Grupo AVAL

3Q2019 CONSOLIDATED EARNINGS RESULTS CALL TRANSCRIPT

GRUPO AVAL ACCIONES Y VALORES S.A.

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EARNINGS RESULTS

CALL TRANSCRIPT

Operator

Welcome to Grupo Aval third quarter 2019 Consolidated Results under IFRS Conference Call. My name is Sylvia and I will be your operator for today's call.

Grupo Aval Acciones y Valores S.A., ("Grupo Aval") is an issuer of securities in Colombia and in the United States, registered with Colombia's National Registry of Shares and Issuers (*Registro Nacional de Valores y Emisores*) and the United States Securities and Exchange Commission (*SEC*). As such, it is subject to compliance with securities regulations in Colombia and applicable U.S. securities regulations.

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 the 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.

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

Grupo Aval has adopted IFRS 16 retrospectively from January 1st, 2019 but has not restated comparatives for the 2019 reporting period as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the new leasing rules are therefore recognized in the opening condensed consolidated statement of financial position on January 1st, 2019. Consequently, quarterly results for 2019 are not fully comparable to previous periods.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result Grupo Aval as a lessee recognized right- of-use assets by representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease payments are discounted using the interest rate implicit in the lease if that rate can be determined or the groups incremental borrowing rate.

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

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

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

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

At this time, all participants are in a listening only mode, later we will conduct a question and answer session.

I will not turn the call over to Mr. Luis Carlos Sarmiento Gutierrez, Chief Executive Officer.

Mr. Luis Carlos Sarmiento Gutierrez you may begin.

Luis Carlos Sarmiento Gutiérrez

Chief Executive Officer

Good morning Sylvia and thank you. I apologize in advance because I'm getting rid of a cold so I am all stuffed up. But here we go. Good morning all and thank you for joining us in our third quarter 2019 conference call. Once again, it is my pleasure to share with you our strong financial results for the quarter that ended on September 30. Today, I will cover the following subjects: an overview of the country's macro scenario, highlights of our results, an update regarding the legal processes of Ruta del Sol, and also our recent announcement of the agreement to acquire Multi Financial Group (MFG), holding of Multibank Panama.

Let's start with the macro scenario. Colombia´s economy, where almost 70% of our consolidated business resides, continues its path of acceleration, despite a worldwide broad-base economic growth slowdown. In fact, as all of you already know, GDP growth during the third quarter accelerated to 3.3%, the strongest quarter in the last four years and higher than the 3.0% average of the first half of this year.

This result was mainly driven by stronger private consumption and investment, from the demand side, while driven by commerce and financial services from the supply side. In fact, 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. The biggest drag on the economy continues to be the country's trade deficit, amid weak exports and robust imports.

All in all, we continue to expect that GDP will grow 3.2% during the year. Assuming a slowdown in government spending next year, a slow recovery in the trade deficit, but sustained private consumption and growth contribution from infrastructure, we forecast a slight improvement in GDP growth, to 3.3%, in 2020.

Employment continues to be soft, with unemployment currently averaging 10.4%. As mentioned in previous calls, we believe that this indicator is being impacted by the notorious inflow of Venezuelan immigrants and the consistent minimum wage increases in excess of inflation. Unemployment numbers will only start to improve as the labor-intensive sectors of the economy gain momentum. As such, we currently expect a slight and only a slight improvement in unemployment for next year.

Twelve-month inflation continues to push towards the 4% upper limit of the central bank's range, closing at 3.86% in October, as compared to last year's inflation of 3.2%. However, the pickup in core inflation has been moderate while food prices have accounted for approximately 90% of the increase. Also contributing to the acceleration in inflation is the pass-through of the devaluation of the currency, resulting in more costly imports, when denominated in Colombian pesos. We expect inflation for 2019 to be 3.8%. Food prices should somewhat ease in 2020 and thus we expect inflation to return to the 3.5% area next year.

Despite higher inflation pressures, due to the yet-to-consolidate economic recovery and the worldwide trend of monetary policy easing, we believe that the Central Bank will continue with a stable repo rate of 4.25% throughout the remainder of 2019 and most, if not all, of 2020.

As I briefly mentioned before, current account deficit continues to be one of the major vulnerabilities of Colombia's economy. Despite a significant increase in Foreign Direct Investment during 2019, Colombia's internal demand growth continues to push for the importation of more expensive goods, while weakening external economies and lower oil prices have precluded an increase in exports and export revenues at a similar pace.

