

**FOURTH ORDINARY BOND ISSUANCE 2009  
GRUPO AVAL ACCIONES Y VALORES S.A.  
FOR COP 750,000 MILLION**

| <b>BRC INVESTOR SERVICES S.A. SCV</b>   | <b>PERIODIC REVIEW</b>  |
|---|---|
| <b>LONG-TERM DEBT</b>   | <b>AAA (Triple A)</b>   |
| <b>Figures in millions as at September 30, 2013</b><br>Total Assets: COP 24,034,255 Liabilities: COP 2,791,627<br>Equity: COP 21,242,628<br><b>P&amp;L July - September 2013 Quarter</b><br>Operating Income: COP 423,327 Net Income: COP 399,338 | <b>Rating History:</b><br>Periodic Review Nov/12: AAA<br>Periodic Review Nov/11: AAA<br>Initial Rating Nov./09: AAA |

|   |   |
|---|---|
| <b>Securities:</b>                      | <b>Ordinary Bonds</b>   |
| <b>Issuer:</b>                          | <b>Grupo Aval Acciones y Valores S.A.</b>   |
| <b>Amount Rated:</b>                    | <b>COP 750,000 million</b>  |
| <b>Amount Outstanding:</b>              | <b>COP 750,000 million</b>  |
| <b>Series:</b>                          | <b>Series A</b>   |
| <b>Placement Date:</b>                  | <b>December 3, 2009</b>   |
| <b>Terms:</b>                           | <b>Series A: (5, 7, 10 and 15 years) and Series B (3 years),</b>  |
| <b>Return:</b>                          | <b>Series A: 5 years: CPI+3.69%, 7 years: CPI+4.49%, 10 years: CPI+4.84%, 15 years: CPI + 5.20%</b><br><b>Series B: FDT + 1.14%</b><br><b>The A Series Bonds were issued in Colombian pesos and accrue a floating interest indexed to inflation (CPI) plus one spread</b> |
| <b>Frequency Payment of Interest:</b>   | <b>Quarter in Arrears (QA)</b>  |
| <b>Payment of Principal:</b>            | <b>Upon Maturity</b>  |
| <b>Manager:</b>                         | <b>Depósito Centralizado de Valores de Colombia DECEVAL S.A.</b>  |
| <b>Holder's Representative:</b>         | <b>Fiduciaria Fiducor S.A.</b>  |
| <b>Structuring and Placement Agent:</b> | <b>Corporación Financiera Colombiana S.A.</b>   |
| <b>Collateral:</b>                      | <b>The issuer's equity has been posted as the collateral for this issuance</b>  |

### **1. RATING FOUNDATIONS**

In the **Periodic Review**, the Technical Committee of BRC Investor Services S.A. SCV maintained the rating of **AAA** in **Long Term Debt** for the **2009 Fourth Issuance of Ordinary Bonds Grupo Aval Acciones y Valores S. A.** for **COP 750,000 million**.

**The rating of this Grupo Aval issuance incorporates the consistency of the economic group's strategic focus and the financial strength of its direct and indirect subsidiaries<sup>1</sup>, with whom it has held on to a leading**

<sup>1</sup> Grupo Aval has direct investments in: Banco de Bogotá, Banco de Occidente, Banco Comercial AV Villas, Banco Popular, Sociedad Administradora de Fondos de Pensiones y Cesantías Porvenir S. A., and AFP Horizonte Sociedad Administradora de Fondos de Pensiones y Cesantías S. A. and indirect investment in Corporación Financiera Colombiana S. A. (Corficolombiana), which is the most representative, the Corporation's subsidiaries and other affiliates.

**position in the banking sector over the last decade. With the acquisition of AFP Horizonte Sociedad Administradora de Fondos de Pensiones y Cesantías S.A., the Group would be the leader of the pension and severance fund industry on the Colombian market, in terms of assets under management and number of affiliates at the end of 2013.** Between 2008 and 2012, the aggregate of Grupo Aval banks has maintained its leading position in the sector based on loans, deposits, net income and equity, with average market shares of 28.8%, 30.3%, 34.8% and 31.9%, respectively. By the end of August 2013, these shares were, in the respective order, 27.9%, 28.4%, 35.7% and 33.2%. In particular, with the acquisition of BAC Credomatic<sup>2</sup> in 2010, Banco de Bogotá's market share based on

<sup>2</sup> The purchase was completed on December 9, 2010 through Leasing Bogotá Panama, an affiliate of Banco de Bogotá.

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net income rose from 15.6% in 2008 to 20.4% by the end of August 2013.

On April 18, 2013, the purchase of 99.99% of the shares in BBVA Horizonte S.A. Sociedad Administradora de Fondos de Pensiones (Now AFP Horizonte Sociedad Administradora de Fondos de Pensiones y Cesantías S.A.) was completed by Porvenir, Banco de Bogotá, Banco de Occidente and Grupo Aval<sup>3</sup>. By the end of August 2013,<sup>4</sup> AFPs (Pension and Severance Fund Management Companies) in Colombia were managing funds for COP 148.71 trillion. Porvenir was managing resources of COP 40.78 trillion (27.4%), while Horizonte was managing COP 21.93 trillion (14.8%) of this total. Together, AFP Horizonte and AFP Porvenir managed to have a market share of more than 42%<sup>5</sup>.

**Over the last three years (Sept/11 to Sept/13) Grupo Aval has increased its geographic diversification, following the acquisition of BAC Credomatic in 2010 and the purchase announcements through BAC Credomatic Centroamérica and Leasing Bogotá S.A. Panama, of Grupo Reformador in Guatemala, and Banco BBVA Panama, carried out in 2013. Although the Group's presence in Central America could generate further volatility in the consolidated income statement, due to the area's vulnerability to the US economic slowdown and the recession in the Eurozone, and due to political risks, these aspects would be mitigated partially by the Group's majority shareholding in Panama, which is an economy that has shown strong momentum in investment and favorable economic growth, which would be maintained in the medium term and improve the prospects for the generation of earnings for the Colombian conglomerate.** In June 2013, the agreement was signed for the acquisition of 100% of the Grupo Financiero Reformador in Guatemala which is made up of: Banco Reformador of Guatemala and Transcom Bank Limited of Barbados, through Credomatic International Corporation (CIC), a Banco de Bogotá subsidiary. According to Grupo Aval, the acquisition would represent 2% of its total assets, so high exposure to country risk would not be expected, and it would not be a relevant source of dividends. However, its expansion in Guatemala would consolidate its position as the third most relevant private financial group in that country and expand the customer base BAC serves. In particular, this would mean a share in the loan portfolio of the Guatemala banking system of 10% and 9.2% in deposits.

