received from our subsidiaries. From 2015 to 2019, the amount of dividends that we have paid increased at a compounded annual growth rate of 0.5%, mainly driven by the issuance of common and preferred shares in the past years. Until 2016, Grupo Aval declared dividends semi-annually in March and September of each year. Beginning in March 2017, the company started to declare dividends on an annual basis. Our subsidiaries declared Ps 1,449.8 billion in 2019 and Ps 1,366.2 billion in 2018 of dividends payable to us, and we declared an aggregate of Ps 1,336.9 billion of dividends to our shareholders in 2019 and 2018.

Unless noted otherwise, the following table presents the net profits of, and dividends (cash and stock) declared by, each of our banks and Porvenir, and the amount of dividends that we would be entitled to receive from each of them during the periods indicated. Dividends are paid to us on a monthly basis.

	Dividends declared with respect to net income for the year ended December 31,													
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	Banco de Bogotá		Banco de Occidente		Banco Popular		Banco AV Villas		Corficolombiana		Porvenir		Total	
	(in Ps billions, except percentages)													
Direct ownership interest held by Grupo Aval	68.7%	68.7%	72.3%	72.3%	93.7%	93.7%	79.9%	79.9%	8.2%	8.1%	20.0%	20.0%	—	—
Separate net profits	2,640.9	2,824.7	457.8	388.4	328.6	284.2	190.7	160.2	1,566.3	1,607.7	570.3	360.1	5,754.5	5,625.3
Dividends declared	1,335.7	1,272.1	274.7	290.0	148.3	129.8	91.0	86.3	783.1	463.3	285.7	270.0	2,918.5	2,511.4
Dividends contributed to Grupo Aval	918.1	874.4	198.5	209.6	139.0	121.7	72.7	68.9	64.3	37.7	57.1	54.0	1,449.8	1,366.2
Dividends declared by Grupo Aval	—	—	—	—	—	—	—	—	—	—	—	—	1,336.9	1,336.9

Until 2016, Grupo Aval's subsidiaries declared dividends semi-annually in March and September of each year. Beginning in March 2017, they started to declare dividends on an annual basis. Banco Popular started to declare dividends on an annual basis in 2019.

The allocation of our distributable profits, if any, is determined by our common shareholders following approval of our annual financial statements. Our general shareholders' meetings generally occur in March, three months after the close of the annual period.

In the past we have paid dividends on a monthly basis. We have not, however, adopted a specific dividend policy with respect to future dividends. The amount of any distributions will depend on many factors, such as the results of operations and financial condition of our company and our subsidiaries, their cash requirements, their prospects and other factors deemed relevant by our board of directors and shareholders.

Our company pays dividends based on our net income as reported in our separate audited financial statements prepared under Colombian IFRS. For the years ended December 31, 2019 and 2018, separate net income as reported in our Colombian IFRS financial statements was Ps 3,031.2 billion, 0.1% lower and Ps 2,887.7 billion, 0.9% lower than net income attributable to the owners of the parent as reported in our audited consolidated financial statements, respectively.

We expect that differences between Colombian IFRS and IFRS financial statements will continue to occur in future periods.

The amount of dividends expected from our subsidiaries will also depend on the future share ownership in our subsidiaries.

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Dividend history of Grupo Aval

The following table presents the annual cash dividends paid by Grupo Aval on each share during the periods indicated.

Until 2016, Grupo Aval declared dividends semi-annually in March and September of each year. Beginning in March 2017, the company started to declare dividends on an annual basis.

Dividends declared with respect to net income	Cash dividends per share (Ps)	Cash dividends per share (U.S.$)
Year ended:		
2014	57.90	0.018
2015	58.80	0.018
2016(1)	88.20	0.027
2017	48.00	0.015
2018	60.00	0.018
2019	60.00	0.018

(1) Dividends declared with respect to net income for 2016 includes dividends declared on September 2016 to be paid in the six-month period from October 2016 to March 2017 and dividends declared on March 2017 to be paid in the twelve-month period from April 2017 to March 2018.

Dividend history of our banking subsidiaries

The following tables set forth the annual cash dividends paid by each of our banks on each share during the periods indicated.

Until 2016, Grupo Aval's subsidiaries declared dividends semi-annually in March and September of each year. Beginning in March 2017, they started to declare dividends on an annual basis, except for Banco Popular, which started to declare dividends on an annual basis in March 2019.

Banco de Bogotá

Dividends declared with respect to net income	Cash dividends per share (Ps)	Cash dividends per share (U.S.$)
Year ended:		
2014	2,520.00	0.769
2015	2,700.00	0.824
2016(1)	4,620.00	1.410
2017	3,240.00	0.989
2018	3,840.00	1.172
2019	4,032.00	1.230

(1) Dividends declared with respect to net income for 2016 includes dividends declared on September 2016 to be paid in the six-month period from October 2016 to March 2017 and dividends declared on March 2017 to be paid in the twelve-month period from April 2017 to March 2018.

Banco de Occidente

Dividends declared with respect to net income	Cash dividends per share (Ps)	Cash dividends per share (U.S.$)
Year ended:		
2014	1,764.00	0.538
2015	1,860.00	0.568
2016(1)	2,970.00	0.906
2017	1,698.00	0.518
2018	1,860.00	0.568
2019	1,761.72	0.538

(1) Dividends declared with respect to net income for 2016 includes dividends declared on September 2016 to be paid in the six-month period from October 2016 to March 2017 and dividends declared on March 2017 to be paid in the twelve-month period from April 2017 to March 2018.

Banco Popular

Dividends declared with respect to net income	Cash dividends per share (Ps)	Cash dividends per share (U.S.$)
Year ended:		
2014	24.00	0.007
2015	20.10	0.006
2016	13.85	0.004
2017	9.10	0.003
2018	16.80	0.005
2019	19.20	0.006

Banco AV Villas

Dividends declared with respect to net income	Cash dividends per share (Ps)	Cash dividends per share (U.S.$)
Year ended:		
2014	387.00	0.118
2015	415.00	0.127
2016(1)	645.20	0.197
2017	324.00	0.099
2018	384.00	0.117
2019	405.00	0.124

(1) Dividends declared with respect to net income for 2016 includes dividends declared on September 2016 to be paid in the six-month period from October 2016 to March 2017 and dividends declared on March 2017 to be paid in the twelve-month period from April 2017 to March 2018.

Dividend history of Corficolombiana

The following tables present the annual cash and stock dividends paid by Corficolombiana during the periods indicated.

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Dividends declared with respect to net income	Cash dividends per share (Ps)	Stock dividends per share(1) (Ps)	Total dividends per share (Ps)	Total dividends per share (U.S.$)
Year ended:				
2014	630.00	1,893.71	2,523.71	0.770
2015	666.00	1,509.56	2,175.56	0.664
2016	276.00	1,214.08	1,490.08	0.455
2017	—	519.48	519.48	0.159
2018	—	1,657.90	1,657.90	0.506
2019	—	2,640.00	2,640.00	0.806

(1) In accordance with regulation, payment in stock dividends must be explicitly consented by shareholders. If the shareholder does not explicitly express the desire to receive stock dividends, the payment will be done in cash the same day in which the payment of stock dividends is made.

Banco de Bogotá, Banco de Occidente and Banco Popular received dividend payments from Corficolombiana in their respective ownership of the company (see Item 4 – B. Business overview - Our operations).

Dividend history of Porvenir

The following tables present the annual cash and stock dividends paid by Porvenir during the periods indicated.

Dividends declared with respect to net income	Cash dividends per share (Ps)	Stock dividends per share(2) (Ps)	Total dividends per share (Ps)	Cash dividends per share (U.S.$)
Year ended:				
2014	1,320.36	1,423.00	2,743.36	0.837
2015	1,237.92	1,294.00	2,531.92	0.773
2016(1)	1,770.00	679.00	2,449.00	0.747
2017	1,380.00	—	1,380.00	0.421
2018	2,472.00	—	2,472.00	0.754
2019	2,616.00	—	2,616.00	0.798

(1) Dividends declared with respect to net income for 2016 includes dividends declared on September 2016 to be paid in the six-month period from October 2016 to March 2017 and dividends declared on March 2017 to be paid in the twelve-month period from April 2017 to March 2018.

(2) In accordance with regulation, payment in stock dividends must be explicitly consented by shareholders. If the shareholder does not explicitly express the desire to receive stock dividends, the payment will be done in cash the same day in which the payment of stock dividends is made.

Banco de Bogotá, Fiduciaria Bogotá, Banco de Occidente and Fiduciaria de Occidente received dividend payments from Porvenir in their respective ownership of the company (see Item 4—B. Business overview—Our operations).

Dividend history of BAC Credomatic

During 2019, BAC Credomatic declared U.S.$99.5 (Ps 325,960.2) of cash dividend per share.

General aspects involving dividends

The dividend periods may be different from the periods covered by the general balance sheet. At the general shareholders' meeting, shareholders will determine such dividend periods, the effective date, the system and the place for payment of dividends.

Dividends declared on the shares of common and preferred shares will be payable to the record holders of those shares, as they are recorded on our stock registry, on the appropriate record dates as determined at the general shareholders' meeting. However, pursuant to External Circular 13 of 1998 issued by the former Superintendency of Securities (currently, the Superintendency of Finance), if a shareholder sells shares during the ten business days immediately preceding the payment date, dividends corresponding to those shares will be paid by us to the seller.

The vote of at least 80.0% of the shares present and entitled to vote is required to approve the payment of dividends in shares; however, according to Law 222 of 1995, if a "situation of control" exists, whereby the decision-making power is subject to the will of another person or group of persons, a company may only pay dividends by issuing shares, to the shareholders that so accept.

G. Statement by experts

Not applicable.

H. Documents on display

We are subject to the informational requirements of the Exchange Act. Accordingly, we are required to file reports and other information with the SEC, including annual reports on Form 20-F and reports on Form 6-K. The SEC maintains an internet website that contains reports and other information about issuers, like us, that file electronically with the SEC. The address of that website, where you can inspect those reports and other information filed with the SEC, is www.sec.gov.

I. Subsidiary information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT RISK

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 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, that aims to 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 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 units 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 assets and liabilities or future results of the subsidiaries in the financial sector, resulting from changes in market variables such as interest rates, foreign exchange rates, equity prices, commodity prices, implied volatilities, credit spreads 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 risk policies, limits and systems to measure, monitor and control the funds transfer pricing curve, interest rate risk in banking book and liquidity risk management.

B) **Financial Conglomerates Law:** On the occasion of the issuance Decree 1870 of 2017, the financial conglomerates have the responsibility of managing the risks to which they are exposed, for this purpose the Superintendency of Finance, through External Circular 13 of June 20, 2019, establishes that the risks of the financial conglomerates are:

i) **Contagion risk:** risk corresponding to the probability of the deterioration of the general conditions of subsidiaries belonging to the holding, could cause a chain reaction in other subsidiaries of the holding group.

ii) **Strategic risk:** risks resulting from changes in Grupo Aval's strategy or business plan due to changes in general business conditions associated with strategic decisions, such as investments. Strategic risk also includes the risk of poor implementation of decisions and lack of capacity to respond to changes in the business environment.

iii) **Concentration risk:** the risk of potential losses due to a single exposure to a counterparty, sector or country, which has the capacity to affect the main operation of the entity.

Grupo Aval Board of Directors

The Board of Directors is the body responsible for establishing the risk profile and for the approval of the general scope for risk management.

Corporate Risk Unit

It is the corporate risk unit, led by Grupo Aval's Chief Risk Officer, with functions including the following among others: 1) identification and definition of best practices for corporate risk management; 2) support the board and the financial subsidiaries in the construction of the risk appetite; 3) state and ensure the compliance of policies and guidelines that ensure an adequate risk exposure.