Finally, on the fiscal front, tax revenues for the year have been a positive surprise, thus increasing the probability that the Government will meet its expectation, of achieving a lower fiscal deficit than the 2.7% demanded by the Fiscal Rule target. However, meeting 2020's target of 2.3% will pose a bigger challenge due to the recent revocation, by Colombia's Constitutional Court, of the December 2018 Financing Law. I must note that the effects of this law were not revoked for 2019 except for the surcharge income tax of 4% that the law imposed on the financial sector. The biggest challenge for the Government arises from the need to get a new - or the same - Law approved by Congress during the remainder of this year, to take effect on January 1, 2020.

This was a quarter of high volatility in the exchange rate ranging between 3,170 and 3,480 pesos per dollar, and recently averaging in the 3,400 pesos per dollar area. The devaluation of the Colombian peso has been driven by a strengthening of the US dollar globally and a higher risk perception for emerging economies. Given the current economic indicators, we expect the exchange rate to hover around 3,400 and 3,500 pesos per dollar for the remainder of the year and for 2020.

Moving on to Central America, our growth outlook continues to be positive. We expect that the region's economy will grow slightly less than 3% during 2019, and closer to 3% in 2020. A contributor to the region's slow growth is Nicaragua, whose economy is expected to continue contracting as much as 5% in 2019 and to not grow during 2020. On the other hand, we were pleasantly surprised by the appointment of the new Finance Minister, Rodrigo Chavez, in Costa Rica after the resignation of the previous Minister. Mr. Chavez is currently a high-ranking official of the World Bank in Asia, and according to his first public statements his mandate points towards austerity in public spending and macroeconomic stability. It is believed that he will continue to work on solving Costa Rica's pronounced fiscal deficit.

Moving on to our financial highlights. To highlight a few of our figures, our attributable net income for the quarter was 743 billion pesos, or 33.4 pesos per share. Excluding provisions for CRDS, this number approximated 891 billion pesos for the quarter, or $40 pesos per share. Unadjusted Accumulated attributable net income for the 9 months ended September 30 was 2.3 trillion pesos, showing an increase of 12.5% versus the same period of 2018.

Return on average equity for the quarter was approximately 16%, and approximately 19% when excluding the mentioned provision for CRDS. Our unadjusted cumulative return on average equity for the year was 17.0%.

Our loan portfolio grew strongly, close to 11% yoy (and 5.0% in the quarter) with a distinct pick up in the commercial portfolio.

Our Net Interest Margin for the quarter was 5.7%, in line with our expectations, as a result of a 6.4% NIM on loans and 2.3% NIM on investments.

As expected, our Cost of Risk, excluding CRDS provisions, was 1.8% for the quarter and 2.5% unadjusted. Cumulative Cost of Risk for the first three quarters was 2.2%, and 1.9% excluding provisions for CRDS.

Our Net fee income for the nine months ended September 30, increased by 12% when compared with the same period in 2018, almost 14% versus the same quarter in 2018 and remained stable versus the previous quarter, due mainly to strong banking and pension fund fees.

Corficolombiana's Non-Financial Sector investments continued to contribute during the quarter and thus income from non-financial investments increased 10% versus the previous quarter.

Personnel, including severance costs, and SG&A expenses grew by 6.3% for the nine months ended September 2019 versus the same period in 2018.

Allowances/90+ PDL's at 153%, Deposits/Loans at 1.00x, Liquidity at approximately 16% and Tangible Equity at 8.9%, as of September 30, 2019, complemented the balance sheet´s strength.

Diego will refer later to each of these points in a few minutes.

With regard to digitalization, our digitalizing efforts continue to show results, as evidenced by figures such as the following:

In Colombia, digital sales in the third quarter represented 40% of our total retail sales, up from:

- 23% in the last quarter of 2018,
- 28% in the first quarter of 2019 and
- 31% in the second quarter of 2019

We now have 1.9 million digital customers in our Colombian banks, increasing 13% in the last twelve months.

In Central America, 40% of transactions are done through digital channels and we now have in excess of 1.3 million digital customers.

Moving on to legal matters. Regarding ongoing legal matters related to Ruta del Sol, I will briefly share with you an update on the most relevant developments since our last call:

The main development is related to the Tribunal Administrativo de Cundinamarca or TAC where last December a class action suit was ruled in first instance against CRDS, its shareholders including Episol, and other individuals and entities not related to Aval or its affiliates, jointly and severally, to pay damages to the Nation for approximately 715 billion pesos.