In July 2013, the Group announced the approval of the acquisition of BBVA Panama by Banco de Bogotá subsidiary, Leasing Bogotá Panama. This acquisition would make Grupo Aval the second most important financial group with a general license in Panama in terms of assets, and would place it in fifth place as regards net income with respect to all the banks operating in Panama. BAC International Bank Panama is the top credit card placement agent in Central America, with total

<sup>3</sup> The holding in the entities that acquired BBVA Horizonte S.A. Sociedad Administradora de Fondos de Pensiones (Now AFP Horizonte Sociedad Administradora de Fondos de Pensiones y Cesantías S.A.) was as follows: AFP Porvenir (64.29%), Banco de Bogotá (16.75%), Banco de Occidente (11.82%) and Grupo Aval directly (7.14%).

<sup>4</sup> Includes mandatory and voluntary pension and severance funds.

<sup>5</sup> Based on the value of each fund at the end of August 2013.

assets of USD 10.68 trillion, a loan portfolio for USD 7.07 trillion, deposits for USD 7.26 trillion and equity for USD 1.22 trillion. The loan portfolio is diversified, consisting of a commercial and a consumer portfolio with 34.3% and 37.8%, respectively, and the remaining percentage is made up of mortgages.

**Once the acquisitions are completed, one of the aspects monitored will be the effect of goodwill on Banco de Bogotá's solvency ratio. This bank is parent company of BAC Credomatic, which could affect Grupo Aval's consolidated solvency, even more so considering the new regulatory standards<sup>6</sup>. Therefore, the capitalization announced by Grupo Aval to Banco de Bogotá will be particularly relevant in maintaining the capacity to absorb potential loan losses that affect the sector.** At the end of September 2013, with information of Grupo Aval, the aggregate weighted average of the individual solvencies of Grupo Aval banks was ranked at 14.6% under the new regulation (Decree No. 1771 /2012). For this period, the lowest individual solvency ratio of Grupo Aval subsidiary banks was 11.67% for Banco AV Villas<sup>7</sup> and the highest was 16.13% for Banco de Bogotá. On the contrary, the latter entity would have the lowest consolidated solvency at 11.36% and the highest would be that of Banco de Occidente at 13.33%.

**Over the last six years (Sept/07 to Sept/13), the dividends of Grupo Aval's direct subsidiaries have represented more than 90% of its total operating revenue. This indicates that Grupo Aval's financial strength is mainly due to the dividend generation capacity of subordinates, thus making the financial performance of subsidiaries particularly important for this rating.**

**During the period mentioned above, the banking subsidiaries of Grupo Aval showed outstanding financial performance with an average annual net income growth of 19.7%, compared to the sector's 16.7%. By the end of 2013 and for 2014, the Holding Company has a projected growth similar to that reported over the last five years and includes the supposition of Porvenir dividend generation, following the merger with AFP Horizonte. Based on the above, the dividends projected for the Holding Company are feasible, even more so considering that the projections as far as dividends and earnings have had a minimal deviation compared to the real execution over the last three years (2010 -2013).** For the period from January to August 2013, the aggregated net income of Grupo Aval banks amounted to COP 1.59 trillion, with an annual increase of 13.7%, which was much higher than the sector's reported at 3.3%. The good performance of these entities was due to the momentum of placements, mainly in the consumer segment, and the increase in deposits in savings accounts, which favored the net interest margin, with an annual increase of 14.2%. Thus, maintaining its share in the gross financial margin above 60%, which is similar to the sector percentage for the same period. The results were also favored

<sup>6</sup>Decree 1771 / 2012.

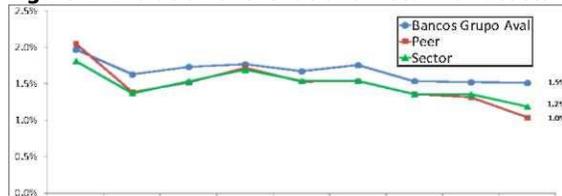
<sup>7</sup> Banco de Bogotá: 16.13% Banco de Occidente: 13.75%, Banco Popular: 11.71% and Banco AV Villas: 11.67%.

by the 24.4% annual growth of the net revenue from investments<sup>8</sup> compared to the sector's 3.3% decrease at the end of August 2013.

Since 2007, Banco de Bogotá has contributed approximately 50% of the dividends received by Grupo Aval. This percentage will rise due to the acquisitions of Grupo Reformador and Banco BBVA Panama, which will be carried out through Banco de Bogotá subsidiaries. The high concentration of revenue of just one subsidiary is a risk factor that has been taken into account in the current rating. However, it is partially mitigated by the expected momentum of banks in Panama, which would favor the financial performance of Banco de Bogotá and keep profitability ratios higher than the rest of the sector in the medium term.

The aggregate ROA<sup>9</sup> of Grupo Aval banks has maintained the positive gap compared to the sector and comparable peers share of cash deposits in the entities' liabilities, which provides them with a lower funding cost than their peers and the sector. Once the acquisitions have been completed in Central America, integration and operating costs may impact the consolidated profitability margins in the short term. However, the purchases in Central America are expected to lead to an increase in the Group's customer base and its ability to generate earnings by gathering momentum of an economy such as that of Panama. On another note, the 20.3% average growth of the aggregate consumer loan portfolio of Grupo Aval banks in 2012 also favored revenue due to the higher placement rates in effect in this segment. Similarly, the concentration of 43% of the liabilities in saving accounts favored the entities funding cost (see Figure 2).

**Figure 1: Evolution of the ratio for return on assets\***



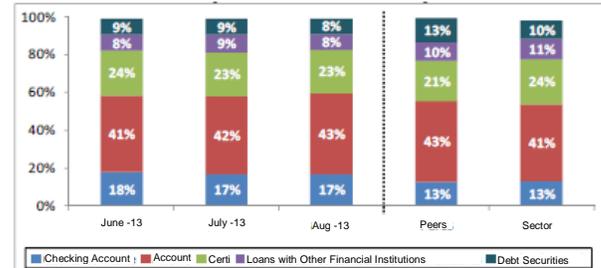
Source: Superintendency of Finance of Colombia. Calculations: BRC Investor Services S.A. SCV

\*Non-annualized ratio

<sup>8</sup> Gain on sale + appreciation.

