

U.S.\$1,000,000,000



Grupo Aval Limited

(Incorporated in the Cayman Islands)

Unconditionally Guaranteed by

GRUPO AVAL ACCIONES Y VALORES S.A.

(Incorporated in the Republic of Colombia)

4.75% Senior Notes due 2022

Grupo Aval Limited, or the “Issuer,” is offering U.S.\$1,000,000,000 aggregate principal amount of its 4.75% senior notes due 2022. The notes will mature on September 26, 2022. The notes will accrue interest at a rate of 4.75% per year, payable semi-annually in arrears on March 26 and September 26 of each year, commencing on March 26, 2013. The notes will be unconditionally guaranteed by Grupo Aval Acciones y Valores S.A., or “Grupo Aval.”

We may redeem the notes, in whole or in part, by paying the greater of 100% of the outstanding principal amount and a “make-whole” amount, in each case plus accrued and unpaid interest. Any redemption in part may not result in less than U.S.\$250.0 million aggregate principal amount of notes being outstanding after such redemption. In addition, we may redeem the notes, in whole but not in part, at a price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest and any additional amounts, at any time upon the occurrence of specified events relating to Cayman Islands or Colombian tax law. See “Description of the Notes—Optional redemption.”

The notes will be senior unsecured obligations of the Issuer and will rank pari passu in right of payment with all of its existing and future senior unsecured indebtedness (other than certain liabilities preferred by statute or by operation of law). The guarantees of Grupo Aval will rank pari passu in right of payment with all of its existing and future senior unsecured indebtedness (other than certain liabilities preferred by statute or operation of law).

Application will be made to list the notes on the official list of the Luxembourg Stock Exchange for trading on the Euro MTF market. Currently, there is no market for the notes.

Investing in the notes involves risks. See “Risk Factors” beginning on page 26 and in “Item 3. Key Information—D. Risk Factors” of our annual report on Form 20-F for the fiscal year ended December 31, 2011 (our “2011 Annual Report on Form 20-F”) incorporated by reference herein for a discussion of certain risks that you should consider in connection with an investment in the notes.

Issue price: 99.607%, plus accrued interest, if any, from September 26, 2012.

The notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended, or the “Securities Act,” or the securities laws of any other jurisdiction. The notes are being offered or sold only to (1) qualified institutional buyers, as defined in Rule 144A under the Securities Act and (2) outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act.

The notes may not be publicly offered or sold in Colombia without the prior authorization of the Colombian Superintendency of Finance (*Superintendencia Financiera de Colombia*) and registration with the National Registry of Securities and Issuers (*Registro Nacional de Valores y Emisores*). The notes have not been registered in the Cayman Islands and may not be offered or sold in the Cayman Islands except in compliance with the securities laws thereof.

The delivery of the notes is expected to be made to investors in book-entry form through the facilities of The Depository Trust Company, for the accounts of its direct and indirect participants, including Euroclear Bank S.A./N.V., or “Euroclear,” and Clearstream Banking, société anonyme, Luxembourg, or “Clearstream,” on or about September 26, 2012.

Joint Lead Book-Running Managers

Goldman, Sachs & Co.

J.P. Morgan

Book-Running Manager

Corficolombiana

The date of this offering memorandum is September 19, 2012.

TABLE OF CONTENTS

	<u>Page</u>
Presentation of Financial and Other Information.....	v
Forward-Looking Statements	viii
Enforcement of Judgments	x
Summary.....	1
Risk Factors	26
Exchange Rates and Foreign Exchange Controls	30
Use of Proceeds	32
Capitalization.....	33
Selected Statistical Data	35
Management’s Discussion and Analysis of Financial Condition and Results of Operations	64
Description of the Notes	134
Tax Considerations	155
Plan of Distribution	159
Transfer Restrictions.....	163
Listing and General Information.....	165
Validity of the Notes.....	166
Independent Registered Public Accounting Firm	166
Index to Financial Statements.....	F-1

We have not, and Goldman, Sachs & Co. and J.P. Morgan Securities LLC (together, the “initial purchasers”) and Corporación Financiera Colombiana S.A., or “Corficolombiana,” have not, authorized any other person to provide you with information other than this offering memorandum. Neither Grupo Aval Acciones y Valores S.A., the initial purchasers nor Corficolombiana are making an offer to sell or soliciting an offer to buy the notes in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this offering memorandum is accurate as of the date on the front cover of this offering memorandum only. Our business, properties, results of operations or financial condition may have changed since that date. Neither the delivery of this offering memorandum nor any sale made hereunder will under any circumstances imply that the information herein is correct as of any date subsequent to the date on the cover of this offering memorandum.