A subsequent appeal to this ruling was granted by the TAC on February 2019 and the effects of the ruling were suspended until the appeal is decided by a higher court - the Consejo de Estado.

- On October 24, 2019, the Consejo de Estado, which has not yet ruled on the appeal, modified the suspended effects of the appeal. Immediately the lawyers of all the parties involved submitted legal requests to get that decision overturned. We are still waiting to hear the Court's decision regarding those requests.
- However, if the decision is upheld, the first instance ruling will become immediately effective with respect to the ineligibility of the defendants to contract with the Colombian government for a term of ten years. The ruling should only affect contracts held directly by Episol and not by any of its affiliates. In that respect, Episol has never directly contracted with the Government.
- Just as importantly, the eventual payment of damages by the defendants will only become effective in the case that the appeal against the first instance decision is lost.

Developments on other fronts include:

In the antitrust investigation, during the last three months the Superintendence of Industry and Commerce (SIC) has conducted hearings to ratify previous testimonies and has formally interviewed new witnesses.

In the arbitration Tribunal, nearly a dozen appeals were filed for the annulment of the arbitration ruling. Among those filing appeals were Episol and our banking subsidiaries. Recurring reasons to justify the appeals included, gross arithmetic errors, lack of competence of the Tribunal to decide over certain matters, and decisions not based on the applicable legal statutes. The Consejo de Estado will hear the appeal and reach a final decision, which could take several months.

Moving on to our acquisition. On October 31st, we announced that Banco de Bogota, through one of its wholly-owned affiliates, had entered into an agreement to acquire MFG, holding of Multibank Panama. This transaction represents an important step in strengthening our presence in Central America. In fact, we will become the second largest player in terms of assets in Panama, with a market share of almost 11%. Just as important, this transaction is highly complementary to our own operation in Panama, as it expands our customer base and expands also our product offering and capabilities, particularly in the commercial and corporate segments.

As of June 30, 2019, MFG had consolidated assets of approximately USD 5 billion and a total shareholders' equity of USD 560 million. In the last twelve months ended June 30, 2019, MFG's income amounted to approximately USD 60 million. The price offered, which may be adjusted as a result of certain events, represents 1.3x times its total shareholders' equity.

Through this acquisition we will add to our Consolidated Balance Sheet approximately 3.5 billion dollars in loans and approximately 3 billion dollars in deposits. In Central America, as of June 30, 2019, we held, through BAC Credomatic, 16.0 billion dollars in loans and 16.0 billion dollars in deposits. After this transaction, 13% of our total consolidated loan exposure will be in Panama and 35% in Central America.

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

I will now pass this to Diego who will explain in detail or business results.

Diego Solano Saravia,

Chief Financial Officer

Thank you Luis Carlos.

I will now move to the consolidated results of Grupo Aval under IFRS and wrap up with our guidance for 2019 and for 2020. 3Q19 was a strong quarter for Grupo Aval, when taking into account that we recorded a 148 billion pesos impact in attributable net income of Ruta del Sol´s provision.

This sound performance was driven by a strong pickup of our loan dynamics during the quarter in Colombia and Central America in particular that of our corporate portfolio, improving Cost of Risk aside of the CRDS loan, solid performance of our fixed income portfolio and a sustained contribution of our Non-Financial Sector investments.

Starting on page 9, Assets grew 13.4% over the year and 3.5% during the quarter. Colombian assets grew by 9.8% over the year and 1.2% during the quarter, driven by cash, net loans, and intangibles & financial assets from our concessions and rights-of-use assets.

In spite of an annual and quarterly contraction of 14.8% and 4.4% of Nicaraguan assets, Central America, delivered a 4.5% and 0.5% 12 month and three month growths in dollar terms.

Moving to page 10, loans excluding repos grew 10.8% over the year and increased 5.0% during the quarter. Loan dynamics in Colombia posted solid growths and Central America picked up from the lackluster activity evidenced throughout the first half of the year.

As anticipated, our Colombian corporate loan portfolio growth accelerated to 2.6% over the quarter and 4.0% over the year.

Our Colombian retail portfolios posted strong growths, with consumer and mortgage businesses expanding 9.8% and 15.7%, respectively over 12 months. Quarterly growths were 2.2% and 3.8%, respectively.

Our Central American operations, excluding Nicaragua, expanded 5.9% in dollar terms over the year and 2.6% during the quarter. Nicaragua, which weighs approximately 5% of our Central American loans, contracted 26.7% and 5.6% during the quarter.