<sup>9</sup> Return on assets.

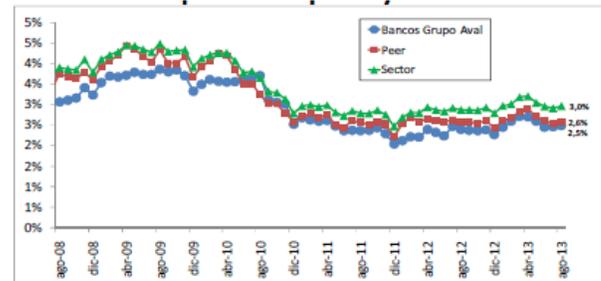
**Figure 2: Composition of the liabilities of Grupo Aval subordinate banks vs. Peers and Sector**



Source: Superintendency of Finance of Colombia. Calculations: BRC Investor Services S.A. SCV

The quality of the loan portfolio of Grupo Aval Banks is expected to continue at current levels in 2014. This is considering the excellent quality of the portfolio compared to the sector, which remains the same at the end of August 2013 (see Figure 3), and the fact that 70% of the aggregate portfolio of these banks belongs to the business segment, which is better quality than the consumer portfolio. Like the rest of the sector, the growth rate of the loan portfolio of these banks increased in 2011 mainly in the consumer segment, which resulted in the increase in past due loans in 2012. This led to a subsequent slowdown in deposits, dropping from an annual growth rate of 20.4% in December 2012 to 12% in August 2013. If the current portfolio were to maintain an average growth rate (August 2012 - August 2013) of 14.56% and a past-due portfolio of 23.9%, the ratio would remain at the current levels.

**Figure 3: Evolution of quality ratios of Grupo Aval Banks vs. Peers and Sector**



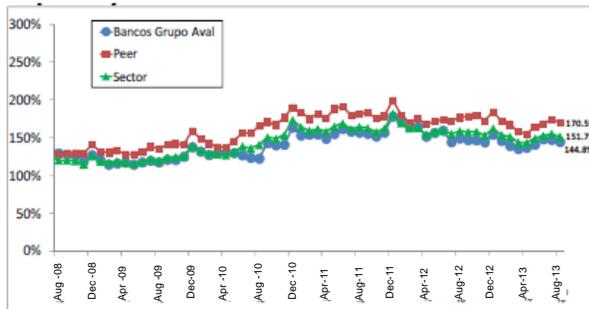
Source: Superintendency of Finance of Colombia.

Calculations: BRC Investor Services S.A. SCV.

The better quality of the loan portfolio of the Grupo Aval banks was partly due to the decreased coverage of past due loans, which was 144.8% compared to the sector's 170.5% and the peers' 151.7%. No significant increases in past due loans are expected for 2014, so the current level of coverage will be maintained (see Figure 4).

*A risk rating issued by BRC INVESTOR SERVICES S.A. - Security Rating Agency - is a technical opinion and does not claim to be a recommendation to purchase, sell or hold onto a specific investment and/or security, nor does it imply a guarantee of payment of the security, but is rather an assessment of the likelihood that the capital and the returns thereof will be paid on time. The information contained in this publication has been obtained from sources that are presumed to be reliable and accurate; therefore, we will not be held liable for any errors or omissions or the results of using this information.*

**Figure 4: Evolution of Coverage Ratios vs. Peers and Sector**



Source: Superintendency of Finance of Colombia.  
Calculations: BRC Investor Services S.A. SCV.

The rating of Grupo Aval issuances also includes the individual financial performance of the controlling company. To this effect, one of the aspects that has played a significant role in the rating has been maintaining low levels of double leverage<sup>10</sup> of 108.5% on average between 2008 and 2012. In 2012, the Holding Company carried out two bond issuances abroad<sup>11</sup>. The resulting funds were used to extend the maturity profile of the liabilities, increase its share in two subsidiaries and optimize cash flow. According to Grupo Aval projections, the purchases of Grupo Reformador and Banco BBVA Panama will not substantially modify the level of double leverage, which is kept below 107.5% because the entities will not be acquired directly by the Holding Company and its effect on the BAC book value is less than 2% in Guatemala as well as in Panama, and new debt has not been contemplated in the projections. Purchases in Central America were not included in 2013 but rather in 2014, so the double leverage ratio in 2013 is only affected by the purchase of BBVA Horizonte S.A. Sociedad Administradora de Fondos de Pensiones (Now AFP Horizonte Sociedad Administradora de Fondos de Pensiones y Cesantías S.A.). However, it does not increase substantially due to its size compared to that of AFP Porvenir. These results include the growth of the earnings of direct subsidiaries, in addition to the positive effect of said purchases on Grupo Aval's operating revenue. These purchases will favor the dividend generation of AFP Porvenir and Banco de Bogotá indirectly through BAC Credomatic. In addition, the increase in Grupo Aval's holding in two direct subsidiaries has been included, which will also have a positive effect on dividends generation.

<sup>10</sup> Permanent Investments/Equity.

<sup>11</sup> The issuances were carried out through Grupo Aval Limited, incorporated on the Cayman Islands. The first issuance took place in February 2012 for USD 600 million (COP 1.08 trillion), maturing in February 2017, and the second issuance was in September 2012 for USD 1,000 million (COP 1.8 trillion), maturing in September 2022.

Between 2012 and 2013, gross debt as a proportion of EBITDA would rise from 1.99x to 2.39x. However, over the next three years, the Holding Company expects the ratio to remain below 3x. The EBITDA ratio in relation to debt servicing would be between 5x and 6x, although a significant decrease is expected for 2015, when it would be 1.89x due to the increase in the debt service to fulfill obligations with third parties. However, according to information provided by Grupo Aval, the recently announced issuance of common shares<sup>12</sup> will be used to make debt prepayments, so BRC will continue to monitor the evolution of the debt coverage ratio. In 2011, the projection of the debt/EBITDA ratio of Holding by the end of 2012 was 1.16x and the real ratio was 1.99x.

In the periodic review of 2012, Grupo Aval's financial model projected said ratio at 1.82x for the end of 2013. However, due to the increase in debt service resulting from the issuances abroad, this projection rose to 2.39x for this periodic review. In addition, for 2012 the projection of the EBITDA/debt service ratio<sup>13</sup> was 4.01x and the actual value was 0.94x. By the end of 2013, the projection of this ratio dropped from 10.03x in the periodic review of 2012 to 5.94x in the current review.