This offering memorandum has been prepared by us solely for use in connection with the proposed offering of the notes described in this offering memorandum. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or the public generally to subscribe for or otherwise acquire notes. Distribution of this offering memorandum to any person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorized, and any disclosure of any of its contents, without our prior written consent, is prohibited. Each prospective investor, by accepting delivery of this offering memorandum, agrees to the foregoing.

By its acceptance hereof, each recipient agrees that neither it nor its agents, representatives, directors or employees will copy, reproduce or distribute to others this offering memorandum, in whole or in part, at any time without the prior written consent of Grupo Aval, and that it will keep permanently confidential all information contained herein or otherwise obtained from Grupo Aval, and will use this offering memorandum for the sole purpose of evaluating a possible acquisition of the notes and no other purpose.

None of the U.S. Securities and Exchange Commission, or the “SEC,” any U.S. state securities commission or any other regulatory authority has approved or disapproved the notes or passed upon or endorsed the merits of this offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

The notes are subject to restrictions on transfer and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws pursuant to registration or exemption therefrom. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. See “Transfer Restrictions.”

Prospective investors are not to construe the contents of this offering memorandum, or any prior or subsequent communications from Grupo Aval or other professionals associated with the offering, as legal, tax or business advice. Each prospective investor should consult its own attorney and business advisor as to the legal, business, tax and related matters concerning this investment. The initial purchasers and Corficolombiana are not acting as your advisors or agents. Prior to entering into any transaction, you should determine, without reliance upon the initial purchasers or their affiliates or Corficolombiana or their affiliates, the economic risks and merits, as well as the legal, tax and accounting characterizations and consequences of the transaction, and independently determine that you are able to assume these risks. In this regard, by acceptance of these materials, you acknowledge that you have been advised that (1) the initial purchasers and Corficolombiana are not in the business of providing legal, tax or accounting advice, (2) you understand that there may be legal, tax or accounting risks associated with the transaction, (3) you should receive legal, tax and accounting advice from advisors with appropriate expertise to assess relevant risks, and (4) you should apprise senior management in your organization as to the legal, tax and accounting advice (and, if applicable, risks) associated with this transaction and the initial purchasers' and Corficolombiana's disclaimers as to these matters.

This offering memorandum contains summaries of the notes and of certain documents, agreements and opinions relating to this offering. Reference is hereby made to the actual documents for complete information concerning the rights and obligations of the parties thereto.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO MEMBERS OF THE PUBLIC OF THE CAYMAN ISLANDS

SECTION 175 OF THE COMPANIES LAW (2011 REVISION) OF THE CAYMAN ISLANDS PROVIDES THAT AN EXEMPTED COMPANY (SUCH AS GRUPO AVAL LIMITED) THAT IS NOT LISTED ON THE CAYMAN ISLANDS STOCK EXCHANGE IS PROHIBITED FROM MAKING ANY INVITATION TO THE PUBLIC IN THE CAYMAN ISLANDS TO SUBSCRIBE FOR ANY OF ITS SECURITIES. EACH PURCHASER OF THE NOTES AGREES THAT NO INVITATION MAY BE MADE TO THE PUBLIC IN THE CAYMAN ISLANDS TO SUBSCRIBE FOR THE NOTES.

AVAILABLE INFORMATION

Grupo Aval is Colombia's largest banking group; and, through our BAC Credomatic operations, we are also a leading banking group in Central America. Our registered and principal executive offices are located at Carrera 13 No. 26A - 47, Bogotá D.C., Colombia, and our general telephone number is (+57) 1 241-9700. Our website is <http://www.grupoaval.com>. Information on our website is not incorporated by reference in, and does not constitute a part of, this offering memorandum.

Grupo Aval is an issuer in Colombia of securities registered with the National Registry of Shares and Issuers (*Registro Nacional de Valores y Emisores*), and in this capacity, it is subject to oversight by the Superintendency of Finance. Grupo Aval is not a financial institution and is not supervised or regulated as a financial institution in Colombia. Grupo Aval is required to comply with corporate governance and periodic reporting requirements to which all issuers are subject, but it is not regulated as a financial institution or as a holding company of banking subsidiaries and, thus, is not required to comply with capital adequacy regulations applicable to banks and other

financial institutions. All of our banking subsidiaries (Banco de Bogotá, Banco de Occidente, Banco Popular, Banco AV Villas, and their respective Colombian financial subsidiaries, including Porvenir and Corficolombiana) are entities under the comprehensive supervision of, and subject to inspection and surveillance as financial institutions by, the Superintendency of Finance.