On Pages 11 and 12, we present several Loan Portfolio Quality ratios. Overall 30 and 90 days PDL remained relatively stable.

Commercial loan portfolios showed a mild deterioration during the quarter:

We recorded a 13 bps increase in 30-day Commercial PDLs and 12 bps in 90-day PDLs in Colombia. In Central America, 30-day and 90-day Commercial PDLs showed some deterioration, with 30-day PDL increasing 7 bps and 90-day 11 bps.

As mentioned by Luis Carlos, we substantially increased or provisions for CRDS this the quarter, recording a 295 billion pesos provision expense reaching an 86% coverage. We expect to fully provision the remaining 102 billion pesos of CRDS during the 4Q19.

Our coverage for the SITP companies stood at 40% at end of quarter.

Delinquency ratios for consumer loans continued improving during the quarter:

In Colombia, the improving trend in delinquency of consumer loans persisted, with 30-day PDLs falling 13 bps to 4.9%, accumulating a reduction of 112 bps since its peak in 1Q2018. 90-day PDLs improved 2 bps to 3.0% relative to 2Q19 and were 36 bps lower than a year earlier. In Central America, 30 days PDL for consumer loans increased 5 bps to 4.9% while 90-day PDLs increased 8 bps to 2.1%.

Our Mortgage PDLs increased during the quarter, driven by Central America.

Both 30 and 90-day new PDL formation improved in both geographies when excluding FX movements. New 30 PDL formation, in absence of FX movements, was 1.2 trillion pesos during the quarter, 122 billion pesos lower than in the previous period.

Our cost of risk was 2.5%, with a quarterly increase of 26 bps driven by Commercial loans in Colombia, stability in Central America and an improvement in Colombian consumer loans.

The CRDS provisions accounted for 68 bps of cost of risk during the quarter._PDL coverage for 90-day PDLs was stable at 1.53x.

On Page 13 we present Funding and Deposits evolution, Funding dynamics were consistent with loan growth.

Our funding structure remained materially stable with deposits representing 76% of total funding and our Deposit to Net Loans ratio stable at 1 time.

Our liquidity position continues to be strong, with our Cash to Deposits ratio at 16%. Deposits increased 4.8% in the quarter and 13.6% over the last 12 months. During the quarter, Colombia grew at 2.3% and Central America grew at 2.0% in USD terms. Over the 12-month period, Colombia grew at 9.0% while Central America grew at 6.6% in USD terms.

On Page 14 we present the evolution of our total capitalization, our attributable shareholders equity and the capital adequacy ratios of our banks.

Our total and attributable equity increased during the quarter mainly driven by our net income. Our attributable equity increased by 1.0 trillion pesos while our total equity increased by 1.8 trillion pesos. OCI also contributed to our equity during the quarter.

As of 3Q19 our banks show appropriate Tier 1 and Total Solvency Ratios.

On page 15 we present our yield on loans, cost of funds, spreads and Net Interest Margins. Our NIM decreased 17 bps to 5.7% mainly driven by a tighter NIM on loans in Colombia. Our NIM on Investments continued to be particularly strong at 2.3%.

As anticipated, pricing in Colombia became more aggressive during the quarter due to the improvement in consumer loan quality, and a better outlook in the corporate portfolio resulting from a stronger GDP. We continue to expect some pressure on our NIM loans as growth increases the share of newly priced loans enters our mix.

On page 16 we present net fees and other income. Gross Fee Income grew 13.7% when compared to a year earlier and was slightly higher than that of a particularly strong 2nd quarter. Gross fees increased 10.1% in Colombia and 5.7% in USD terms in Central America, compared to 3Q18.

In addition, our Non-financial Sector continues to be a strong contributor to our income, adding 10% more than in the previous quarter. Finally, our Other Operating Income was particularly strong this quarter as our banks realized gains on fixed income investments, taking advantage of the current interest rate environment.

On Page 17 we present some efficiency ratios. YTD Personnel and General and Administrative Expenses increased 6.3%, with a 2.1% increase in Colombia and a 1.2% increase in Central America in USD terms. FX fluctuations explain the remainder of this growth. YTD Personnel Expenses increased 6.8%, with a 2.1% increase in Colombia, affected by termination expenses, and a 1.2% increase in Central America in USD terms. YTD General and Administrative Expenses increased 5.9%. When adding IFRS 16 related D&A to administrative expenses, this figure was 7.9% in Colombia and 8.2% in Central America in USD terms. Certain non-recurrent expenses increased our Colombian expenses, while Central America incorporates the introduction of VAT on services in Costa Rica and a temporary increase in marketing expenses.