Boards of Directors of the Financial Subsidiaries

The Boards of Directors of Grupo Aval's financial subsidiaries are responsible for adopting the following decisions, among others, with respect to the proper organization of each entity's risk management system:

- Define and approve the general policies and strategies related to the internal control system for risk management;
- Approve the entity's policies in relation to the management of different risks;
- Approve trading and counterparty limits, in accordance with defined attributions;
- Approve exposure limits for different types of risks;
- Approve different procedures and methodologies for risk management;
- Ensure the adequate assignment of the human, physical and technical resources required for effective risk management;
- Set forth the responsibility and attributes assigned to the different positions and areas in charge of risk management;
- Create and define the functions of the committees that are needed to ensure the proper organization, control and monitoring of operations that generate risk exposure and define their functions;
- Approve internal control systems for risk management;
- Require management of Grupo Aval's financial subsidiaries to submit periodic reports on the levels of exposure to several risks;
- Evaluate recommendations and corrective actions proposed for risk management processes;
- Follow-up at regular board meetings, based on periodic risk-management reports submitted by the Audit Committee on measures taken to control or mitigate the more relevant risks; and
- Approve the nature, scope strategic business and markets in which each subsidiary of the financial sector will operate.

Risk Committees

Grupo Aval's subsidiaries of the financial sector have, risk management committees which periodically discuss, measure, control and analyze the credit risk management system (SARC for its initials in Spanish), market risk management systems (SARM for its initials in Spanish) and operating risk management system and the management of the business continuity plan (SARO-PCN for its initials in Spanish). Additionally, the subsidiaries of the financial sector also have an asset-liability committee (ALCO) which makes decisions regarding asset and liability management and evaluates the effectiveness of the liquidity risk management system (SARL for is initials in Spanish). Compliance of legal risks is monitored by the General Secretaries of each subsidiary of the financial sector. The functions of these committees include, among others, the following:

- Proposing adequate policies for managing the risks concerning each committee and the applicable business processes and methodologies to the Board of Directors of each entity;
- Systematically reviewing the entity's exposure to risks and take any corrective actions when necessary;
- Ensuring that actions taken at each subsidiary of the financial sector in relation to risk management are consistent with previous defined levels of risk appetite; and
- Approving decisions that are within the approval limits established for each committee by each of the financial subsidiaries' Board of Directors.

The risk committees of Grupo Aval subsidiaries of the financial sector are detailed below:

I. Risk Management Committees of the financial sector subsidiaries

The role of these committees is to establish policies, procedures and strategies for comprehensive management with respect to credit, market, liquidity, operational, money laundering and terrorism financing risks. Its main functions involve:

- Measuring the entity's risk profile;
- Designing systems to monitor and follow up on levels of exposure to the different risks the entity faces;
- Reviewing and proposing to the Board of Directors the level of tolerance and degree of exposure to risk the entity is willing to assume in the course of its business. This implies evaluating alternatives to align risk appetite in the various risk management systems;
- Assessing the inherent risks involved in entering new markets, products, segments and countries, among others; and
- Ensuring that risk management and measurement methodologies are appropriate, given the characteristics and activities of the entity.

II. Assets and Liabilities Committee of the financial sector subsidiaries

The objective of these committees is to support senior management by establishing risk policies, limits and systems to monitor and measure the effectiveness of the interest rate risk in the banking book management and the liquidity risk management systems (SARL for its initial in Spanish). The main functions, among others, are:

- Establishing adequate procedures and mechanisms for liquidity management;
- Monitoring liquidity and interest rate risk exposure reports and Fund Transfer Pricing (FTP) process; and
- Identifying the origin of risk exposure through sensitivity analysis, in order to assess the probability of lower returns for the entity or assess the necessity of new liquidity resources.

III. Audit Committee of Grupo Aval and Audit Committees of Subsidiaries of the Financial Sector:

The Audits Committees' principal objective is to evaluate and monitor the Internal Control System.

The following are the description of their functions:

- Proposing, for approval of the Board of Directors, the structure, procedures and methodologies required for the operation of the Internal Control System;
- Assessing the structure of the internal control of the entity, in order to establish if the procedures are designed reasonably to protect its assets, as well as those of third parties under its administration and custody, and if there are controls to verify that transactions are being properly authorized and registered. For such purpose, the areas in charge of the administration of the various risk systems, the Statutory Auditor and the Internal Auditor present the established periodical reports to the Committee as well as other reports that the members of the Committee may require; and
- Monitoring risk exposure levels, their potential consequences and establishing risk control or mitigation actions.

Risk Vice-Presidency or its equivalent in the subsidiaries of the financial sector

The Risk Vice-Presidencies and their equivalents, which feature within the organizational structure of the subsidiaries of the financial sector have, among others, the following functions:

- Overseeing adequate compliance of the policies and procedures established by the Board of Directors and the various committees for risk management;
- Designing methodologies and procedures to be followed by the administration for risk management;
- Establishing ongoing monitoring procedures to ensure timely identification of any deviation relating to compliance of the policies established for risk management; and
- Preparing timely reports for the different risk committees, the Board of Directors of each subsidiaries of the financial sector and for the government entities in charge of control and supervision of the subsidiaries of the financial sector in relation with compliance of risk policies.

Administrative Processes of Risk Management

In accordance with their respective business models, each subsidiary of the financial sector of Grupo Aval has well defined structures and procedures, including manuals on administrative processes that must be followed for managing different risks. The entities use different technological tools, for the analysis, monitoring and control of the various risks.

Internal Audit

The internal audit units at each subsidiary of financial sector act under independent criteria and, in performance of their functions, carry out periodic independent compliance assessments of risk management policies and procedures followed by the entities for the managing of risks and environment controls. Reports are submitted directly to the audit committees, responsible for monitoring the risk to which they are exposed to and adopt corrective measures, if necessary.

In addition to the internal audit units at the financial sector subsidiaries, there is a corporate control unit which ensures the compliance of our financial sector subsidiaries with corporate policies. The corporate controller participates in the audit committees of the most significant subsidiaries. The corporate control unit performs periodic independent audits of Grupo Aval's subsidiaries to monitor their compliance with risk management policies. Its reports are presented directly to senior management at each of the subsidiaries and to the corresponding audit committees including the audit committee of the holding company.

Grupo BAC Credomatic

Grupo BAC Credomatic (hereinafter referred to as BAC) has its main operations located in Central America and is consolidated under Banco de Bogotá through its subsidiary Leasing Bogotá Panamá. BAC has its own policies, functions and risk management procedures, subject to approval and supervision by Banco de Bogotá.

Risk management and periodic risk surveillance are carried out through the following systems of corporate governance which were, established both at a regional level as well as in the countries where Grupo BAC operates: Committee of Integral Risk Management, Committee of Assets and Liabilities (ALCO), Committee of Compliance, Credit Committee, Investment Committee and Audit Committee.

Regarding credit risk management, BAC has a centralized structure, led by a Chief Risk Officer (CRO), who reports to the CEO of BAC. The Regional Credit Committee, whose members include the CEO and CRO of BAC, and members of the Corporate Risk Unit of Grupo Aval and Banco de Bogotá, is responsible for submitting credit policies and procedures at a regional level for the Board of Directors approval. This committee is responsible for monitoring the loan portfolio. The regional credit committee is also responsible for the final decision on loans exceeding the credit limits delegated to each individual country. While local risk managers report to the local head, observance of regional policies and procedures are reported to the CRO of BAC.

Regarding market risk, BAC manages an investment policy and asset and liability policy at a regional level, setting guidelines for establishing country and counterparty risk limits, as well as limits to foreign currency positions and guidelines for liquidity risk management, interest rate and exchange rate risks. The Regional Assets and Liabilities Committee, which is composed by members of BAC Board of Directors, is responsible for the establishment of regional risk management policies.

In accordance with these policies at BAC investment portfolio control management module, which documents the entire investment process on a daily basis. The monitoring of exposures is the responsibility of the Regional Financial Director through the local Assets and Liabilities Committees.

Operating Risk Management at BAC is carried out using the conceptual methodology of Basel II guidelines and the elements of The Committee of Sponsoring Organizations of the Treadway Commission (COSO). A centralized operating risk management unit ensures that there are in place policies to ensure a standardized treatment of operating risks including methodologies for the timely recognition of the principal exposures, the ownership of operational risks by functional units, accountability throughout the organization and effective procedures to collect information on operational losses. The centralized operating risk committee is also responsible for implementing an effective business continuity plan.

Non-financial Subsidiaries

With the objective of strengthening the second line of defense for its risk management and internal control, as well as to expand the scope of its oversight to non-financial subsidiaries, the Government, Risk and Compliance (GRC) Vice Presidency was created in Corficolombiana and with the intent of upgrading the design of methodologies, risk management and compliance reports as well as their subsequent implementation in the non-financial subsidiaries was launched. This activity is currently under development and includes subsidiaries in the infrastructure and energy and gas sectors.

The Board of Directors of each subsidiary has the faculty to establish guidelines in terms of risk policies and risk monitoring processes. For companies falling within the non-financial sector that are part of Corficolombiana's equity investment portfolio, each entity will coordinate the implementations of risk management systems in line with those of Corficolombiana, based on the good practices established by law and those found in the Corficolombiana and Grupo Aval polices.

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Moreover, Corficolombiana must ensure that, controlled non-financial sector subsidiaries follow Grupo Aval's guidelines of Grupo Aval in relation to risk management.

Control Environment

The risk management model of financial subsidiaries, has a control environment that allows the adequate management control for the relevant risks related to the business of each subsidiary and provides an integrated view of them. The risk management is carried out in all business segments and for each type of risk in order to ensure that the exposures and the general risk profile are within the framework of the mandates established by both the Board of Directors and the regulators of each of the markets in which subsidiaries operate. The main elements that ensure effective control for the risks are:

- The assignment of responsibilities in risk-generating functions through decision-making and due control of their activity;
- Specialized control of each risk factor;
- The supervision of relevant risks;
- The assessment of control mechanisms; and
- Independent assessment by internal audit.

Grupo Aval, promotes a culture of risk management that reaches all the entities, whether they are financial or non-financial. This enables non-financial entities to benefit from the application of the best practices adopted by the financial subsidiaries.

Following the announcement of the quarantines by the Colombian and Central American Governments in connection with coronavirus, we implemented work from home policies for a large majority of our employees, applying business continuity policies and specific information technology protocols. For this purpose, we designed protocols to ensure capacity, availability and security of VPN services, expanded bandwidth in our employees' homes, strengthened security of email services and remote access to data stored in the internal network, among others. Controls on data encryption of communications, critical files and devices, dual factor authentication, application virtualization, security operations center (SOC) detection reporting, and data loss prevention (DLP) monitoring were also reinforced. Additionally, we strengthened awareness campaigns intended to prevent smishing, phishing and vishing attacks on our employees and customers.

Regarding internal control over financial reporting, mechanisms were established to identify changes in processes in order to allow business continuity in our financial subsidiaries. Treasury departments are currently operating from home in compliance with Superintendency of Finance and Securities Market Self Regulator Corporation (AMV) standards, without it affecting controls on the accounting record of the transactions. A recurring change in the execution of controls corresponds to the preparation of electronic evidence rather than physical evidence, especially evidence of approvals. The process of generating financial reporting has not presented any significant changes or inconveniences regarding its presentation or transmission.

Continuing risk analysis and controls on expected credit losses (ECL) are being carried out. Due to the volume of changes in credit conditions in connection with reliefs and payment extensions granted to customers, changes in information systems could involve lessening certain processes to provide agile responses. To avoid the materialization of risks of error in these changes, dual controls have been set in place by our banks. Due to quarantines we granted vacation to some of our employees with non-critical responsibilities, accordingly some non-material controls may be performed later than usual.

New Risk Framework by the Superintendency of Finance (SFC)

On February 6, 2019, the national government, through Colombian Law 1870 of 2017, defined the regulation of the financial conglomerates in Colombia and the scope of supervision of the Superintendency of Finance, with the purpose of ensuring the stability of the financial system and taking the Supervision to international standards.