The cash flow reported by Grupo Aval and projected between 2013 and 2016 shows that the Holding Company has sufficient ability to capitalize subsidiaries or cover expenses that were not contemplated in the budget. Therefore, debt levels would not have to be increased in the medium term<sup>14</sup>. However, if new acquisitions are made, they may take on a new debt, which would be monitored by BRC.

Based on the analysis of Grupo Aval's historic information and the projections reported by the rated party (2013-2022), BRC carried out different stress scenarios<sup>15</sup>. In the conservative scenario, which presumes a slowdown in the growth rate in direct subsidiaries' earnings and a lower payout<sup>16</sup>, the cash flow of the Holding Company would be strained, particularly in 2015. If the ratios in said scenario are exceeded, it would reflect Grupo Aval's decreased ability to make new acquisitions or support subsidiaries without recurring to new debt, which would lead to the revision of the current rating. According to BRC's calculations, in the stress scenario, the EBITDA/debt service ratio for the next four years (2014-2017) would be between 2x and 5x, dropping to 1.5x in 2015. Similarly, for the same four-year period, the debt/EBITDA ratio would increase compared to the levels reported in the base scenario, although they would

<sup>12</sup> November 13, 2013

<sup>13</sup> Interest expenses + amortization of principal.

<sup>14</sup> 1 to 3 years.

<sup>15</sup> Stress was placed on the subsidiaries' generation of earnings, the payment of dividends in cash and the increase in debt servicing, among other aspects.

<sup>16</sup> Percentage of earnings paid as dividends.

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not exceed 3x in the stress scenario. The coverage of the dividends with respect to the debt servicing would reach a maximum of 2.64x in 2014, which is not far from the maximum coverage of 2.83x in the base scenario.

**The corporate governance practices of the financial conglomerate are one of the factors included in the rating of this issuance, due to the importance of transparency in transactions between the entities and the Holding Company's ability to control and monitor the risk management of subsidiaries. To this effect, Grupo Aval has shown continuous support and monitoring of the policies and procedure for operational, technological and risk management of the subsidiaries, which was evident during the visits of the Vice-presidency of Corporate Compliance to said entities in compliance with the annual plan presented to the Group's President.** During the first semester of 2013, Grupo Aval's Vice-presidency of Operational and Regulatory Risk provided support for the entities in which it has direct investment in the analysis of credit risk and the structuring of credit operations with the most important clients they have in common. The Vice-presidency of Corporate Compliance conducted visits to some of the conglomerate's companies to monitor the implementation of plans for improvement. In addition, it provided guidelines to Grupo Aval's entities on matters related to control, information security and auditing, and tested the operational effectiveness of SOX controls.

During the first semester of 2013, the Vice-presidency of Shared Services continued to support operational and technological processes of the Grupo Aval's entities and the Holding Company. The projects led by this Vice-presidency include the strategy of unifying the technological infrastructure of the Group's entities, which is expected to result in better business practices, improved synergies and the ability to continue to show a high level of operational efficiency. By the end of 2013, the core banking system of one of the Group's banks was implemented and was in the stabilization phase. Similarly, progress was made as far as the implementation of a core solution for indirect subsidiaries. Finally, Grupo Aval is going to begin a project to standardize and unify the ERP<sup>17</sup> solution of the group's companies.

<sup>17</sup> Enterprise Resource Planning.

According to information provided by Grupo Aval, neither the Holding Company nor its officers have any court proceedings against them that could place equity stability at risk. Furthermore, Grupo Aval has not been subject to sanctions or penalties imposed by the Superintendency of Finance or the DIAN, nor has it been given any warnings by the Stock Market Regulation Authority

**2. THE ISSUER AND ITS ACTIVITY**

Grupo Aval Acciones y Valores S.A. is a holding company that was created in 1998 with a controlling share in several entities of the financial sector, to wit: Banco de Bogotá S.A., Banco de Occidente S.A., Banco Popular S.A., Banco AV Villas S.A., Administradora de Fondos de Pensiones y Cesantías Porvenir and AFP Horizonte Sociedad Administradora de Fondos de Pensiones y Cesantías S.A. The following are the main objectives of Grupo Aval: 1) consolidate the main investments of Organización Luis Carlos Sarmiento Angulo (OLCSAL) in the Colombian financial sector and 2) facilitate access to the capital market for the Holding Company.

As at September 2013, Grupo Aval's direct share in subsidiaries is made up of the following:

**Table 1: Entities controlled by Grupo Aval**

| Entity                           | Long-term Debt Rating* | Share in Controlled Entities |
|----------------------------------|------------------------|------------------------------|
| Banco de Bogotá S.A.             | AAA                    | 66.55%                       |
| Banco de Occidente S.A.          | AAA                    | 72.14%                       |
| Banco Comercial AV Villas S.A.   | AAA                    | 79.85%                       |
| Banco Popular S.A.               | AAA                    | 93.73%                       |
| AFP Porvenir S.A.                | AAA CWD                | 20.00%                       |
| AFP Horizonte S.A.               | n.a.                   | 7.14%                        |
| Grupo Aval Limited               | n.a.                   | 100.00%                      |
| Grupo Aval International Limited | n.a.                   | 100.00%                      |

Source: Grupo Aval Acciones y Valores S.A.

\*Ratings assigned by BRC Investor Services. It is important to mention that in the case of AFP Porvenir, the rating in force is the Counterparty Risk.

In addition, through its subsidiary banks, Grupo Aval indirectly controls Corporación Financiera Colombiana S.A. and the following financial affiliates: Fiduciaria Bogotá, Fiduciaria de Occidente, Fiduciaria Corficolombiana and Fiduciaria Popular; the Casa de Bolsa Brokerage Firm and warehousing companies Almagora and Alpopular, among others.