Non-recurrent events that affected our expenses during this quarter include:

First, a 63 billion pesos non-income tax expense recorded as SG&A was incurred in order to raise the fiscal cost of certain fixed assets, which will enable us to sell them in the future with a lower income tax expense. This charge was offset by deferred income tax recoveries of 99 billion pesos, resulting in a 29 billion pesos positive net effect on our attributable net income.

Second, we recorded 18 billion pesos of termination expenses in Banco Popular. Year to Date Total Other Expenses, that include Personnel, General and Administrative, Depreciation and Amortization, and other expenses, grew 9.6% relative to a year earlier. Total other expenses grew 5.0% in Colombia and 4.8% in Central America in USD terms during this period. FX fluctuations explain the remainder of this growth.

Finally, on Page 18 we present our net income and profitability ratios. Attributable Net income for 3Q19 was 743 billion pesos, or 33 pesos per share. YTD Attributable Net income was 2,319 billion pesos, or 104 pesos per share.

Return On Average Assets and Return On Average Equity for the quarter were 2.0% and 15.8%, respectively. This incorporates 314 bps of negative impact of the CRDS provision on Return On Average Equity.

Before we move into Questions & Answers I will now summarize or general guidance for the remainder of 2019 and for 2020:

We expect loan growth to be in the 9% area in 2019 and picking up to 10-12% in 2020.

We expect our cost of risk, net of recoveries, to be in the 2.2% area in 2019, falling to the 1.9% area in 2020.

We expect full year NIM to be in the 5.7% area in 2019, contracting to 5.6% in 2020.

Finally, we expect our ROAE to be in the 16.25% area in 2019 and in the 15.75% area in 2020.

Now I will open for questions.

Q&A

Operator: Thank you. We will now begin the questions and answers session. If you have a question, please press star and then one on your touch tone phone. If you wish to be removed from the queue, please press the pound sign or the hash key. If you are using a speakerphone you may need to take out the handset first before pressing the numbers. Once again, if you have a question please press star and then one on your touch tone phone.

And the first question comes from Jason Mullin from Scotiabank.

Jason Mullin: Hi, hello everyone. My first question is related to the recent announcement of the acquisition of Multibank Panama. You talked about the strategic rationale for doing this. Can you give us some color on what financing options Aval is considering and potential implications for capital at Aval and/or subsidiaries such Banco de Bogota? and my second question is on the outlook for provisions. You´ve mentioned guidance for cost of risk in the 1.9% range, should we be considering provisions of Ruta del Sol something of the past now? And are there any other specific cases that we should be aware of that could come up in the oncoming quarters? thank you

Luis Carlos Sarmiento Gutierrez: Sure Jason, thank you. Regarding your first question I will take the Multibank question first and Diego can take the provision question. Regarding Multibank, well, the good news is that we are now sure that we won´t need any new capital or capital influxes to pay for the bank. And we are considering several types of funding options, Jason, we really have a whole array of options available to us, including, maybe upstreaming some dividends from BAC to its holding company Leasing Bogota Panama, which is the company that we've selected to buy the bank and BAC has already been preparing for that event.

We just did an issue of credit card receivables and where it just that issue alone would pay for the bank at about 2.7% after tax cost of funds. So as I said we are considering several alternatives, we will probably put together a package of funding and obviously, we will do it in a way that the acquisition is accretive for our share and for Banco de Bogota.

Diego Solano: Regarding the provisions, I didn't highlight in my presentation, but I need to point out that we've actually reduced our guidance for this year of cost of risk from 2.3% to 2.2%, including fully provisioning Ruta del Sol.

At this point, the larger cases that we had been discussing over the past couple of years are pretty done with. Electricaribe many quarters ago, Ruta del Sol will be done by year-end and then SITP the one we needed to provision, we've already provisioned. And by the way, as of October we have already written off. The other SITP companies are performing actually much better than expected. Therefore, we're not foreseeing any more provisions there.

In 2020, I think there's 2 sorts of provisions some are good to have, and some are bad to have. The good to have are those that are related to growth and the bad to have are the bad cases.

At this point, we feel that we are moving into more of the first kind of provisions related to growth rather than expecting negative surprises. That applies for Colombia and also for Central America, where the troubling countries are all improving as we have highlighted before.

Jason Mullin: Thank you very much, very helpful.

Operator: Our next question comes from Gabriel Nóbrega from Citibank.