This law defined the category of financial holding and financial conglomerates. Additionally, it granted the Colombian government the power to (i) establish adequate capital requirements for financial conglomerates (ii) establish criteria to identify related parties of the financial conglomerate and the disclosure and management of conflicts of interest in transactions with related parties, and (iii) establish concentration and risk exposure limits at the conglomerate level. In addition, it grants SFC the faculty to (i) establish conditions for adequate risk management, conflict of interest management, corporate governance, disclosure and internal control and (ii) exercise a comprehensive and consolidated function over financial conglomerates.

In order to comply with Colombian Law 1870 of 2017, the National Government issued the following regulations:

- Decree 774 of May 8, 2018, establishes the requirement of adequate level of capital for the financial conglomerate. Financial conglomerates are required to have a capitalization level in excess of the sum of the minimum capital requirements of it financial subordinates. The decree establishes the basis for determining the appropriate levels of capital. Decree 774 of 2018 established a transition period of 18 months, which ended on November 8, 2019. The first report to the Superintendency of Finance of Colombia was made on February 28, 2020 with the consolidated financial statements as of December 31 of 2019. This decree was further developed by the External Circular 012 of 2019 issued by the Superintendency of Finance.

- Decree 1486 of August 6, 2018, which established the criteria to determine the quality of affiliates, exposure limits, concentration of risks and conflicts of interest of financial conglomerates. This decree had a transition period of 18 months which ended on February 6, 2020.

- External Circular 013 of June 20, 2019 issued by the Superintendency of Finance, through which the Financial Conglomerate Risk Management Framework was established, states that the implementation period expires on June 20, 2021 except for the definition of guidelines that allow an integral reading and presentation of the information risk of financial conglomerates which has a term until June 20, 2022 extendible for two additional years, by reasoned request.

On February 6, 2019, the Superintendency of Finance through resolution No. 0155 identified the financial holding and the entities that make up the Aval Financial Conglomerate, which as of that date is subject to inspection and surveillance.

In addition to the new rules for financial conglomerates, on August 6, 2018, the national government issued Decree 1477 by means of which it established the new requirements for adequate equity of credit institutions, as part of the process of convergence to Basel III which seeks to increase both the quality and the amount of capital of credit institutions, in order to avoid excess leverage and provide greater coverage to the risks assumed by them. This regulation had a transition period of 18 months, however, the term of this Decree was modified until January 2021, through the decree 1421 of 2019.

Decree 1477 of 2018 establishes, the parameters for calculating risk-weighted assets, capital conservation buffers and systemic risk buffers are determined for national banks that are systematically important that will be gradually introduced over a period of four years.

Finally, the regulatory project of the SFC that will define a new risk framework "SIAR" (for the initials in Spanish - Comprehensive Risk Management System) is in progress. The objective of this framework is to implement and build robust risk management within organizations, with the necessary controls to operate properly and define policies and procedures in an effective and clear manner that allow to:

- Identify, measure, control and monitor all the risks of the company as a whole and in each of its business units,
- Establish clear information and communication policies;
- Establish a continuous training program in risk management at all levels of the company;
- Generate a strong risk culture in which anticipation of key macroeconomic and financial variables is presented;
- Have strong ethical values and integrity at all levels of the company;
- Clearly defined organizational structure; and
- Establish the risk appetite "MAR" (Risk appetite framework).

SIAR will include at least the following risks, which must be managed by companies with a comprehensive vision:

- Credit;
- Market;
- Liquidity;
- Operational;
- Country; and
- Counterparty.

Risk management

The guiding principles of risk management at Grupo Aval and our banks are the following:

- Collective decision making for commercial loans of significant amount at the board level of each of our banks;
- Extensive and in-depth market knowledge, the result of our market leadership and our experienced, stable and seasoned senior management;
- Clear top-down directives with respect to:

i. Know-your-customer policies; and

ii. Commercial loan credit structures based on the clear identification of sources of repayment and on the cash-flow generating capacity of the borrower;

- Use of common credit analysis tools and loan pricing tools across all our banks;
- Diversification of the commercial loan portfolio with respect to industries and economic groups;
- Specialization in retail banking product niches;

- Extensive use of continuously updated rating and scoring models to ensure the growth of high-credit quality consumer loans;
- Use of our extensive market presence in the identification and implementation of best practices for operational risk management; and
- Conservative policies in terms of:

i. The trading portfolio composition, with a bias towards instruments with lower volatility;

ii. Proprietary trading; and

iii. The variable remuneration of trading personnel.

Risk Culture

Our Internal Control System contributes to the achievement of the objectives of each entity, while ensuring that all its operations and activities are carried out in accordance with internal regulations and the regulations applicable to each of our subsidiaries. Grupo Aval is committed to a solid Internal Control System that guarantees the sustainability and permanence of Grupo Aval's businesses over time. The Board of Directors of our main subsidiaries through their Audit Committees must periodically review the elements and components of the system in order to develop the necessary corrective measures and improvements and the application of new national and international standards that regulate the matter. Our Internal Control System is designed to ensure compliance with the standards and practices that are applicable in Colombia and the United States, such as the Sarbanes-Oxley Act, the requirements of the SEC and other norms and principles that regulate the Internal Control and its disclosure in both markets, especially those contained in COSO 2013 and their respective updates that are applicable to us.

Grupo Aval's risk culture is based on the principles indicated in the section above. It is conveyed to all of our entities and units and is backed by the following guidelines:

- Our risk management is independent and monitored both at the individual entities level and at consolidated level.
- In order to delegate power, our structure requires that transactions of a significant size be sent to decision-making centers, such as the risk or credit committees. The frequency of meetings held by these committees ensures proposals are resolved quickly and guarantees that senior management is constantly involved in managing commercial credit risk.
- We have detailed manuals on actions and policies for risk management.
- We have implemented a risk limit system that is updated on a regular basis to address new market conditions and risks to which we are exposed.
- We have implemented adequate information systems to monitor risk exposure on a recurring basis, ensuring the approval limits are systematically met and, if necessary, allowing for appropriate corrective action.
- The main risks are analyzed not only when they arise or when problems occur during the normal course of business, but also on a permanent, ongoing basis.
- We offer adequate and ongoing training on our risk culture, at every level within the organization.

The Board of Directors is responsible, as part of its general supervisory function, of approving the appointment of the person responsible for the compliance function, as well as for its framework and its development policies. In addition, the

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Board of Directors is in charge of Grupo Aval's general code of conduct and the frameworks developed by the compliance function.

The person responsible for the compliance function reports to the Board of Directors or its committees on a quarterly basis.

Unless otherwise indicated, risk management figures for Banco de Bogotá consolidate financial data from LB Panamá, including BAC Credomatic. BAC Credomatic has in place its own risk management controls for credit risk, market risk and operational risk.

Individual Risk Analysis

Credit Risk

The credit-risk management process at all our banks in Colombia takes into consideration the requirements of the Superintendency of Finance, the guidelines of Grupo Aval credit-risk management and the composition of each of the bank's loan portfolio, which, in turn, is the result of the execution of each bank's strategy. See Note 4 to our audited consolidated financial statements.

Commercial Lending

55.82% of our total gross loan portfolio is composed of commercial loans to corporate and small and medium sized enterprises. However, the share of commercial loans varies in each of our banks. At December 31, 2019, the proportion of commercial loans was 58.53%, 71.37%, 36.21%, 24.23% and 79.21% at Banco de Bogotá, Banco de Occidente, Banco Popular, Banco AV Villas and Corficolombiana, respectively.

The credit approval process for commercial loans at each of our banks follows the policies and lending authorities established by each banking subsidiary. The highest lending authority at all banks, other than the board of directors, is the national credit committee (*Comité Nacional de Crédito* at Banco de Bogotá and Banco AV Villas, *Comité de Crédito Dirección General* at Banco de Occidente and *Comité de Presidencia* at Banco Popular), which has lending limits that range between Ps 6.0 billion (approximately U.S.$1.83 million) at Banco AV Villas and Ps 30.0 billion (approximately U.S.$9.15 million) at Banco de Bogotá.

Following the approval of an application by the national credit committee of any of our banks, information regarding the loan is sent to the Grupo Aval risk management unit if the loan would result in aggregate exposure to the borrower in excess of Ps 5.0 billion (approximately U.S.$1.53 million). The credit approval process includes the presentation to Grupo Aval's credit committee of all potential credit exposures per client (or client's economic group) that, across all of our banks, represent an exposure in excess of Ps 30.0 billion (approximately U.S.$9.15 million), or if it is considered to be part of a vulnerable sector. Exceptions can be made depending on the risk parameters defined by Grupo Aval's credit committee. This committee, which is composed of the vice presidents of credit of each of our banks and the credit risk management staff of Grupo Aval, meets on a weekly basis to discuss general developments in the industry and economy, risks and opportunities, and the structure of credit transactions, as well as to consult on and evaluate potential business opportunities.

The committee consolidates requests for loans across all banks and evaluates our total exposure to potential borrowers. In each case, the committee evaluates the relevant bank's application of its credit analysis policy and it may make recommendations with respect to the structure of the loan (such as guarantees, interest rates, commissions and covenants). The credit committee will then submit to Grupo Aval's advisory board those transactions which represent a significant exposure or have exceptions to credit and pricing policies.

The Grupo Aval advisory board, which is chaired by the president of Grupo Aval and composed of the presidents of our banks and financial sector subsidiaries, with the attendance of the risk vice presidents of Grupo Aval and of our banks, regularly meets twice per month to discuss the adoption of risk management policies and how to meet the needs of major corporate and institutional clients, as well as to advise the Grupo Aval banks with respect to matters related to credit risk. The advisory board also evaluates credit applications submitted to it by Grupo Aval's credit risk management committee and makes recommendations to the banks with respect to such loans. The boards of directors of the banks make the final decisions with respect to such applications. In order to facilitate the analysis of commercial loan applications which meet the threshold and are thus reviewed by Grupo Aval, we have developed certain tools, including a standardized "P*royecto de crédito"*.

We seek to achieve a profitable, high-quality commercial loan portfolio and an efficient procedure for analyzing potential loans across our banks. For that purpose, we have established policies and procedures for the analysis and approval of potential commercial credit transactions that seek to focus lending on the following principles:

- Borrowers whose shareholders and management are, in our opinion, of the highest integrity (taking into account not only an analysis of the borrower's credit profile but also their reputation in the business community and other factors);
- Clearly identified and quantified primary and secondary sources of repayment, with a bias towards operational cash flow;
- Borrowers which participate in key industries;
- Borrowers which are leaders or major players in the industries in which they participate;
- Transaction structures, including covenants and guarantees, which provide adequate protection; and
- Pricing which compensates adequately for capital invested and the market and credit risks incurred.

As part of our commercial banking activity, we make loans to public sector entities. For purposes of evaluating the extension of credit to public sector entities, our banks follow three criteria: (i) the loan must be used to finance an investment that has been approved by local authorities; (ii) a source of repayment, primarily tax revenues, must be clearly identified; and (iii) the source of repayment so identified must be pledged to secure the loan.

Consumer Lending

Consumer lending represented 32.9% of the total gross loan portfolio at December 31, 2019; however, the participation and specialization by product varies in each of our banks. At December 31, 2019, Banco Popular's consumer lending represented 59.06% of the total gross loan portfolio and was concentrated mainly in payroll deduction loans (*libranzas*), a product in which it is the leader in Colombia. At Banco AV Villas and Banco de Bogotá, consumer lending represented 55.9% and 28.3% of their total gross loan portfolio, respectively. At Banco de Occidente, 23.3% of the total gross loan portfolio consisted of consumer loans, with motor vehicle financing representing 23.9% of the consumer loan portfolio. At Corficolombiana, 20.3% of total gross loans were consumer loans granted primarily by Promigas and its subsidiaries to residential gas utility users.