The following is the shareholding structure of Grupo Aval<sup>18</sup>

**Table 2: Shareholding Structure as of September 2013**

| Shareholder                  | Share       |
|------------------------------|-------------|
| Admnegocios & Cia. SCA       | 27.69%      |
| Actiunidos S. A              | 18.47%      |
| El Zuque                     | 7.60%       |
| Inversiones Escorial S.A.    | 6.60%       |
| SOCIENG S.A.                 | 6.07%       |
| Aminversiones S.A.           | 5.68%       |
| Intrassets Trading S.A.      | 5.32%       |
| Rendifin S.A. En Liquidación | 2.76%       |
| Other                        | 19.81%      |
| <b>TOTAL</b>                 | <b>100%</b> |

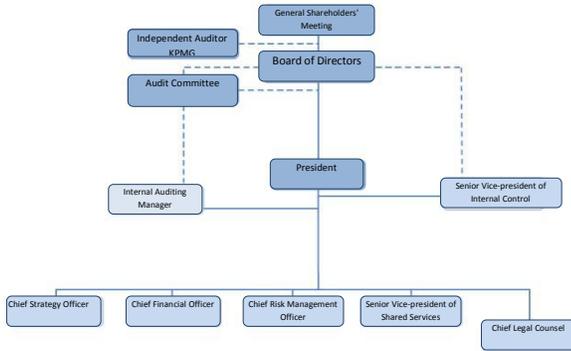
Source: Grupo Aval Acciones y Valores S.A.

<sup>18</sup> Luis Carlos Sarmiento Angulo holds control of Grupo Aval, as listed in Bogotá Chamber of Commerce Certificate No. 00865815 dated February 11, 2003.

*A risk rating issued by BRC INVESTOR SERVICES S.A. - Security Rating Agency - is a technical opinion and does not claim to be a recommendation to purchase, sell or hold onto a specific investment and/or security, nor does it imply a guarantee of payment of the security, but is rather an assessment of the likelihood that the capital and the returns thereof will be paid on time. The information contained in this publication has been obtained from sources that are presumed to be reliable and accurate; therefore, we will not be held liable for any errors or omissions or the results of using this information.*

Grupo Aval is characterized as a multi-brand strategy. However, subsidiaries adopt the best practices of the controlling company and there are powerful economies of scale, mainly as regards channels of service and support

**Figure 5: Organizational Structure**



Source: Grupo Aval Acciones y Valores S.A.

During the first semester of 2013, the Vice-presidency of Corporate Compliance conducted audit visits in compliance with the annual plan presented to the Group's President. In addition, it reviewed the implementation of the action plans for improvement of some of the entities and provided guidelines to the Group's entities on matters related to control, information security and auditing.

During the first semester of 2013, the Vice-presidency of Shared Services supported different operational and technological processes of Grupo Aval's entities and those of the Holding Company. The aspects worth mentioning include the implementation of the core banking system at Banco de Occidente and the project of a new core solution at Fiduciaria Bogotá, Fiduciaria de Occidente and Fiduciaria Popular.

The Vice-presidency of Operational and Regulatory Risk Management supported the direct subsidiaries of Grupo Aval in the analysis of credit risk and in the structuring of credit operations with the most important institutional clients they have in common, using tools developed at Grupo Aval to ensure that these operations uphold the Group's credit standards. Similarly, this Vice-presidency evaluated the tools that manage the Operational Risk Management System (SARO in Spanish) and the Money Laundering and Terrorist Financing Risk Management System (SARLAFT in Spanish).

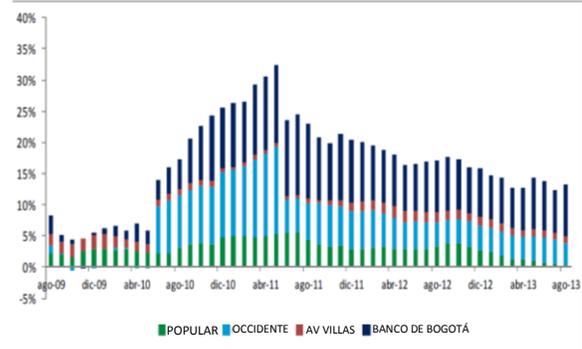
On another note, Internal Auditing Management conducted audits on the internal controls of the Holding Company during the first semester of 2013, in compliance with the auditing plan approved by Grupo Aval's Audit Committee. According to the findings, this Management Group issued reports on the results of the audits and established action plans to be implemented by those responsible and the monitoring thereof.

**3. FINANCIAL PERFORMANCE**

**3.1. Direct Subsidiaries of Grupo Aval**

By the end of August 2013, the loan portfolio of Grupo Aval's subsidiary banks grew 13.1%, which was mainly due to the momentum of deposits in Banco de Bogotá (see Figure 6). The growth rate of the loan portfolio of said entities has showed a slowdown compared to that of the sector, which increased 15.9% in the same period.

**Figure 6: Contribution to the Aggregate Growth of the Loan Portfolio**



Source: Superintendency of Finance of Colombia. Calculations: BRC Investor Services S.A. SCV. \*Figures in millions.

Conservative policies for the granting, monitoring and collection of Grupo Aval's subsidiary banks were reflected in the maintenance of an excellent quality portfolio in relation to the sector average. In this sense, the aggregate portfolio quality ratio of said entities was 2.5% lower at 47.30 basis points with respect to the indicator reported by the sector at the end of August 2013.

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**Table 3: Evolution of the Portfolio Quality ratio by Maturity**

| LOAN PORTFOLIO QUALITY | Dec09       | Dec10       | Dec11       | Dec12       | Aug12       | Aug13       |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Banco de Bogotá        | 2.92        | 2.25        | 1.63        | 2.07        | 2.01        | 2.34        |
| Banco de Occidente     | 3.94        | 2.79        | 2.49        | 2.48        | 2.88        | 2.68        |
| Banco Popular          | 3.20        | 2.41        | 2.07        | 2.11        | 2.41        | 2.36        |
| Banco AV Villas        | 4.13        | 3.41        | 2.81        | 3.07        | 3.03        | 3.03        |
| <b>Grupo Aval</b>      | <b>3.33</b> | <b>2.52</b> | <b>2.04</b> | <b>2.27</b> | <b>2.40</b> | <b>2.49</b> |
| <b>Sector</b>          | <b>3.91</b> | <b>2.78</b> | <b>2.47</b> | <b>2.79</b> | <b>2.87</b> | <b>2.96</b> |

Source: Superintendency of Finance of Colombia. Calculations: BRC Investor Services S.A. SCV.

*A risk rating issued by BRC INVESTOR SERVICES S.A. - Security Rating Agency - is a technical opinion and does not claim to be a recommendation to purchase, sell or hold onto a specific investment and/or security, nor does it imply a guarantee of payment of the security, but is rather an assessment of the likelihood that the capital and the returns thereof will be paid on time. The information contained in this publication has been obtained from sources that are presumed to be reliable and accurate; therefore, we will not be held liable for any errors or omissions or the results of using this information.*

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The consolidated deposits of entities in which Grupo Aval has direct investment increased to COP 69.69 trillion with an annual increase of 15.5%, which was less than the 20.9% increase reported by the banking sector. Savings account continued to be the main source of funding of Aval subsidiaries with a share of 42.9% in liabilities.