Gabriel Nóbrega : Hi everyone, thank you for the opportunity for asking questions. So my first question it's actually a follow-up in the MFG agreement of acquisition. When we look at the numbers from the Panamanian Superintendence we actually see that the profitability of this bank has been reducing over the past few years. So if you could just give us a bit more color on what are your strategies for increasing the ROE of this bank once again?, and as for my second question is actually on your NIM guidance, I see that you're expecting a NIM contraction of around 10 basis points in 2020, I just wanted to understand if this is the fruit of maybe higher competition or if it's still going to be fruit from the higher and faster growth of time deposits, which have actually been pressuring your funding costs? Thank you.

Luis Carlos Sarmiento Gutierrez: I'm willing to take your first question and I will be happy to do that, but I missed a part of it. I'm sorry if you just mention again what have you said, has been reducing in MFG over the past few years, I am sorry I didn't catch that.

Gabriel Nóbrega: Yes, sorry. The ROE of the bank has been reducing over the past few years.

Luis Carlos Sarmiento Gutierrez: Ok, I am sorry, alright, fine. Well listen, the bank has grown very fast and there will be some contraction of margins and some additional expenses. We have a nice plan in place to do a good work on ROE specifically through very important synergies in the running of the bank in conjunction with our shared services center in Costa Rica out of which we run the six banks in Central America.

We will be putting that plan in place quickly and I think that over the next twelve months we'll see very significant improvements in efficiencies in the acquired bank.

Also, we should be able to extend to the bank some of our cost of funding´s better rate and also some of the treasury that we do in our own banks we should be able to extend to the new bank and all you know we expect that after obviously going through some acquisition expenses as we implement all these new changes it'll come out being a much, much more robust bank.

Diego Solano: Now regarding net interest margin contraction, it's a combination of a few things.

The first one is more of an arithmetic effect of the changes we have already seen throughout this quarter on Net Interest Margin. As you pointed out, part of that is related to the higher competition, higher competition that is related to stronger growth and a better outlook for the quality of the portfolio. So in our net interest margin, we're including that as an effect that will add up to what happens next year on the NIM and loans side.

On the other hand, the net interest margin on investments has been also quite strong throughout this year, this is related to the overall interest rate environment that we have seen globally, and we believe that part of that will not continue into next year, we should migrate to slightly lower more like historical average NIM on investments.

Gabriel Nóbrega: Perfectly clear, thank you so much.

Operator: Our next question comes from Piedad Alessandri from CreditCorp.

Piedad Alessandri: Hi, thank you for the questions, I have a couple of questions. I wanted to know more about the NPL ratio of Central America, if you could give me more details on that because we saw an increase, an important increase, in the NPL ratio of Central America. And if you could explain me a little bit more on the Episol case I got a bit lost over that.

Diego Solano: Ok, let me take the first question regarding NPL ratios in Central America.

You're right, in the past we have experience some NPL particularly in 2 countries that we have highlighted in the past calls. One is Nicaragua and the other one was Costa Rica. Both for very different reasons, in the case of Nicaragua, this was a political unrest that disrupted how the country was performing and in the case of Costa Rica we had a high fiscal deficit, but actions were taken.

What we see is changing trends in both countries. In the case of in Nicaragua, even though it's not yet over, the cycle has started to improve, the contraction has started to decelerate, and we've seen an improvement in some of the other segments of our business there that should impact an improvement in PDLs.

On the Costa Rican side, we've seen some positive events there, the fiscal reform even though not enough to solve long-term fiscal deficit problem in Costa Rica, it has reduced pressures and raised throughout the country and then we see as a very positive evolution the new minister of finance, who's at least at this point verbally pointing it in exactly what the right actions should be. Therefore, this cycle that we've seen in Central America, we are quite positive on how it should be evolving into the future.

Luis Carlos Sarmiento Gutierrez: OK let me try to give you a very quick response, if at all possible, regarding your 2nd question.

Some time ago, the Procuraduria General of Colombia brought up a class action suit against about 20 or 20 something defendants all related to the CRDS scandal.

That class action was ruled against those defendants in the first instance by the Tribunal Administrativo de Cundinamarca where it was being considered.

The ruling had two effects: one, it declared or ruled that the defendants had to pay Ps 715 billion, about USD 200 million to the government, to the nation and secondly, it declared that those defendants themselves, they personally, those who lost the lawsuit could not contract with the government for the next 10 years.

The ruling was appealed and it´s being heard by the Consejo de Estado. The first feedback that we got regarding the appeal was that the two effects of the appeal were suspended up until the Consejo de Estado rules on the appeal itself.