The credit approval process for consumer loans at each of our banks follows the policies and lending authorities established by each bank. The highest consumer lending authority at all banks, other than the board of directors, is the national consumer credit committee where the highest lending limits are Ps 1.95 billion (approximately U.S.$0.6 million).

For consumer banking, each bank has developed risk models designed to take into consideration the product offering. Banco Popular, for which payroll deduction loans represent 96.8% of the consumer loan portfolio, has developed a business model which concentrates its analysis on the credit and operational risks of the payee (the employer) supported with statistical origination and behavior models. Banco AV Villas is the bank with the most diversified consumer loan portfolio. After being exclusively a mortgage lending institution until 2000, it has developed different niches in consumer lending. The fast growth of consumer lending with above average credit quality has been the result of the development of in-house statistical origination and behavior models and the development of a multiple view vintage analysis tools, which have allowed the sale of consumer loan products to the lower income population, which is a more profitable customer segment in which relatively few banks compete. Banco de Bogotá has a full-service consumer loan portfolio of credit cards, personal loans, automobile loans and overdrafts.

Mortgage Lending

Mortgage lending represented 11.1% of the total gross loan portfolio at December 31, 2019, compared to 10.5% as of December 31, 2018, with Banco AV Villas and Banco de Bogotá being the largest contributors to this increase. At Banco AV Villas mortgage lending represents 19.9% of its total gross loan portfolio.

Banco de Bogotá's consolidated mortgage lending represents 12.9% of its total gross loan portfolio as of December 31, 2019. In Central America, the mortgage portfolio represented 19.6% of the total gross loan portfolio in 2019.

In order to ensure an adequate mortgage loan portfolio quality, Banco de Bogotá and Banco AV Villas have developed statistical models for the origination and follow-up on new mortgage loans, which has resulted in a very low past due to total loan ratios for recently originated loans.

Microcredit Lending

Microcredit loans represented 0.2% of the total gross loan portfolio at December 31, 2019.

Credit Classification and Provisioning

Our banks continually engage in the determination of risk factors associated with their credit-related assets, through their duration, including restructurings. For such purposes, they have designed and adopted the *Sistema de Administración de Riesgo de Crédito* (credit risk administration system), or "SARC", (for its initials in Spanish) in accordance with Superintendency of Finance guidelines. The SARC has integrated credit policies and procedures for the administration of credit risks, models of reference for the determination and calculation of anticipated losses, allowances for coverage of credit risks and internal control procedures.

Our banks are required to classify the loan portfolio in accordance with the rules of the Superintendency of Finance, which established the following loan classification categories: "AA", "A", "BB", "B", "CC" and "Default", depending on the strength of the credit and its past due status.

Each bank reviews outstanding loan portfolio components under the above-mentioned criteria and classifies individual loans under the risk-rating categories below on the basis of minimum objective criteria, such as balance sheet strength, profitability and cash generation capacity. The classification of new commercial loans is made on the basis of these objective criteria. The criteria are also evaluated on an ongoing basis, together with loan performance, in reviewing the classification of existing commercial loans.

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Category	Approval	Commercial loan portfolio	Consumer loan portfolio
"AA"	New loans with risk rating at approval of "AA"	Outstanding loans and financial leases with past due payments not exceeding 29 days (i.e., between 0 and 29 days past due). The debtor's financial statements or its projected cash flows, as well as all other credit information available to the financial subsidiaries, reflect excellent paying capacity.	Loans whose risk rating is "AA" according to the methodology of the Consumer Reference Model, or "MRCO", as established by the Superintendency of Finance
"A"	New loans with risk rating at approval of "B"	Outstanding loans and financial leases with delayed payments in excess of 30 days but not exceeding 59 days (i.e., between 30 and 59 days past due). The debtor's financial statements or its projected cash flows, as well as all other credit information available to the financial subsidiaries, reflect appropriate paying capacity.	Loans whose risk rating is "A" according to the methodology of the MRCO as established by the Superintendency of Finance
"BB"	New loans with risk rating at approval of "B"	Outstanding loans and financial leases past due more than 60 days but less than 90 days (i.e., between 60 and 89 days past due). Loans in this category are acceptably serviced and collateralized, but there are weaknesses which may potentially affect, on a transitory or permanent basis, the debtor's ability to pay or its projected cash flows, to the extent that, if not timely corrected, would affect the normal collection of credit or contracts.	Loans whose risk rating is "BB" according to the methodology of the MRCO as established by the Superintendency of Finance
"B"	New loans with risk rating at approval of "C"	Outstanding loans and financial leases past due over 90 days but less than 120 days (i.e., between 90 and 119 days past due). The debtor shows insufficient paying capacity of its obligations.	Loans whose risk rating is "B" according to the methodology of the MRCO as established by the Superintendency of Finance
"CC"	New loans with risk rating approval of "C"	Outstanding loans and financial lessees past due more than 120 days but less than 150 days (i.e., between 120 and 149 days past due). Loans in this category represent grave insufficiencies in the debtors' paying capacity or in the project's cash flow, which may compromise the normal collection of the obligations.	Loans whose risk rating is "CC" according to the methodology of the MRCO as established by the Superintendency of Finance
"Default"	–	Outstanding loans and financial leases past due for 150 days or more. This category is deemed uncollectible. These loans are considered in default.	Consumer loan portfolio past due over 90 days

For new consumer loans, the banks use their internal statistical origination models to develop an initial classification category ("AA", "A", "BB", "B" and "CC"). Once the loan is disbursed, the banks use formulas provided by the Superintendency of Finance, which incorporate payment performance of the borrower to calculate a score which in turn is used to determine the loan classification.

For financial leases the risk categories are established in the same manner as commercial or consumer loans.

For separate financial statement reporting purposes under Colombian IFRS, the Superintendency of Finance requires that loans and leases be given a risk category on the scale of "A", "B", "C", "D" and "E". As a result, the risk classifications are aligned to the risk categories as follows.

Risk category – Superintendency of Finance	Risk classification – Banks	
	Commercial	Consumer
“A”	“AA”	“AA”
		“A” – between 0 and 30 days past due
“B”	“A”	“A” – more than 30 days past due
	“BB”	“BB”
“C”	“B”	“B”
	“CC”	“CC”
“D”	“Default”	“Default” – all past due loans not classified in “E”
“E”	“Default”	“Default” – past due loans with a Loss given default (LGD) of 100% (1)

(1) LGD is defined as a percentage to reflect the credit loss incurred if an obligor defaults. LGD for debtors depends on the type of collateral and as a percentage would gradually increase depending on the number of days elapsed after being classified in each category.

For our mortgage and microcredit loan portfolios the risk categories in effect at December 31, 2019, based on past due status, are as follows.

Category	Microcredit	Mortgage
“A” Normal Risk	In compliance or up to date and up to 30 days past due	In compliance or up to 60 days past due
“B” Acceptable Risk	Past due between 31 and 60 days	Past due between 61 and 150 days
“C” Appreciable Risk	Past due between 61 and 90 days	Past due between 151 and 360 days
“D” Significant Risk	Past due between 91 and 120 days	Past due between 361 and 540 days
“E” Uncollectable	Past due over 120 days	Past due over 540 days

Loss allowance

Grupo Aval’s banks regularly review their loan portfolio to evaluate its impairment; while determining if an impairment should be registered with charge to results of the year, management performs judgments for determining if there are observable data indicating a decrease in the estimated cash flow of the loan portfolio before the decrease in such flow may be identified for a particular loan of the portfolio.

The provision calculation process includes analysis of specific, historical and subjective components. The methodologies utilized by our banking subsidiaries include the following elements:

- A detailed periodic analysis of the loan portfolio.
- A credit classification system by risk levels.
- A periodic review of the summary of loss allowances.
- Identification of loans to be evaluated individually due to impairment.
- Consideration of internal factors such as size, organizational structure, loan portfolio structure, loan administration process, analysis of overdue portfolio and experiences of historical losses.
- Consideration of risks inherent to different types of loans.
- Consideration of external factors, including local, regional and national, as well as economic factors.

For credits individually considered as significant and impaired, the amount of the loan loss allowance is calculated using the discounted cash flow method. Management of each financial entity makes assumptions regarding the amount to be recovered for each client and the time in which such amount will be recovered. During the calculation of allowances for credits considered individually as significant and impaired, based on their guarantee, management performs estimates of the fair value of such guarantees with the aid of independent expert appraisers.

For loans not considered individually significant, or for those credits individually significant but not impaired, loan loss allowances are calculated collectively using the historical loss rate, periodically updated data reflecting current economic conditions, performance trends of the industry, geographic concentrations of debtors within each portfolio of the segment and any other pertinent information that may affect the repayment. Grupo Aval's banking subsidiaries also determine whether the credit risk (i.e., risk of default) of a financial instrument has increased significantly since initial recognition. They consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on their historical experience, expert credit assessment and forward-looking information.

For quantifying expected credit losses in portfolios evaluated collectively the banking subsidiaries of Grupo Aval have calculation methodologies that take into account three fundamental factors: exposure, probability of default and loss given default.

- Exposure at default – "EAD" is the principal amount owed at the time of payment default of the borrower

- Probability of default – "PD" is the probability that the counterpart defaults in its payment obligations of capital and/or interest. The probability of default is associated to the rating/scoring or level of delinquency of the borrower. When a financial instrument's credit risk has increased significantly since initial recognition, a PD for the remaining life of the credit (PD-lifetime) is used, while a PD for the next 12 months is used when the credit risk has not increased significantly.

- Loss given default – "LGD" is the estimate of a loss in case a payment default occurs taking into consideration the guarantees and the corresponding appraisal.

Changes in economic conditions are reflected in macroeconomic scenarios and their impact applied by our banks. The recent COVID-19 outbreak has led to changes in expected economic conditions that still involve a high degree of uncertainty. We develop estimates based on the available information about past events, current conditions and forecasts of economic conditions. Accordingly, the effects of the coronavirus itself and the relief measures undertaken by the governments including among those, instructions to credit institutions to provide relief measures to customers in the countries where we operate, have an important role in ECL assessment. As a result, extension of payment to borrowers in particular classes of financial instruments should not automatically result in those instruments being considered to have suffered a significant increase in credit risk (SICR).

Given that the current social and economic environment is subject to rapid change, updated facts and circumstances will continue to be monitored as new information becomes available. If the effects of COVID-19 cannot be reflected in models, post-model overlays or adjustments could be considered.

Through the issuance of External Circular 007 of March 17, 2020 (*Circular Externa 007 del 17 de marzo de 2020*) the Superintendency of Finance adopted transitory prudential instructions to mitigate the effects of the current economic context and the State of Emergency declared by the National Government on borrowers of the financial system. These instructions included, among others: (i) the establishment of policies to identify clients subject to relief measures, (ii) payment extensions taking into consideration each client's situation for loans that were not past due for more than 30 days as of February 29, 2020 (without an increase in credit risk) and, (iii) client classification under its risk category as of February 29, 2020 (credit scores reported to credit bureaus will remain unaltered for the duration of the extension period).

Moreover, according to External Circular 014 of March 30, 2020 (*Circular Externa 014 del 30 de marzo de 2020*), the Superintendency of Finance established additional measures in order to protect clients under relief. Such measures included the following: interest rates shall not be increased, interest rates shall not include the possibility of capitalizing interests and the prohibition to collect interests on other related fees, commissions or insurances, among others.

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Furthermore, payment extensions were adjusted to include loans that were past due between 30 days and 60 days as of February 29, 2020 (without an increase in credit risk).

Central American Governments (excluding Nicaragua) have also adopted measures aimed at mitigating the negative effect of coronavirus in their local economy, including regulation for the extension on tax returns and payments, temporary suspension of bank loan payments, reduction and/or freezing of interest rates, without negative consequences on credit scores or payment records. Panama, Costa Rica and Guatemala have implemented further measures such as economic aids to individuals directly affected by the economic crisis resulting from the spread of coronavirus in their countries.