**Table 4: Evolution of deposits \***

|                                  | Aug 12     | Share (%) | Aug 13     | Share (%) |
|----------------------------------|------------|-----------|------------|-----------|
| Checking Account                 | 12,530,796 | 20.77%    | 13,961,501 | 20.03%    |
| Savings Account                  | 28,807,409 | 47.75%    | 35,855,735 | 51.45%    |
| Time Deposits                    | 18,388,291 | 30.48%    | 19,258,133 | 27.64%    |
| Saving Term Deposit              | 74,354     | 0.12%     | 48,568     | 0.07%     |
| Other                            | 529,984    | 0.88%     | 563,504    | 0.81%     |
| Deposits and Current Liabilities | 60,330,834 | 100%      | 69,687,442 | 100.00 %  |

Source: Superintendency of Finance. (\*) figures in millions

Administradora de Fondos de Pensiones y Cesantías Porvenir maintained its leading position due to the volume of assets under management and net income. At the end of August 2013, AFP Porvenir's net profit amounted to COP 118,260 million, a 12.7% decrease, which was better than the 21.2% reported by the sector associated mainly with the fixed income devaluation that affected the entities' investment portfolios. Historically, Porvenir has had a high level of operational efficiency<sup>19</sup>, which reflects a structure of flexible costs adjusted to market conditions. The positive evolution of this ratio is relevant because, although Porvenir has synergies with Grupo Aval, operational support is less than that compared to other AFPs on the market.

**Table 5. Evolution of the Financial Ratios of AFP Porvenir vs. AFP Sector**

| RATIOS   | PORVENIR |        | AFP SECTOR |        |
|--|----------|--------|------------|--------|
|  | Aug-12   | Aug-13 | Aug-12     | Aug-13 |
| Solvency (Total Assets / Total Liabilities)    | 5.39     | 2.85   | 5.62       | 3.98   |
| Debt Levels (Total Liabilities / Total Assets) | 18.56    | 35.09  | 17.80      | 25.14  |
| Fixed Assets / Total Assets                    | 5.12     | 3.67   | 3.63       | 3.00   |
| Asset Impairment (Net Equity / Share Capital)  | 9.56     | 10.83  | 9.13       | 12.03  |
| <b>MANAGEMENT RATIOS</b>                       |          |        |            |        |
| Total Expenses / AUM                           | 0.69     | 0.79   | 0.77       | 0.74   |
| Operating Expenses / AUM                       | 0.54     | 0.68   | 0.70       | 0.66   |
| Labor expenses / AUM                           | 0.25     | 0.21   | 0.27       | 0.23   |
| Total Income / AUM                             | 1.01     | 1.02   | 1.05       | 0.91   |
| Operating Income / AUM                         | 1.00     | 0.76   | 1.02       | 0.64   |
| Total Expenses / Total Income                  | 68.46    | 77.79  | 73.48      | 81.48  |

Source: Superintendency of Finance of Colombia.

Calculations: BRC Investor Services S.A. SCV.

### 3.2. Grupo Aval (individual)

As at September 30, 2013, the total assets of Grupo Aval amounted to COP 24.03 trillion, with an annual increase of 24%. This performance is mainly associated with the increase in permanent investments, which represents 47.29% of the assets, corresponding to its investments in Banco de Bogotá, Banco de Occidente, Banco Popular, Banco Comercial AV Villas and Sociedad Administradora de Fondos de Pensiones y Cesantías Porvenir, AFP Horizonte Pensiones y Cesantías S.A., Grupo Aval Limited and Grupo Aval International Limited.

As of December 31, 2011, appreciation in investments in controlled companies are recorded as the difference between the intrinsic value and the fair value. The 57% increase in appreciation is mainly due to Grupo Aval's increased share in

Banco de Bogotá and Banco de Occidente, and the appreciation from the acquisition of AFP Horizonte Pensiones y Cesantías. The item of negotiable investments in assets consists of the trust rights in Grupo Aval's indirect subsidiaries.

On another note, COP 1.47 trillion of Grupo Aval's liabilities are borrowings from related parties, which represent a 27.5% increase and COP 724,249 million are the issuances of local public debt securities in effect.

For the period from July to September 2013, Grupo Aval's net profit amounted to COP 399,338 million, a 25.1% increase compared to the same period in 2012, due to the momentum of revenues from the equity method, whose share in operating income amounted to 97.8%.

### 4. CONTINGENCIES

According to information provided by the Rated Party, Grupo Aval has no lawsuits against it that could place equity stability at risk. Furthermore, it has not been subject to sanctions by the Superintendency of Finance nor has it been given any warnings by the Stock Market Regulation Authority.

*The technical visit conducted for the rating process was carried out sufficient time in advance based on client availability and the information was provided within the deadlines and in accordance with the requirements of the Rating Agency. It is important to mention that the public information available has been reviewed and compared to the information provided by the Rated Party.*

*It is hereby clarified that the Risk Rating Agency does not conduct Audits. Therefore, the Entity's Management takes full responsibility for the accuracy and truthfulness of all the information provided, which has served as the basis for the preparation of this report.*

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**5. FINANCIAL STATEMENTS\***

*BRC Investors Services S.A. SCV*

**GRUPO AVAL ACCIONES Y VALORES S.A.**

Figures in millions of COP

Semesters ended in December 2010, December 2011 and December 2012. Quarters of July to September 2012 and July to September 2013