Just recently one of the judges that is considering the case issued a statement saying that regarding the two effects of the first instance ruling, one of the effects that which protruded the defendant from contracting with the government for the next 10 years had to be immediately put in effect.

That in itself has a lot of contradictions and an we have appealed that statement, but what I was saying was that in case that the statement stood and that in fact the defendant could not contract with the government for the next 10 years, the highlight that I was making is that Episol itself which is one of the defendants had never entered into contracts with the government and have no intentions of contracting with the government.

The entity that contracted with the government was Concesionaria Ruta del Sol in which Episol was, as you know, a minority shareholder. So all that I was saying is, obviously, we are appealing the decision, but in fact it will have no effect regarding Episol itself.

Operator: Our next question comes from Sebastian Gallego from CrediCorp Capital

Sebastian Gallego: Hi good morning everyone thanks for the opportunity. I have 2 questions. The first one can you provide a bit more color on growth expectations within the Central American operation and the second question is related to OpEx. Can you provide further explanation on growth on OpEx excluding the effects of FX? an what is your guidance for OpEx growth going forward?

Diego Solano: Regarding growth expectations, we've seen Central America picking up over the past quarter. As mentioned, this has happened in the corporate segment and it has also happened broadly throughout the region, except Nicaragua.

In the case of Nicaragua, the changes, the contraction is happening at a much lower pace. Part of what we will be working throughout next year at some point is the integration of MFG that will provide us some inorganic growth there and in the rest of the country is also working in organic growth as we usually do.

Regarding expenses, I need to say we were not that happy with our expense's performance during the quarter and action had been taken particularly in Central America. For some of the expenses that could become recurrent to adjust them down and work is being done throughout the region to attend that area.

Colombia has been performing pretty well, as mentioned in the past it's been a combination of discipline plus some of the results from the digital strategy that are helping us contain costs.

What we expect to see in the next year is cost growth in the order of 5%, 5 to 6% that should be short of what we're pointing out for our asset growth and for loan growth, therefore we should see some improvements in that front.

Operator: Our next question comes from Carlos Rodriguez from Ultraserfinco.

Carlos Rodriguez: Good morning everyone and thank you for the for the conference call. I have 2 questions. The first one is, could you give us more detail in the increase of the trading assets in your balance sheet an if this trend will continue in the coming quarters and my 2nd question is this a follow up in the OpEx you could share with us your medium and long term target in efficiency in Central America and in Colombia, and how much you can push the efficiency in Colombia. thank you

Diego Solano: I am not sure I got your question right, but I believe you were referring to the trend in assets. Regarding the trading assets, what we saw this year is a particularly healthy return on the portfolio. Part of the reason why we're guiding to a slightly short return on equity for next year compared to this year is we do not see this kind of returns being maintained for the long term. We do expect to see a positive result on the trading side, however, not as solid as this year. In the efficiency front …

Luis Carlos Sarmiento Gutierrez: On your second question regarding the efficiency short and medium term target, I think that we have been working on and it's still too early to say exactly how much we will be able to improve our efficiency, but we have, as I´ve mentioned briefly, just recently inaugurated a central shared services center in Costa Rica where we are in the process of moving all those services that we can share for the six banks and now seven banks in Central America and we should start seeing a results very soon with that.

That shared service center is also located in the duty-free zone and that obviously will help with the fiscal situation. In Colombia we are in the process of moving in the same direction, it is still too early to tell we have started with all the consultancy work that is required but we will be putting together a similar shared services center in the next few years and will keep you abreast of that.

Operator: Our next question is from Julian Amaya from Davivienda Corredores.

Julian Amaya: Good morning thank you for the presentation I have two questions. In this quarter the effective tax rate was way below of other quarters could you explain a little bit further these results and also regarding the elimination of the 4% surcharge tax, it would there be any impact in the fourth quarter? Thank you.

Diego Solano: Regarding the low-income tax. I mentioned that we went through a process of raising the fiscal cost of some fixed assets. I mentioned that it generated an expense but also said that it generated a Ps 99 billion positive income impact on deferred income taxes. So the reason why you see that low numbers during this quarter is that we have that positive effect on taxes, as I mentioned, the net effect of those were around Ps 29 billion.

Regarding the elimination of the surcharge there is two different sorts of effects, one regarding the surcharge and the other part regarding what the fiscal reform could look like.

Regarding the first one, what we see in our initial numbers is we could have around Ps 60 billion positive impacts from that surcharge this is in the making of this point because we need to see how the new fiscal reform comes out and what the impact on deferred taxes looks like .