Similar to the actions taken to grant reliefs to debtholders by our banks in Colombia, BAC announced various actions to lessen the effects of the pandemic. A 60 to 90-day installment relief was authorized in retail portfolios in Guatemala, Honduras, El Salvador, Costa Rica and Panama. Nicaragua was not part of the relief effort. Retail portfolios consist of credit cards, mortgages, auto, personal loans and some small and medium enterprises. The installments will be deferred and collected in the future without any fee or penalty. Commercial and Corporate clients have received reliefs on a case by case basis. Such reliefs include payments deferrals of principal and/or interest for up to six months, depending on the client's economic activity and the extent to which they were affected.

Liquidity Risk

Grupo Aval and its financial subsidiaries liquidity management is aimed at minimizing liquidity risks and ensuring the short-term fulfilment of their main funding requirements, while balancing the tradeoff between coverage of structural exposures and cost. The financing and liquidity models are decentralized and based on the autonomous management of each subsidiary. However, liquidity risk policies at the financial subsidiaries are compliant with guidelines established by the Superintendency of Finance. These guidelines require Grupo Aval's Colombian financial subsidiaries establish a liquidity risk management system (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 needs, adjust minimum liquidity buffers and establish liquidity contingency plans to deal with unexpected situations. Grupo Aval, as a holding company, is not required to maintain minimum liquidity positions.

Grupo Aval's Colombian banking subsidiaries and Corficolombiana must maintain cash in hand and restricted in banks to comply with the requirements of the Central Bank of Colombia and the Superintendency of Finance. These funds are part of reserve requirements and are calculated over the daily average of the different customer deposits. Prior to April 22, 2020, this requirement stood at 11% on demand and saving deposits, while time deposits with a term up to 18 months, had a 4.5% reserve requirement. For time deposits with tenors exceeding 18 months, the reserve requirement was 0%. Starting on April 22, 2020, this requirement is 8% on demand and saving deposits, and 3.5% for time deposits with a term up to 18 months. For time deposits with tenors exceeding 18 months, the reserve requirement remained at 0%.

By this means, liquidity will be provided for the acquisition of solidarity notes pursuant to Decree 562 issued on April 15, 2020. See "Item 4. Information on the Company—B. Business overview—Supervision and regulation—Mandatory investments" for more information.

Moreover, financial subsidiaries controlled by Grupo Aval 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 7 and 30 day liquidity. This index is defined as the difference between adjusted liquid assets and net liquidity requirements:

- Liquid assets include (i) debt securities adjusted by market liquidity and exchange rate, excluding investments classified as "held to maturity", different from mandatory investments, (ii) Central Bank deposits, and (iii) available cash.

- Net liquidity requirements result from the difference between expected contractual asset and contractual and non-contractual liability cash flows. Cash flows from loans past due more than 30 days are not included in this calculation.

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During 2019, and as part of the convergence towards Basel III standards, the Superintendency of Finance incorporated run-off rates in the calculation of non-contractual liability cash flows. The methodology segments demand and savings deposits into eight categories, according to their balance and the type of customer, then computes the run-off rate for each category, and finally multiplies both to compute the non-contractual reserve.

The run off rate applied to each category is defined as the median calculated from: (i) the run off rate determined by the Superintendency of Finance, (ii) the 0 percentile (maximum run off rate), and (iii) the 5th percentile. This series is constructed based on the percentual changes in balances and is calculated as the daily percentage change on client balances in a 30 calendar day window, presented by each entity, using its information between January 1, 2011 and the last business day of the week immediately before the date of the liquidity risk report, expressed in absolute terms.

According to the updated methodology, the IRL for 7 and 30 days decreased for all our Colombian banking subsidiaries and Corficolombiana, as compared to the previous methodology. However, the liquidity units of the financial subsidiaries have worked to measure the future impacts on the index considering the economic and commercial environment. During 2019, Grupo Aval's financial subsidiaries in Colombia have maintained adequate levels of high-quality liquid assets to meet the 30-day liquidity requirements, according to the methodology of the Superintendency of Finance. There is no evidence of a liquidity risk threat in the near future.

Although BAC Credomatic is not subject to Colombian regulation on liquidity risk, their internal liquidity risk framework is designed to provide an adequate liquidity management, in compliance with regulation in each of the countries where BAC Credomatic operates.

The following tables show the consolidated IRL Ratio at December 31, 2019 and 2018 for each of our banks in Colombia and Corficolombiana, expressed in Ps billions and as a percentage.

	At December 31,									
	Banco de Bogotá		Banco de Occidente		Banco Popular		Banco AV Villas		Corficolombiana	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	(in Ps billions)									
IRL – 7 days	9,128	10,370	5,372	5,245	2,197	3,305	1,489	585	1,238	1,725
IRL – 30 days	2,142	8,893	3,408	4,186	543	2,506	573	386	971	1,304

	At December 31,									
	Banco de Bogotá		Banco de Occidente		Banco Popular		Banco AV Villas		Corficolombiana	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	(in percentages)									
IRL – 7 days	488	1,930	937	884	529	1,143	617	207	402	656
IRL – 30 days	123	535	231	342	125	324	148	152	243	278

The gradual convergence of capital and liquidity requirements towards Basel III standards will continue in 2020. During the first quarter of 2020, the Colombian financial subsidiaries will have to comply with the net-stable-funding-ratio (in Spanish: *CFEN: Coeficiente de Financiación Estable Neto*). The CFEN is the core indicator used for the management of financing, which is defined as the amount of stable financing available over the amount of stable financing.

See additional information required by IFRS in Note 4 of the audited consolidated financial statements - Liquidity risk

Market Risk Management

Market risk management focuses in probability of changes in the value of the investment's portfolios due to fluctuations in financial instruments' prices. Market risk management systems are composed of a set of policies, procedures and controls in order to identifying, measure, monitoring and controlling the sources of risk.

Grupo Aval, as a financial holding, does not have material market risk but it monitors and oversees market risk at a consolidated level through reports received from its financial subsidiaries in charge of managing their own market risk.

The financial subsidiaries present substantial market risk, primarily as a result of banks' lending, trading and investment businesses. The primary sources of market risks to which financial subsidiaries are exposed are: interest rate risk, foreign exchange rate risk, variations in stock price risk and investment fund risk:

- Interest rate risk: As a result of mismatches between interest-rate-sensitive assets and liabilities, subject to any hedging we have engaged in using interest rate swaps or other off-balance sheet derivative instruments. Interest rate risk arises in connection with both trading and non-trading activities.

- Foreign exchange rate risk: As a result of mismatches between assets and liabilities, and off-balance sheet items denominated in foreign currencies.

- Variations in stock price risk: In connection with investments in equity securities, including our merchant banking investments.

- Investment fund risk: Primarily from investments in mutual funds.

Grupo Aval and financial subsidiaries' respective boards of directors, through their risk management committees, are responsible for establishing policies, procedures and limits with respect to market risk. These committees also monitor overall performance considering the risks assumed. These policies and procedures describe the control framework used by Grupo Aval and its financial subsidiaries to identify, measure and manage market risk exposures inherent in financials activities. The main purpose of these policies and procedures is to set limits on risk. All risk managers within Grupo Aval must ensure that each business activity is performed in accordance with the policies established by the relevant financial subsidiary. These policies and procedures are followed in market risk decision-making in all business units and activities. Financial subsidiaries have established a *Sistema de Administración de Riesgos de Mercado*, or SARM (for its initials in Spanish), a market risk management system which meets the requirements of the Superintendency of Finance and each one is responsible for setting limits and monitoring market risk.

Market risk management personnel at Grupo Aval and financial subsidiaries are responsible for the following:

- Identification, measurement, management and control of the market risk exposures inherent in their businesses;

- Analyzing exposures under stress scenarios;

- Confirming compliance with applicable risk management policies, reporting violations of such policies, and proposing new ones;

- Designing of methodologies for valuing securities and financial instruments; and

- Reporting daily to senior management as to the levels of market risk associated with trading instruments.

Financial subsidiaries hold trading and non-trading instruments which are classify in the treasury or banking book, according with the strategy and the nature and risks of financial instruments.

Trading Instruments

Trading instruments include positions in financial instruments acquired to take advantage of current and/or expected differences between purchase and sale prices. As a result of trading fixed rate and floating rate securities, equity securities, investment funds and foreign exchange, Grupo Aval and its financial subsidiaries are exposed to interest rate, variations in stock prices, investment fund and foreign exchange rate risks, as well as volatility risk when derivatives are used. Financial subsidiaries trade foreign exchange, fixed income instruments, including fixed and floating rate securities, and basic derivative instruments (forwards, options, cross currency swaps and interest rate swaps).

Market risk departments use value at risk, or "VaR", to measure their exposure to market risk in trading instruments. VaR is an estimate of the expected maximum loss in market value of a given portfolio over a time horizon at a specific confidence interval, subject to certain assumptions and limitations discussed below.

VaR models have inherent limitations, including the fact that they rely on historical data, which may not be indicative of future market conditions or trading patterns. As a result, VaR models could overestimate or underestimate the value at risk and should not be viewed as predictive of future results. Furthermore, it can be possible to incur losses materially in excess of the amounts indicated by the VaR models on a specific trading day or over a period. VaR does not calculate the greatest possible loss. In addition, VaR models are subject to the reasonable judgment of market risk management's personnel.

As described below, financial subsidiaries measure interest rate risk, foreign exchange risk, variations in stock price risk and investment fund risk in accordance with VaR models. They use two types of approaches to measure VaR: (1) internal VaR models and (2) regulatory VaR.

Internal VaR

Financial subsidiaries use internal models to manage market risk. Parameters are set to adapt to the evolution of volatility of the risk factors over time using statistical methods to estimate them. Internal VaR models usually give more weight to recent data in the moment of calculations to reflect actual market conditions. The corporate governance bodies of the financial subsidiaries set limits based on this VaR measure in order to control the market risks. Parametric VaR and historical simulation methodologies are also used.

Each financial subsidiaries' board of directors, assets and liabilities committee and/or risk management committee establishes the maximum VaR for each type of investment and for each type of risk using their own internal VaR models as well as the Superintendency of Finance methodology. Financial subsidiaries use VaR estimates to alert senior management whenever the statistically estimated losses in the banks' portfolios exceed pre-established levels. Limits on VaR are used to control exposure on a portfolio-by-portfolio basis.

In order to strictly control the trading portfolios, each entity has limits for every risk factor. To determine the limits, the impact of the variation (DV01 change in monetary value caused by a variation of 1 basis point) in each asset class is considered. These risk limits are validated through stress testing based on historical extreme scenarios.

Regulatory VaR

The Regulatory VaR calculation is primarily used for the Superintendency of Finance's capital ratio (solvency ratio) calculations and the methodology is based on the Basel II model.

This model applies only to the banks' investment portfolio and excludes investments classified as "held to maturity" and other specific non-trading positions included in the "Available for sale" portfolios. 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 policy issues require to 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 volatilities 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. Moreover, the Superintendency of Finance has not made publicly available technical information on how it determines the volatilities used in this model, and only limited information is available. The volatilities used in the Superintendency of Finance's model are of a magnitude similar to those observed in very high volatility or stress periods.

The VaR calculation for each parent company is the aggregate of the VaR of the parent and its financial subsidiaries.

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Interest Rate Risk

Financial subsidiaries' exposure to interest rate risk in their trading portfolios primarily arises from investments in securities (floating and fixed rate) and derivative instruments. In accordance with the Superintendency of Finance rules, financial subsidiaries calculate interest rate risk for positions in pesos, foreign currency and UVRs separately. UVR is a Colombian inflation-adjusted monetary index calculated by the board of directors of the Colombian Central Bank and generally used as an alternative for pricing floating rate home-mortgage loans. The interest rate risk model is designed to measure the risk of losses arising from changes in market interest rates. It includes the sum of the net short or long position in the whole trading book, a proportion of the matched positions in each time band (vertical disallowance) and a proportion of the matched positions across different time bands (horizontal disallowance).