We are subject to the information requirements of the U.S. Securities Exchange Act of 1934, as amended, or the “Exchange Act,” applicable to foreign private issuers, and accordingly, file or furnish reports, including annual reports on Form 20-F, reports on Form 6-K, and other information with the Securities and Exchange Commission, which may include information pertaining to us. You may read and copy any documents filed by Grupo Aval at the SEC’s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Grupo Aval’s filings with the SEC are also available to the public through the SEC’s website at <http://www.sec.gov>.

We incorporate by reference our annual report on Form 20-F for the fiscal year ended December 31, 2011 (our “2011 Annual Report on Form 20-F”) into this offering memorandum. Any other report and notice filed with the SEC and any information contained in, or accessible through, our website are not incorporated by reference in, and do not constitute a part of, this offering memorandum.

As you read the offering memorandum and our 2011 Annual Report on Form 20-F, you may find inconsistencies in information between this offering memorandum and our annual report on Form 20-F. If you find inconsistencies, you should rely on the statements made in this offering memorandum. Any statement contained in a document incorporated by reference into this offering memorandum shall be deemed to be modified or superseded to the extent that such statement is made in the offering memorandum. Any such statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this offering memorandum.

For as long as any notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser or subscriber of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser or subscriber, the information required to be delivered to such persons pursuant to Rule 144(d)(4) under the Securities Act (or any successor provision thereto).

DEFINITIONS

In this offering memorandum, unless otherwise indicated or the context otherwise requires, the terms:

- “Grupo Aval,” “we,” “us,” “our” and “our company” mean Grupo Aval Acciones y Valores S.A. and its consolidated subsidiaries;
- “Grupo Aval Limited” or the “Issuer” means our wholly-owned finance subsidiary, Grupo Aval Limited;
- “banks” and “our banking subsidiaries” mean Banco de Bogotá S.A., Banco de Occidente S.A., Banco Popular S.A. and Banco Comercial AV Villas S.A. and their respective consolidated subsidiaries;
- “Banco de Bogotá” means Banco de Bogotá S.A. and its consolidated subsidiaries;
- “Banco de Occidente” means Banco de Occidente S.A. and its consolidated subsidiaries;
- “Banco Popular” means Banco Popular S.A. and its consolidated subsidiaries;
- “Banco AV Villas” means Banco Comercial AV Villas S.A. and its consolidated subsidiary;
- “BAC Credomatic” or “BAC” means BAC Credomatic Inc. (formerly BAC Credomatic GECF Inc.) and its consolidated subsidiaries;
- “Corficolombiana” means Corporación Financiera Colombiana S.A. and its consolidated subsidiaries;

- “LB Panamá” means Leasing Bogotá S.A., Panamá and its consolidated subsidiaries; and
- “Porvenir” means Sociedad Administradora de Fondos de Pensiones y Cesantías Porvenir S.A. and its consolidated subsidiary.

The term “Superintendency of Finance” means the Colombian Superintendency of Finance (*Superintendencia Financiera de Colombia*), a supervisory authority ascribed to the Colombian Ministry of Finance and Public Credit (*Ministerio de Hacienda y Crédito Público*), or the “Ministry of Finance,” holding the inspection, supervision and control authority over the persons involved in financial activities, securities markets, insurance and any other operations related to the management, use or investment of resources collected from the public.

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

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references herein to “peso,” “pesos” or “Ps” refer to the lawful currency of Colombia. All references to “U.S. dollars,” “dollars” or “U.S.\$” are to United States dollars. See “Exchange Rates and Foreign Exchange Controls” for information regarding exchange rates for the Colombian currency since 2007. This offering memorandum translates certain Colombian peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. The conversion of amounts expressed in Colombian pesos as of a specified date at the then prevailing exchange rate may result in presentation of U.S. dollar amounts that differ from U.S. dollar amounts that would have been obtained by converting Colombian pesos as of another specified date. Unless otherwise noted in this offering memorandum, all such peso amounts have been translated at the rate of Ps 1,784.6 per U.S.\$1.00, which corresponds to the representative market rate calculated on June 30, 2012. The representative market rate is computed and certified by the Superintendency of Finance on a daily basis and represents the weighted average of the buy/sell foreign exchange rates negotiated on the previous day by certain financial institutions authorized to engage in foreign exchange transactions. Such conversion should not be construed as a representation that the peso amounts correspond to, or have been or could be converted into, U.S. dollars at that rate or any other rate. On September 18, 2012, the representative market rate was Ps 1,799.77 per U.S.\$1.00.