| <b>BALANCE SHEET</b>                 | <b>Dec-10</b>    | <b>Dec-11</b>     | <b>Dec-12</b>     | <b>Sept-12</b>    | <b>Sept-13</b>    | <b>Var % Dec 11 – Dec 12</b> | <b>Var % Sept 12 – Sept 13</b> |
|--------------------------------------|------------------|-------------------|-------------------|-------------------|-------------------|------------------------------|--------------------------------|
| Cash                                 | 11,330           | 1,589,890         | 186,328           | 1,004,110         | 197,221           | -49%                         | -80%                           |
| Investment Securities                | 1,400,359        | 104               | 8,298             | 1,972             | 20,027            | 7879%                        | 916%                           |
| Accounts receivables                 | 110,815          | 171,861           | 177,266           | 373,555           | 416,560           | 3%                           | 12%                            |
| DEFERRED                             | 465              | 23,182            | 11,044            | 16,721            | 391               | -52%                         | -98%                           |
| <b>TOTAL CURRENT ASSETS</b>          | <b>1,522,969</b> | <b>1,785,037</b>  | <b>1,012,936</b>  | <b>1,396,358</b>  | <b>634,200</b>    | <b>-43%</b>                  | <b>-55%</b>                    |
| Permanent Investments                | 6,607,663        | 9,694,709         | 10,598,119        | 10,346,733        | 11,366,957        |                              | 10%                            |
| Property, plant and equipment        | 345              | 444               |                   | 476               | 644               | 20%                          | 35%                            |
| Intangibles, net                     | 431,033          | 423,506           | 411,992           | 414,977           | 741,570           | -3%                          | 79%                            |
| Deferred Charges                     |                  | 11,294            | 306               | 427               | 94                | -97%                         | -78%                           |
| Valuations                           | (0)              | 6,982,266         | 7,738,866         | 7,190,632         | 11,290,791        | <b>11%</b>                   | 57%                            |
| <b>TOTAL LONG-TERM ASSETS</b>        | <b>7,039,041</b> | <b>17,112,219</b> | <b>18,749,818</b> | <b>17,953,244</b> | <b>23,400,055</b> | <b>10%</b>                   | <b>30%</b>                     |
| <b>TOTAL ASSETS</b>                  | <b>8,562,010</b> | <b>18,897,256</b> | <b>19,762,754</b> | <b>19,349,602</b> | <b>24,034,255</b> | <b>5%</b>                    | <b>24%</b>                     |
| Borrowings                           | 6,667            | 32,737            | 355,356           | 97,212            | 264,986           | 985%                         | 173%                           |
| Suppliers                            | 715              | 501               | 289               | 1,193             | 161               | -42%                         | -86%                           |
| Accounts Payable                     | 214,871          | 289,532           | 315,621           | 536,160           | 576,388           | 9%                           | 8%                             |
| Taxes, contributions and fines       | 1,384            | 13,533            | 25,698            | 12,434            | 13,268            | 90%                          | 7%                             |
| Labor obligations                    | 631              | 916               | 1,086             | 714               | 837               | 19%                          | 17%                            |
| Estimated liabilities and provisions | -                |                   | 1,171             | 9,870             | 8,123             |                              | -18%                           |
| Other liabilities                    |                  | 2,655             | 1,952             | 1,978             | 1,762             | -26%                         | -11%                           |
| Outstanding bonds                    | 100,000          | 220,450           |                   | 125,751           | -                 | -100%                        | -100%                          |
| <b>TOTAL CURRENT LIABILITIES</b>     | <b>324,268</b>   | <b>560,324</b>    | <b>701,173</b>    | <b>788,145</b>    | <b>859,700</b>    | <b>25%</b>                   | <b>9%</b>                      |
| Equity Tax                           |                  | 22,928            | 11,464            | 11,464            |                   | -50%                         | -100%                          |
| Borrowings                           | 1,444,509        | 1,411,384         | 795,561           | 1,053,705         | 1,201,852         | -44%                         | 14%                            |
| Outstanding bonds                    | 944,700          | 724,250           | 724,249           | 724,249           | 724,249           | 0%                           | 0%                             |
| <b>TOTAL NONCURRENT LIABILITIES</b>  | <b>2,389,209</b> | <b>2,158,562</b>  | <b>1,531,274</b>  | <b>1,789,418</b>  | <b>1,926,101</b>  | <b>-29%</b>                  | <b>8%</b>                      |
| <b>TOTAL LIABILITIES</b>             | <b>2,713,477</b> | <b>2,718,886</b>  | <b>2,232,447</b>  | <b>2,574,730</b>  | <b>2,791,627</b>  | <b>18%</b>                   | <b>8%</b>                      |
| Share capital                        | 13,944           | 18,552            | 18,552            | 18,552            | 18,552            | 0%                           | 0%                             |
| Paid-in Capital                      | 2,592,473        | 5,433,581         | 5,349,906         | 5,625,913         | 5,252,304         | -2%                          | -7%                            |
| Reserves                             | 1,856,754        | 2,201,184         | 2,745,360         | 2,745,358         | 3,407,174         | 25%                          | 24%                            |
| Reappraisal of Equity                | 921,082          | 875,225           | 875,225           | 875,225           | 874,470           | 0%                           | 0%                             |
| Net income of Previous Periods       |                  |                   |                   |                   | -                 |                              |                                |
| Net income                           | 464,280          | 667,562           | 802,398           | 319,192           | 399,338           | 20%                          | 25%                            |
| Valuations                           | (0.10)           | 6,982,266         | 7,738,866         | 7,190,632         | 11,290,791        | <b>11%</b>                   | 57%                            |
| <b>TOTAL EQUITY</b>                  | <b>5,848,533</b> | <b>16,178,370</b> | <b>17,530,307</b> | <b>16,774,872</b> | <b>21,242,629</b> | <b>8%</b>                    | <b>27%</b>                     |

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**BRC Investors Services S.A. SCV**  
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Figures in millions of COP

Semesters ended in December 2010, December 2011 and December 2012. Quarters of July to September 2012 and July to September 2013

| <b>INCOME STATEMENT</b>            | <b>Dec-10</b>  | <b>Dec-11</b>  | <b>Dec-12</b>  | <b>Sept-12</b> | <b>Sept-13</b> | <b>Var % Dec 11 – Dec 12</b> | <b>Var % Sept 12 – Sept 13</b> |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|------------------------------|--------------------------------|
| Operating Revenue                  | 1,340,603      | 821,392        | 913,361        | 373,638        | 438,628        | 11.2%                        | 17.4%                          |
| Equity method losses by method     | (24,342)       | (21,331)       | (205)          | (205)          |                | -99.0%                       | -100%                          |
| Cost of sale of investments        | (769,176)      |                |                |                |                |                              |                                |
| <b>GROSS PROFIT</b>                | <b>546,585</b> | <b>800,061</b> | <b>913,156</b> | <b>373,433</b> | <b>438,628</b> | <b>14.1%</b>                 | <b>17.5%</b>                   |
| Operating Expenses                 | (37,811)       | (48,261)       | (45,347)       | (20,792)       | (15,301)       | -6.0%                        | -26.4%                         |
| <b>OPERATING PROFIT</b>            | <b>508,774</b> | <b>751,800</b> | <b>867,309</b> | <b>352,641</b> | <b>423,327</b> | <b>15.4%</b>                 | <b>20.0%</b>                   |
| Non-operating income               | 7,222          | 10,667         | 19,912         | 9,687          | 11,803         | 86.7%                        | 21.8%                          |
| Non-operating expenses             | (50,441)       | (91,059)       | (79,287)       | (40,118)       | (33,910)       | -12.9%                       | -15.5%                         |
| <b>EARNINGS BEFORE TAXES</b>       | <b>465,555</b> | <b>671,408</b> | <b>808,434</b> | <b>322,210</b> | <b>401,220</b> | <b>20.4%</b>                 | <b>24.5%</b>                   |
| Income Tax and Complementary Taxes | (3,846)        |                | (6,036)        | (3,018)        | (1,882)        | 56.9%                        | -37.6%                         |
| <b>NET INCOME</b>                  | <b>464,280</b> | <b>667,562</b> | <b>802,398</b> | <b>319,192</b> | <b>399,338</b> | <b>20.2%</b>                 | <b>25.1%</b>                   |