A significant portion of the market risk of the financial subsidiaries is interest rate risk generated by long positions held in peso-denominated Colombian government debt. Financial subsidiaries prefer these securities because the government debt market is the largest and most developed of the local financial markets. Additionally, government debt securities support the liquidity management as they are eligible for Colombian Central Bank overnight repo funding and are classified as high-quality liquid assets. Government debt securities also carry a zero weight for capital adequacy calculations making them attractive in terms of utilization of capital. These factors provide a strong incentive to invest in government debt securities and diversify less into other debt securities that do not possess these characteristics.

Foreign Exchange Rate Risk

Financial subsidiaries use a sensitivity factor to calculate the probability of losses as a result of fluctuations in currencies in which hold positions. Regulatory VaR is computed daily by multiplying the net position by the maximum probable variation in the price of such positions on a ten-day horizon, determined by the Superintendency of Finance as shown in the following table.

U.S. dollar	12.5%
Euro	11.0%
Other currencies	13.0%

Our banks' exposure to foreign exchange rate risk arises primarily from changes to the U.S. dollar/peso exchange rate. Our banks use an approximation to estimate the risk in exchange-rate-related option positions based on delta, gamma and vega sensitivities, which is included in foreign exchange risk.

The foreign exchange rate risk VaR calculation under the standard model of the Superintendency of Finance includes both the trading and non-trading book.

Equity Price Risk

In determining regulatory VaR variations in stock price risk, certain investments are excluded: (a) equity securities in financial institutions that are supervised by the Superintendency of Finance and (b) equity securities derived from corporate restructuring processes or received as in-kind payment for non-performing loans. In addition, as part of the solvency ratio calculation, equity securities in entities supervised by the Superintendency of Finance that do not consolidate are generally deducted from primary capital. Investments in entities that consolidate but are not supervised by Superintendency of Finance (non-financial investment) are included in VaR calculations.

Variations in stock price risk in Grupo Aval come primarily from Corficolombiana's non-financial investment portfolio. The Superintendency of Finance's methodology for determining VaR for variations in stock price risk outlined above results in the inclusion of Corficolombiana's consolidated and non-consolidated equity securities in non-financial institutions.

In December 2010, the Superintendency of Finance issued a revised methodology that excludes from the VaR calculation investments that are available for sale equity securities that are acquired as strategic investments and intended to be held on a long-term horizon.

Variations in stock price risk VaR is computed daily by multiplying the net position by the maximum probable variation in the price of such positions on a ten-day horizon, determined by the Superintendency of Finance to be 14.7%. This coefficient is based on historic volatilities and is seldom adjusted.

Investment Fund Risk

Investment fund risk comes from temporary investment of cash in portfolios managed by trust companies. Investment fund risk VaR is computed daily by multiplying the net position by the maximum probable variation in the price of such positions on a ten-day horizon, determined by the Superintendency of Finance to be 14.7%.

The following tables show the consolidated 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

	Year ended December 31, 2019				At December 31, 2018
	Period end	Average	Maximum	Minimum	Period end
			(in Ps millions)		
Interest rate risk VaR	568,537	520,569	607,973	444,950	352,595
Foreign exchange rate risk VaR	379,406	334,039	383,189	277,932	298,257
Variations in stock price risk VaR	10,964	9,601	10,964	8,394	8,231
Fund risk VaR	321,177	308,799	322,458	270,918	265,684
Total market risk VaR	**1,280,084**	**1,173,008**	**1,324,584**	**1,002,195**	**924,767**

Banco de Occidente

	Year ended December 31, 2019				At December 31, 2018
	Period end	Average	Maximum	Minimum	Period end
			(in Ps millions)		
Interest rate risk VaR	158,200	144,188	162,628	125,615	184,106
Foreign exchange rate risk VaR	2,995	2,458	4,426	104	1,479
Variations in stock price risk VaR	—	—	—	—	—
Fund risk VaR	4,733	4,556	4,733	4,317	4,286
Total market risk VaR	**165,928**	**151,202**	**171,787**	**130,036**	**189,871**

Banco Popular

	Year ended December 31, 2019				At December 31, 2018
	Period end	Average	Maximum	Minimum	Period end
			(in Ps millions)		
Interest rate risk VaR	108,113	108,389	109,605	107,694	148,343
Foreign exchange rate risk VaR	5,280	5,155	5,615	4,699	3,325
Variations in stock price risk VaR	348	22	23	22	946
Fund risk VaR	14,577	10,769	14,954	8,701	10,274
Total market risk VaR	**128,318**	**124,335**	**130,197**	**121,116**	**162,888**

Banco AV Villas

	Year ended December 31, 2019				At December 31, 2018
	Period end	Average	Maximum	Minimum	Period end
			(in Ps millions)		
Interest rate risk VaR	55,021	40,628	55,972	22,193	37,115
Foreign exchange rate risk VaR	80	27	80	1	30
Variations in stock price risk VaR	-	—	—	—	—
Fund risk VaR	2,931	628	2,931	489	797
Total market risk VaR	**58,032**	**41,283**	**58,983**	**22,683**	**37,942**

Corficolombiana

	Year ended December 31, 2019				At December 31, 2018
	Period end	Average	Maximum	Minimum	Period end
			(in Ps millions)		
Interest rate risk VaR	149,643	104,128	156,208	67,499	208,375
Foreign exchange rate risk VaR	4,059	2,599	4,867	610	436
Variations in stock price risk VaR	11,111	11,085	11,283	10,864	10,125
Fund risk VaR	2,624	2,935	3,473	2,577	720
Total market risk VaR	**167,438**	**120,746**	**175,831**	**81,550**	**219,656**

The regulatory VaR of the financial subsidiaries yield different results according to each operation. Between December 31, 2019 and December 31, 2018, the regulatory VaR of the financial subsidiaries have been higher for Banco de Bogotá and Banco AV Villas because of additional exposure of TES from the medium- and long-term to their investment portfolio, which in turn has increased the total duration. On the other hand, Banco de Occidente has decreased the duration of its investment portfolio and the foreign currency position. Banco Popular reduced its exposure to long-term TES which is translated as a diminishing in the interest rate risk exposure while Corficolombiana has reduced the exposure in TES because of the good behavior in the market and looking for realized profits. The regulatory VaR of Banco de Bogotá, Banco de Occidente, Banco Popular, Banco AV Villas and Corficolombiana vary from one period to another: 38.4%, -12.6%, -21.2%, 52.9% and -23.8%, respectively, mainly for the reasons mentioned above.

Considerations on Equity Price Risk Regulatory VaR

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 focuses on 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 the holdings in Mineros S.A.

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
Less than 18 months	—	—	0%	—	—	0%
18 - 36 months	—	—	0%	—	—	0%
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%**

Non-Trading Instruments

Non-trading instruments consist primarily of loans and deposits. Our banks' primary market risk exposure in their non-trading instruments is interest rate risk, which arises from the possibility of changes in market interest rates. Such changes in market interest rates affect our banks' net interest income due to timing differences on the repricing of their assets and liabilities. Our banks are also affected by gaps in maturity dates and interest rates in the different asset and liability accounts.

Note 4 of our audited consolidated financial statements—Risk Interest Rate on the balance sheet structure shows mismatches in the repricing of our assets and liabilities by maturity bands. Also, Note 4 of our audited consolidated financial statement— Liquidity Risk, shows an analysis of the remaining contractual maturities of our assets and liabilities.

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 had decreased by 50 or 100 basis points, Grupo Aval's net interest income would have increased by Ps 173.6 billion and Ps 349.0 billion, 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 had increased by 50 or 100 basis points, Grupo Aval's net interest income would have decreased by Ps 174.5 billion and Ps 348.9 billion, 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.

Additionally, Superintendency of Finance rules require financial subsidiaries to measure foreign exchange rate risk VaR not only for treasury book positions but also for all assets and liabilities denominated in foreign currencies. Our non-trading instruments are exposed to foreign exchange rate risk primarily from loans and deposits denominated in dollars. This foreign exchange rate risk is monitored under the VaR methodology described.

Non-Financial Risk Review

Grupo Aval and its subsidiaries are committed to the preservation of integrity through compliance with applicable laws, regulations and ethical standards in each of the markets in which they operate. All employees are expected to adhere to these laws, regulations and ethical standards, and management of each financial subsidiary is responsible for ensuring such compliance. Compliance is an essential ingredient of good corporate governance.

The compliance function encompasses all matters relating to regulatory compliance, the prevention of money laundering and terrorist financing, product governance, consumer protection, antibribery, and anticorruption, as well as compliance with the standards of the U.S. Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley).

The compliance function is independent of the business lines in all our financial subsidiaries and promotes adherence to the rules, oversight requirements, principles and values of good conduct through all our companies. The corporate governance structure at Grupo Aval establishes standards, policies and best practices that apply to each company in order to enforce the standard requirements that business units should follow. The compliance or risk units in each financial subsidiary enforce the application of the corporate and internal policies providing advice and information in the interest of employees, customers, shareholders and supervisors.

The compliance function is incorporated into the risk areas with access to the Board of Directors and its committees through the Chief Risk Officer. In addition, the legal departments of each financial subsidiary, have access to these bodies on a regular basis. This structure is in line with banking regulatory requirements and supervisory expectations.

The compliance unit assists Management at the entity level in identifying and assessing potential compliance issues as well as providing guidance to staff on compliance laws, rules and standards, and performs a monitoring and reporting role. The legal departments of the financial subsidiaries, have the primary responsibility for identifying and interpreting compliance laws, rules and standards, and for providing assistance in drafting related policies and procedures. The internal audit units review the adequacy of controls established to ensure compliance with policies, plans, procedures and business objectives, in accordance with the annual internal audit plan and Colombian legal requirements, as well as COSO 2013 as internal control framework.

Operational Risk Management

Grupo Aval defines operational risk as "the risk of incurring losses due to failure in day-to-day processes, individual operations, systems support the business or external events". Operational risk is inherent in all products, activities, processes and systems, and is generated in all business and support areas, thus, all employees are responsible for managing and controlling the risks that arising in their area of activity.

The operational risk policies in Grupo Aval and financial subsidiaries are aimed at complying with the guidelines established by Superintendency of Finance. These guidelines require to Colombian financial subsidiaries establish a system of operational risk management (SARO) that includes identification, measurement, control and monitoring of functions required to ensure adequate risk management.

The main objective of SARO in Grupo Aval is the control and management of risks in each of the Holding processes, allowing to identify, measure/evaluate, control/mitigate them and report the exposure to operational risk to the senior management.

As a part of the processes achieved in the management of operational risk the execution of missionary, strategic and support processes and implements the necessary controls to meet its obligations with both fiscal, clients and shareholders. SARO's management is complemented by the definition, implementation, testing and maintenance of the Business Continuity Plan, which is part of strengthening the operational risk control stage.

To comply with the implementation of SARO, each of our financial subsidiaries established within its organizational structure an operational risk unit independent of the operational and control areas of each financial subsidiary. The responsibilities of these units are the establishment and definition of policies, methodologies and procedures for communicating within each organization all information related to operational risk. In addition to the staff of each operational risk unit, the financial subsidiaries have established the role of operational risk advisors, which are employees in key areas who, in addition to their functional responsibilities, are required to report events or situations which may result in operational losses. Additionally, each financial subsidiary has an operational risk management committee which meets on a periodical basis to review operational risks policies and follow up on the execution of action plans.

The Operational Risk Unit (URO) maintains its monitoring process to the risk profile of the entity, reports to Senior Management, and validated that risks levels are not exceeded the adequate and accepted risk levels.