So our preliminary numbers are looking more into what's the current tax effect would be but there should be a deferred tax effect that at this point it´s too soon to tell because we have no clue on how the final reform would look like.

Operator: Our next question comes from Emer Salas from Barings.

Emer Salas: I've got 2 question. So basically 2 topics. So the first one is on NPL and the second one on capital.

So in a country where you have an unemployment of roughly 11%. I'm just wondering what is your point of not underwriting more toxic assets I think it is quite unique to have a stable NPL across the cycle. And I was also just wondering when you look at your NPL number which is more than 4.5%, I'm just wondering which portion of that has been carried forward longer than a year. I want to understand your write-off strategy. Whether you're going to write-off any NPLs in 1 year or 180 days.

And on the capital, I'm just wondering ahead of Basel III implementation. What is your capital planning for next year because it looks like you might be a bit low on capital assuming moving to a Basel III framework. And also in terms of equity. I just want to understand which portion is tangible and which portion is intangible. Thank you.

Diego Solano: OK. Let me take the first one regarding NPLs. Just to make sure that I understood your question, you said that you hadn't seen a strong variation of NPLs throughout the cycle. I need to say that we actually did have a quite strong or a visible effect of the cycle.

We used to run at a cost of risk that was between 1.5 and 1.8% pre-cycle this went up to the kind of numbers that we've mentioned recently and that we had last year. And at this point, we are returning to something that is below 2% for next year. The driver of this cycle was at first, what was happening with the consumer portfolio that came first into deteriorating. And then what's first to recover and then with some lag of around 2 to 3 quarters, we saw the corporate portfolio, particularly on the commercial side, starting to deteriorate. At this point, we see the process passing. We haven't yet seen the improvement in the cycle.

But given that we are forecasting GDP growth above 3% and growth picking up, so the denominator should be improving, we should see also some improvements in that front. Regarding your write-offs. Perhaps the only relevant loan that has been provisioned already for some time that is still on our books and hasn't been written-off is

Electricaribe, which we're actually looking into -- if it's the right time to write it off. The reason not to write it off is there has been uncertainty and potential recovery on that debt, and that has deferred our decisions, but we're in the point of looking at that decision now.

Luis Carlos Sarmiento Gutierrez: And regarding your question on capital. Let me state, to start with, we have informed that the Superintendency of Banks that we will be early adopters of Basel III. We expect that to happen within the first two quarters of next year. As we adopt Basel 3 as you probably know the first calculation is that our risk-weighted assets will drop substantially based on Basel III.

On the other hand, we will have some additions to Tier I, which we don't count now in terms of regulatory capital for example all the OCI accounts will come to count towards regulatory capital as well as all the earnings generated within a period, which they don't. So at least in three of our banks, Banco de Occidente, Banco Popular and Banco AV Villas we will see a substantial increase in regulatory capital.

When we talked about Banco de Bogota there are many more things happening when we adopt Basel III.

On the one hand, we will have a decrease in Tier I capital due to the fact that because we were grandfathered by regulation of some years ago, the goodwill that we generated when we purchased BAC which is about a billion dollars has no counted towards a reduction in Tier I one capital and it will from the moment that we adopt Basel 3.

But on the other hand with OCI, with earnings becoming part of the regulatory capital ,as well as with the way that Banco de Bogota will account for its investment in Corficolombiana with respect to regulatory capital where now under Basel II discount from Tier I regulatory capital, the full of its investment in Corficolombiana which is about a billion dollars, it will not have to discount all of the Ps 3.4 trillion or USD 1 billion in Banco de Bogota´s investment in Corficolombiana.

So one thing will tend to offset the other, we will have to discount regulatory capital for the goodwill booked when we purchased BAC, but it will recover in a way that billion dollars more less than it is now discounting out of Tier I regulatory capital with respect to the investment it has Banco de Bogota has in Corficolombiana.

And it also expected that its risk-weighted assets will have, all in all, probably decrease, except that we're waiting to hear what exactly the Superintendency in Colombia wants Banco de Bogota and its consolidated balance sheet to account in terms of regulatory risk weighted assets for the assets that it has in Central America.

Operator: There are no further questions.

Luis Carlos Sarmiento Gutierrez: Great well, Sylvia thank you very much and thank you all for attending this call and we certainly hope to keep producing the results that you expect us to and will see you in our next call.

Operator: Thank you, ladies and gentlemen, thank you for participating you may now disconnect.

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