| <b>RATIOS</b>    |               |               |               |                |                |  |
|------------------|---------------|---------------|---------------|----------------|----------------|--|
|                  | <b>Dec-10</b> | <b>Dec-11</b> | <b>Dec-12</b> | <b>Sept-12</b> | <b>Sept-13</b> |  |
| Return on Assets | 5.4%          | 3.5%          | 4.1%          | 1.6%           | 1.7%           |  |
| Return on Equity | 7.9%          | 4.1%          | 4.6%          | 1.9%           | 1.9%           |  |
| Operating margin | 38.0%         | 91.5%         | 95.0%         | 94.4%          | 96.5%          |  |
| Net Margin       | 34.6%         | 81.3%         | 87.9%         | 85.4%          | 91.0%          |  |
| Short-term debt  | 12.0%         | 20.6%         | 31.4%         | 30.6%          | 30.8%          |  |
| Total debt       | 31.7%         | 14.4%         | 11.3%         | 13.3%          | 11.6%          |  |
| Total leverage   | 46.4%         | 16.8%         | 12.7%         | 15.3%          | 13.1%          |  |

\*There are differences in some of the items of the assets, liabilities and income statements in this report by BRC Investor Services compared to those reported in the periodic reviews of 2011 and 2012, due to the reclassifications made by Grupo Aval following said reviews that the Rated Party does not consider significant.

**LONG-TERM DEBT RATING**

This rating is assigned as regards debt instruments with original maturities of more than one (1) year. The ratings represent an assessment of the probability of default on the payment of principal and the interest thereof. To this effect, an institution's ability to pay as regards its liabilities to the public is established, considering the quality of the assets, the franchise on the market, its sources of funding, as well as the stability of its operating margins. The financial risk management structure and management quality are also taken into consideration. The rating may include a plus (+) or minus (-) sign, depending on whether the rating is closer to the immediately higher or lower category, respectively.

Long-term debt ratings are based on the following scale:

**Investment Grades:**

|            |   |
|------------|---|
| <b>AAA</b> | This indicates that the ability of timely repayment of principal and interest is extremely high. This is the highest investment grade rating.   |
| <b>AA</b>  | This is the second highest investment grade rating. This indicates the ability of timely repayment of principal and interest, with a limited incremental risk in comparison to the issuances with the highest rating.   |
| <b>A</b>   | This is the third highest investment grade rating. This indicates that the ability of repayment of principal and interest is satisfactory. A-rated issuances can be more vulnerable to negative events (internal as well as external) than liabilities with higher ratings. |
| <b>BBB</b> | This is the lowest investment grade rating. This indicates that the ability of repayment of principal and interest is acceptable. BBB-rated issuances are more vulnerable to negative events (internal as well as external) than liabilities with higher ratings.           |

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**Non-investment or High Risk Grades**

|            |   |
|------------|---|
| <b>BB</b>  | Although it does not represent an investment grade, this rating suggests that the probability of default is considerably less than for liabilities with a lower rating. However, there are considerable factors of uncertainty that could affect the ability to pay the debt. |
| <b>B</b>   | B-rated issuances indicate a higher level of uncertainty and, therefore, a higher probability of default than issuances with a higher rating. Any negative event could affect the timely payment of principal and interest.   |
| <b>CCC</b> | CCC-rated issuances have a clear probability of default, with little ability to face any additional change in the financial situation.  |
| <b>CC</b>  | The CC-rating is applied on issuances that are subordinates of other CCC-rated liabilities and, therefore, would have less protection.  |
| <b>D</b>   | Default.  |
| <b>E</b>   | Insufficient information to provide a rating.   |

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**TECHNICAL COMMITTEE MEMBER RESUMES**

**Roy Weinberger**, has an MBA of Columbia University and a BA in Political Science of the University of Rhode Island. He has 25 years of experience in management positions at international rating agencies such as Standard & Poor's and Thomson Financial BankWatch. His experience with the first of the two was as the senior executive and founding Vice President in charge of corporate issuances, the latter relating to companies from the public sector at the global level. It is also important to point out his experience as Vice President in the assessment and rating of municipalities and territorial entities of several countries.

**Mahesh Kotecha** has a degree in Finance of the MIT School of Business and a PhD in International Business and Finance of the NY Graduate School of Business. He was a senior executive at Standard & Poor's and, as its Vice President, he was a pioneer in loan portfolio securitization rating, particularly in structured issuances of more than 20 subnational entities (public and government), specializing in projects of emerging markets. Mr. Kotecha currently owns a reputed structured finance firm in the US (SCIC). At the same time, he is one of the main development executives of the collateral program managed by the Inter-American Development Bank and the United Nations Development Program.

**Andrés Carvajal (alternate)** is an Economist with a Master's Degree in Finance of the Centro Internacional de Formación Financiera (CIFF) of the Universidad de Alcalá de Henares, and a Master's Degree in Analysis of Contemporary Political, Economic and International Problems of Universidad Externado de Colombia. Over the last 13 years, he has done work in financial, economic and risk analysis at the Asociación Nacional de Instituciones Financieras (ANIF), BRC Investor Services, Asociación de Comisionistas de Bolsa de Colombia and Asociación Bancaria. He is currently a financial and economic consultant serving trade unions from the private sector and companies from the non-financial sector. He is also a lecturer of the area of economics and finances of important universities in Colombia.