At Grupo Aval, an operational risk management committee, composed of the heads of the operational risk units of each financial subsidiary and staff of Grupo Aval risk management, was established. The principal activities of this committee, which meets bimonthly basis, are as follows:

- Coordinated analysis of regulation and the impact in each of Grupo Aval's financial subsidiaries;
- Identification and application of best practices for operational risk management;
- Monitoring the performance of the operational risk management systems of financial subsidiaries.
- Coordination of standardization of operational risk methodologies;
- Identification and implementation of operational risk management tools; and
- Standardization of criteria in the search for business continuity tools.

As for Business Continuity, the maintenance and updating of the plans is permanently managed, seeking the necessary mechanisms for operation recovery of the defined critical processes and constantly work on the execution of tests to ensure such schemes.

In accordance with the minimum capital requirements and in compliance with the new regulation of the Superintendency of Finance (SFC), Grupo Aval and its financial subsidiaries are aimed to accomplish the guidelines of Decree 1421 which was issued on August 6, 2019, which defines operational risk capital requirements for Colombian financial institutions with Basel III standards, specifically, definitions of business indicator, operational risk coefficient and internal loss indicator for the calculation of the exposure value to operational risks. The decree includes a transition period of 18 months, due on January 1, 2021, and therefore the obligation of Grupo Aval's financial subsidiaries to meet the requirements will be based on the financial statements as of December 31, 2020.

Anti-money laundering and terrorist financing

Grupo Aval and its financial subsidiaries must comply with the guidelines established by local authorities and the Superintendency of Finance (which, in turn, follows international standards). These guidelines require that Colombian financial entities establish a system for the administration of risks related to money laundering and terrorist financing (*Sistema de Administración de Riesgo de Lavado de Activos y Financiación del Terrorismo* - SARLAFT) which includes the identification, measurement, control and monitoring functions to prevent and mitigate the materialization of the risks related to money laundering and terrorist financing.

In addition, in compliance with the regulations of the Superintendency of Corporations, the most significant entities in the real sector have implemented the control system for the prevention of the money laundering and financing of terrorism called SARGLAFT (*Sistema de Autogestión de Riesgo de Lavado de Activos y Financiación del Terrorismo*). A methodology for measuring the maturity level of the system to prevent money laundering and terrorist financing has been defined, consisting of an annual self-evaluation that includes qualitative factors of the compliance program ranging from the control environment to the monitoring of the effectiveness of the controls.

Monthly Corporate Committees are held with the participation of the Compliance Officers of the principal entities. Through these instances, Grupo Aval ensures that best practices are adopted by the companies, and undertakes a periodic review of the methodology, risk factors and risks materializations. Depending on their importance, a follow-up assessment is made in these committees to determine if there are gaps in the factors considered (ranging from policies, organization, knowledge of the client, identification of unusual operations, status of communications, acquisition, development and maintenance of systems, incident management, business continuity plans, degree of compliance, strategy, government and control architecture, among others) and opportunities for improvement. At the same time, once the remediation plans are executed, corporate follow-ups are made in order to verify that those plans were accomplished. Compliance Officers in each subsidiary are required to report periodically the main findings and assessment of the anti-money laundering risk to the Board of Directors.

All financial subsidiaries in compliance with local regulations, must report suspicious transactions to the Unit of the Ministry of Finance (UIAF stand for *Unidad de Información y Análisis Financiero*).

Annually, each subsidiary must certify to Grupo Aval holding the degree of compliance with corporate policies and procedures for the calendar year that ends, based on program maturity goals.

Anti-bribery and anti-corruption

Grupo Aval has designed controls to safeguard that its employees act with integrity in all of their dealings and strictly prohibits bribery and corruption in any form. Anti-bribery and anti-corruption principles are stated in the Corporate Anti-Bribery and Corruption Policy and are summarized below, based on the fundamental principle of zero risk tolerance:

- Employees of Grupo Aval and of all its subsidiaries must conduct their business fairly, honestly, accountably and transparently; therefore, all forms of bribery and corruption, including facilitation payments, are strictly prohibited;

- Gifts or entertainment must always be proportionate and reasonable and must have a legitimate purpose and must not create a conflict of interest or the perception thereof;

- Donations, sponsorships are controlled, regulated by strict principles and should be reported to Compliance Officers; and

- Questionable behavior should be challenged, and rumors of improper payments or activities should be reported to management or could also be reported via the whistleblower reporting channels.

We have designed a process of self-assessment and annual certification applicable to all of the subordinates of the group which consists of evaluating both the environment of control and the way in which each subordinate is mitigating the risks identified in antibribery and anti-corruption matters, with a special emphasis on particular issues such as donations, gifts and invitations, sponsorships, and TPI (third parties intermediaries) administration. The policies also apply to acquisitions and joint ventures.

Legal Risk

Each subsidiary's legal division supports operational risk management in its particular area of expertise. Specifically, this division defines and institutes the necessary procedures to adequately control the legal risks inherent in financial subsidiaries' operations, making sure legal risks are well mitigated and that the controls meet legal standards. It also analyzes and drafts contracts for operations carried out by the different business units.

With respect to the legal situation of each subsidiary the legal division ensures that the respective contingencies have been provisioned appropriately whenever required. Grupo Aval has assessed the relevant claims filed against it, based on the analysis and criteria of the lawyers in charge.

With regard to copyrights, Grupo Aval and each of its subsidiaries only uses software or licenses that have been legally acquired and only allows officially licensed software to be used on its computers.

Details of the litigation filed against Grupo Aval are disclosed in Note 23 and 27 to our audited consolidated financial statements.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt securities

Not applicable.

B. Warrants and rights

Not applicable.

C. Other securities

Not applicable.

D. American depositary shares

Fees and Expenses

The depositary may charge each person to whom ADSs are issued, including, without limitation, issuances against deposits of preferred shares, issuances in respect of preferred share distributions, rights and other distributions, issuances pursuant to a share dividend or share split declared by us or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or deposited securities, and each person surrendering ADSs for withdrawal of deposited securities in any manner permitted by the deposit agreement or whose ADRs are cancelled or reduced for any other reason, up to U.S.$5.00 for each 100 ADSs (or any portion thereof) issued, delivered, reduced, cancelled or surrendered, as the case may be. The depositary may sell (by public or private sale) sufficient securities and property received in respect of a preferred share distribution, rights and/or other distribution prior to such deposit to pay such charge.

The following additional charges will be incurred by the ADR holders, by any party depositing or withdrawing preferred shares or by any party surrendering ADSs or to whom ADSs are issued (including, without limitation, issuances pursuant to a share dividend or share split declared by our company or an exchange of securities regarding the ADRs or the deposited securities or a distribution of ADSs), whichever is applicable:

- a fee of U.S.$0.05 or less per ADS for any cash distribution made pursuant to the deposit agreement;
- a fee of U.S.$1.50 per ADR or ADRs for transfers of ADRs;
- a fee for the distribution of securities (or the sale of securities in connection with a distribution), such fee being in an amount equal to the fee for the execution and delivery of ADSs that would have been charged as a result of the deposit of such securities (treating all such securities as if they were preferred shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the depositary to those holders entitled thereto;
- an aggregate fee of U.S.$0.05 per ADS per calendar year (or portion thereof) for services performed by the depositary in administering our ADR program (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders as of the record date or record dates set by the depositary during each calendar year and will be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions);
- any other charge payable by any of the depositary, any of the depositary's agents, including, without limitation, the custodian, or the agents of the depositary's agents in connection with the servicing of our preferred shares or other deposited securities (which charge will be assessed against registered holders of our ADRs as of the record

date or dates set by the depositary and will be payable at the sole discretion of the depositary by billing such registered holders or by deducting such charge from one or more cash dividends or other cash distributions);

- stock transfer or other taxes and other governmental charges;
- cable, telex and facsimile transmission and delivery charges incurred at your request in connection with the deposit or delivery of shares;
- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities;
- expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars; and
- such fees and expenses as are incurred by the depositary (including without limitation expenses incurred in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in delivery of deposited securities or otherwise in connection with the depositary's or its custodian's compliance with applicable laws, rules or regulations.

We will pay all other charges and expenses of the depositary and any agent of the depositary (except the custodian) pursuant to agreements from time to time between us and the depositary. The charges described above may be amended from time to time.

Direct and indirect payments

Our depositary has agreed to reimburse us for certain expenses we incur that are related to the establishment and maintenance of the ADR program upon such terms and conditions as we and the depositary may agree from time to time. The depositary may make available to us a set amount or a portion of the depositary fees charged in respect of the ADR program or otherwise upon such terms and conditions as we and the depositary may agree from time to time.

The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions, by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary will generally set off the amounts owing from distributions made to holders of ADSs. If, however, no distribution exists and payment owing is not timely received by the depositary, the depositary may refuse to provide any further services to holders that have not paid those fees and expenses owing until such fees and expenses have been paid. At the discretion of the depositary, all fees and charges owing under the deposit agreement are due in advance and/or when declared owing by the depositary. The depositary may generally refuse to provide services to any holder until the fees and expenses owing by such holder for those services or otherwise are paid.

For the year ended December 31, 2019 we received approximately U.S.$0.3 million in payments from J.P. Morgan Chase Bank, N.A. as depositary of the ADR program.

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

A. Defaults

No matters to report.

B. Arrears and delinquencies

No matters to report.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A. Material modifications to instruments

Not applicable.

B. Material modifications to rights

Not applicable.

C. Withdrawal or substitution of assets

Not applicable.

D. Change in trustees or paying agents

Not applicable.

E. Use of proceeds

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

A. Disclosure controls and procedures

As of December 31, 2019, under the supervision and with the participation of our management, including our President and Chief Financial Officer, we performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). There are inherent limitations to the effectiveness of any disclosure controls and procedures system, including the possibility of human error and circumventing or overriding them. Even if effective, disclosure controls and procedures can provide only reasonable assurance of achieving their control objectives.

Based on such evaluation, our President and Chief Financial Officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that the information we are required to disclose in the reports we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management to allow timely decisions regarding required disclosures.

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B. Management's annual report on internal control over financial reporting

Our management is responsible for establishing and maintaining an adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act.

Our internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes, in accordance with generally accepted accounting principles. These include those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of our assets;
- 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 are being made only in accordance with authorization of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, effective control over financial reporting cannot, and does not, provide absolute assurance of achieving our control objectives. Also, projections of, and any evaluation of effectiveness of the internal controls in 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.

We have adapted our internal control over financial reporting based on the guidelines set by the Internal Control – Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Under the supervision and with the participation of our management, including our President, our Chief Financial Officer, our Chief Risk Management Officer and our Chief of Internal Control, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2019, based on the guidelines set forth by the COSO 2013.

Based on this assessment, management believes that, as of December 31, 2019, its internal control over financial reporting was effective.

C. Attestation report of the registered public accounting firm

The effectiveness of the internal control over financial reporting, as of December 31, 2019, has been audited by KPMG, an independent registered public accounting firm. KPMG's Report of Independent Registered Public Accountant Firm appears on page F-2.

D. Changes in internal control over financial reporting

There was no change in our internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. On January 1, 2019 Grupo Aval adopted IFRS 16 and as a result updated certain internal controls over financial reporting, these controls were defined to ensure the appropriate identification, classification and measurement of leases. We have also defined controls to mitigate the risk of inadequate accounting recognition (initial and subsequent classification and measurement) due to changes in lease conditions.

ITEM 16. [RESERVED]

ITEM 16A. Audit committee financial expert

The board of directors has determined that Fabio Castellanos Ordóñez is an audit committee financial expert. All members of our audit committee, namely Esther América Paz Montoya, Álvaro Velásquez Cock and Fabio Castellanos Ordóñez, are independent audit committee members under the standards of the New York Stock Exchange, which applies the audit committee independence requirements of the Securities and Exchange Commission.

ITEM 16B. Code of ethics

New York Stock Exchange rules for U.S. companies require that listed companies adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. We have in place a code of ethics that applies to the Company's officers and employees.

ITEM 16C. Principal accountant fees and services

Amounts billed by KPMG for audit and other services were as follows:

	2019	2018
	(In Ps millions)	
Audit fees	30,945	29,671
Audit-related fees	—	—
Tax fees	11	13
All other fees paid	—	—

The aggregate fees billed under the caption audit fees for professional services rendered to Grupo Aval for the audit of its financial statements and for services that are normally provided to Grupo Aval, in connection with statutory or regulatory filings or engagements totaled Ps 30,945 million and Ps 29,671 million for the years 2019 and 2018, respectively.

Additionally, other fees paid, which include other consultancy fees different from audit and audit-related fees, totaled Ps 11 million and Ps 13 million for the years ended 2019 and 2018, respectively.

The services commissioned from our auditors meet the independence requirements stipulated by the Board of Accountants (*Junta Central de Contadores*) and by SEC rules and regulations, and they did not involve the performance of any work that is incompatible with the audit function.

If we are required to engage an auditing firm for audit and audit-related services, those services have to be pre-approved by the Audit Committee.

The Audit Committee is regularly informed of all fees paid to the auditing firms by us.

ITEM 16D. Exemptions from the listing standards for audit committees

All of the members of our audit committee satisfy the independence requirements of the NYSE applicable to foreign private issuers.

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ITEM 16E. Purchases of equity securities by the issuer and affiliated purchasers

Grupo Aval may repurchase its shares only with retained earnings. On the other hand, Colombian law prohibits the repurchase of shares of entities under the comprehensive supervision of, and subject to inspection and surveillance as financial institutions by, the Superintendency of Finance. As such, Banco de Bogotá, Banco de Occidente, Banco Popular, Banco AV Villas, and their respective financial subsidiaries, including Corficolombiana, Porvenir and BAC Credomatic are not permitted to repurchase their shares or Grupo Aval's shares.

The following table presents purchases of our preferred shares by the company and "affiliated purchasers" (as that term is defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
January, 2019	615,278	1,022	3,012,420	96,987,580
February, 2019	77,171	1,102	3,089,591	96,910,409
March, 2019	446,913	1,201	3,536,504	96,463,496
April, 2019	28,000	1,255	3,564,504	96,435,496
May, 2019	535,438	1,190	4,099,942	95,900,058
June, 2019	—	—	4,099,942	95,900,058
July, 2019	—	—	4,099,942	95,900,058
August, 2019	—	—	4,099,942	95,900,058
September, 2019	—	—	4,099,942	95,900,058
October, 2019	—	—	4,099,942	95,900,058
November, 2019	—	—	4,099,942	95,900,058
December, 2019	—	—	—	—

ITEM 16F. Change in registrant's certifying accountant

Not applicable.

ITEM 16G. Corporate governance

Grupo Aval, as a listed company that qualifies as a foreign private issuer under the NYSE listing standards in accordance with the NYSE corporate governance rules, is permitted to follow home-country practice in some circumstances in lieu of the provisions of the corporate governance rules contained in Section 303A of the NYSE Listed Company Manual that are applicable to U.S. companies. We follow corporate governance practices applicable to Colombian companies and those described in our Corporate Governance Code, which in turn follow Colombian corporate governance rules. The Corporate Governance Code is available at Grupo Aval's website at www.grupoaval.com. Information on our website is not incorporated into this annual report.

The following is a summary of the significant differences between the corporate governance practices followed by Grupo Aval and those applicable to domestic issuers under the NYSE listing standards.

Independence of directors

See "Item 6. Directors, Senior Management and Employees—C. Board practices— Principal differences between Colombian and U.S. corporate governance practices—Independence of directors".

Non-executive director meetings

See "Item 6. Directors, senior management and employees—C. Board practices— Principal differences between Colombian and U.S. corporate governance practices—Non-executive director meetings".

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Committees of the board of directors

See "Item 6. Directors, senior management and employees—C. Board practices— Principal differences between Colombian and U.S. corporate governance practices—Committees of the board of directors".

Shareholder approval of equity compensation plans

Under NYSE listing standards, shareholders of U.S. companies must be given the opportunity to vote on all equity compensation plans and to approve material revisions to those plans, with limited exceptions set forth in the NYSE rules. Grupo Aval and its subsidiaries currently have no equity compensation plans. Under Colombian law, shareholder approval is required for the compensation of members of the board of directors.

Shareholder approval of dividends

While NYSE corporate governance standards for U.S. companies do not require listed companies to have shareholders approve or declare dividends, in accordance with the Colombian Code of Commerce, all dividends must be approved by Grupo Aval's shareholders.

Corporate governance guidelines

NYSE rules for U.S. companies require that listed companies adopt and disclose corporate governance guidelines. The Superintendency of Finance recommends, but does not require, that listed companies adopt corporate governance guidelines; instead, it requires an annual corporate governance survey that compares a company's corporate governance practices to those recommended by the Superintendency of Finance, and mandates periodic disclosure thereof to the Colombian securities market information system. The annual corporate governance survey is available at Grupo Aval's website at www.grupoaval.com.

Code of business conduct and ethics

NYSE rules for U.S. companies require that listed companies adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. Grupo Aval has in place a code of ethics that applies to the Company's officers and employees.

Compliance with corporate governance rules

NYSE rules require the chief executive officer to certify annually that such officer is not aware of any non-compliance with NYSE corporate governance rules, and executive officers are required to promptly notify the NYSE of any material non-compliance. Companies must also submit a written affirmation annually or promptly upon the occurrence of certain changes in corporate governance. No similar requirements exist under Colombian law.

Internal audit function

NYSE rules for U.S. companies require that listed companies maintain an internal audit function to provide management and the audit committee with ongoing assessments of the company's risk management processes and system of internal control. Grupo Aval maintains an internal auditor, and a Chief of Internal Control to coordinate this function at the corporate level.

ITEM 16H. Mine safety disclosure

Not applicable.

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PART III

ITEM 17. Financial statements

We have responded to Item 18 in lieu of this item.

ITEM 18. Financial statements

Financial Statements are filed as part of this annual report, see page F-1.

ITEM 19. Exhibits

1.1	English translation of By-laws of Grupo Aval.
2.1	Indenture among Grupo Aval Limited, as Issuer, Grupo Aval Acciones y Valores S.A., as Guarantor, Deutsche Bank Trust Company Americas, as Trustee, Registrar, Paying Agent and Transfer Agent and Deutsche Bank Luxembourg S.A., as Luxembourg Paying Agent and Transfer Agent, dated as of September 26, 2012 (incorporated by reference Exhibit 2.2 to our Registration Statement on Form 20-F (File No. 000-54290) filed with the SEC on April 26, 2013).
2.2	Form of Deposit Agreement among Grupo Aval, JPMorgan Chase Bank, N.A., as depositary, and the holders from time to time of American depositary shares issued thereunder, including the form of American depositary receipts (incorporated by reference to Exhibit 99(a) to our Registration Statement on Form F-6 (File No. 333-198614) filed with the SEC on September 8, 2014).
2.3	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.
8.1	Subsidiaries of the registrant.
12.1	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
13.2	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

We will furnish to the SEC, upon request, copies of any unfiled instruments that define the rights of holders of long-term debt of Grupo Aval.

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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.

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- 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

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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

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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

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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)

	Notes	For the years ended 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

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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

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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

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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

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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

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NOTE 1 – REPORTING ENTITY

Grupo Aval Acciones y Valores S.A. (hereinafter the "The Group" or "Grupo Aval") was established under Colombian law in January 7, 1994, with its main offices and business address registered in Bogotá, D.C., Colombia. The corporate purpose of Grupo Aval is the purchase and sale of securities issued by financial and 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)

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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)

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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.

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- 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.

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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.

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	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)**

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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.

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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;

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- 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

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- 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.

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- 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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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(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.

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– 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:

C) Financial risks

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

vii) 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.

viii) 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).

ix) 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.

x) 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.

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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:

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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.

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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**

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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**

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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**

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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**

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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).

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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**

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	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).

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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**	

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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”.

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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 –

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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**

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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.

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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 %

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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 %

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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 %

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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.

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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.

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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.

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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.

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Loss allowance

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

	December 31, 2019				
	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL not credit-impaired	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	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL not credit-impaired	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**

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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

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- 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.

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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**

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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.

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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)

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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**

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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

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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**

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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

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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**

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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

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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**

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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.

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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**

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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

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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

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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)

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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.

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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

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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.

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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**

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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**

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Concentration by location

	As of December 31, 2019	As of December 31, 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.

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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.

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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.

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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.

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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	Gross Amounts Not Offset in the Consolidated Balance Sheet: 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	Gross Amounts Not Offset in the Consolidated Balance Sheet: 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	Gross Amounts Not Offset in the Consolidated Balance Sheet: 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	Gross Amounts Not Offset in the Consolidated Balance Sheet: 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.

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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.

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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

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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

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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.

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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.

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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.

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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

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to the repriced date. The following analysis includes all the global interest rate exposure in each bucket for the financial subsidiaries:

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).

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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.

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December 31, 2019

Assets	Under one year Variable	Under one year Fixed	Over one year Variable	Over one year Fixed	Non-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**

Liabilities	Under one year Variable	Under one year Fixed	Over one year Variable	Over one year Fixed	Non-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

Assets	Under one year Variable	Under one year Fixed	Over one year Variable	Over one year Fixed	Non-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**

Liabilities	Under one year Variable	Under one year Fixed	Over one year Variable	Over one year Fixed	Non-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

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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.

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

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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.

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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).

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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.

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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.

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	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**

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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**

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	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**

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	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

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	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

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	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)	Discounted cash flow	- Growth in values after 5 years - Net Income - Growth in residual values after 5 years - Discount interest rates
	Comparable Multiples	- EBITDA Value - 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

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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)

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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.

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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.

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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.

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(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.

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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)).

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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.

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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**

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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**

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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.

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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”)

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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**

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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**

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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).

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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.

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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)**

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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

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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.

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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.

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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**

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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**

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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

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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.

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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**

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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.

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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.

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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).

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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**

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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**

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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

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(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**

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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**

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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**

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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.

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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.

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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**

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(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

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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

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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.

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• 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

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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.

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.

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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 %				

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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.

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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.

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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**

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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.

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- 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.

In other countries

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.

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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.

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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.

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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)**

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	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)**

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	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)**

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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)**

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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)**

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	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**

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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.

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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.

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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.

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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.

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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.

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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**

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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

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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)

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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

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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)

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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**

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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.

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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.

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- 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**

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	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)

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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

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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.

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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

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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.

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(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.

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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.

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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	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

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	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.

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	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)**	**—**

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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.

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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.

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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.

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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**

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	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**

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	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**

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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.

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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.

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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.

A. 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.

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Balances as of December 31, 2019 and 2018, with related parties, are detailed in the following tables:

December 31, 2019	Individuals: Individuals with control over Grupo Aval (*)	Individuals: Key management personnel (*)	Entities: Associates and joint ventures	Entities: Entities controlled by individuals	Entities: 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

December 31, 2018	Individuals: Individuals with control over Grupo Aval (*)	Individuals: Key management personnel (*)	Entities: Associates and joint ventures	Entities: Entities controlled by individuals	Entities: 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

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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

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	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.

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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.

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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**

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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.

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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)

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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:

				Amounts outstanding	
Issuance date	**Tranches**	**Maturity**	**Coupon rate**	**2019**	**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**

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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**

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Grupo Aval Acciones y Valores S.A.

By: /s/ Luis Carlos Sarmiento Gutiérrez
Name: Luis Carlos Sarmiento Gutiérrez
Title: President

Date: April 24, 2020