Financial statements

Grupo Aval is an issuer in Colombia of securities registered with the National Registry of Shares and Issuers (*Registro Nacional de Valores y Emisores*) and, in this capacity, is subject to surveillance of the Superintendency of Finance. Grupo Aval is not a financial institution and is not supervised or regulated as a financial institution in Colombia. Grupo Aval is required to comply with corporate governance and periodic reporting requirements to which all issuers are subject, but it is not regulated as a financial institution or as a holding company of banking subsidiaries and thus is not required to comply with capital adequacy regulations applicable to banks and other financial institutions. All of our banking subsidiaries (Banco de Bogotá, Banco Occidente, Banco Popular and Banco AV Villas and their respective Colombian financial subsidiaries, including Porvenir and Corficolombiana) are entities under the comprehensive supervision of, and subject to inspection and surveillance as financial institutions by, the Superintendency of Finance.

Our consolidated financial statements at December 31, 2011, 2010 and 2009 and for the years ended December 31, 2011, 2010 and 2009 have been audited, as stated in the report appended thereto, and are included in our 2011 Annual Report on Form 20-F incorporated by reference herein and referred to as “our audited annual consolidated financial statements.” We have prepared these financial statements and other financial data included herein in accordance with the regulations of the Superintendency of Finance for financial institutions (including Resolution 3600 of 1988 and External Circular 100 of 1995, as amended and supplemented from time to time) and, on issues not addressed by these regulations, generally accepted accounting principles in Colombia, or “Colombian GAAP,” and, together with such regulations, “Colombian Banking GAAP.” Our unaudited condensed consolidated financial statements at June 30, 2012 and for the six-month periods ended June 30, 2012 and 2011 are also included in this offering memorandum. We have prepared these financial statements and other financial data included herein in accordance with Colombian Banking GAAP.

Although we are not a financial institution, we present our consolidated financial statements under Colombian Banking GAAP in this offering memorandum because we believe that presentation on that basis most appropriately reflects our activities as a holding company of a group of banks and other financial institutions. The audited annual consolidated financial statements have not been reviewed or approved by the Superintendency of Finance; however, consolidated financial statements for each semester, prepared on the basis of Colombian Banking GAAP for each of our subsidiaries (which are the basis for our own consolidated financial statements) are remitted to the Superintendency of Finance for their review. The Colombian Banking GAAP consolidated financial statements included in this offering memorandum differ from the consolidated financial statements published by Grupo Aval in Colombia, which are prepared under Colombian GAAP. Because we are not regulated as a financial institution in Colombia, we are required to prepare our consolidated financial statements for publication in Colombia under Colombian GAAP for companies other than financial institutions (Decree 2649 of 1993 and Circular No. 100-000006 of the Superintendency of Companies (*Superintendencia de Sociedades*) and former Superintendency of Securities (*Superintendencia de Valores*), currently the Superintendency of Finance) No. 011 of 2005, which differs in certain respects from Colombian Banking GAAP. These Colombian GAAP financial statements are presented biannually to our shareholders for approval, are reviewed and published by the Superintendency of Finance and are available in Spanish to the general public on Grupo Aval’s web page. We do not file consolidated financial statements prepared on the basis of Colombian Banking GAAP with the Superintendency of Finance; however,

because we filed our 2011 Annual Report on Form 20-F with the SEC, we may from time to time publish semi-annual or quarterly financial data for subsequent periods on a comparable basis. Our Colombian Banking GAAP financial statements will be available on Grupo Aval's webpage only to the extent that they are included in documents filed with, or furnished to, the SEC.

Colombian Banking GAAP differs in certain significant respects from generally accepted accounting principles in the United States, or "U.S. GAAP." Note 30 to our audited annual consolidated financial statements provides a description of the principal differences between Colombian Banking GAAP and U.S. GAAP as they relate to our audited annual consolidated financial statements and provides a reconciliation of net income and shareholders' equity for the years and at the dates indicated therein. Unless otherwise indicated, all financial information of our company included in this offering memorandum is stated on a consolidated basis prepared under Colombian Banking GAAP.

BAC Credomatic acquisition

On July 15, 2010, we entered into a stock purchase agreement with GE Consumer Finance Central Holdings Corp. and General Electric Capital Corporation (collectively, "GE Capital"), to acquire all of the outstanding shares of BAC Credomatic GECF Inc., a company incorporated under the laws of the British Virgin Islands, for U.S.\$1.92 billion, subject to certain adjustments. BAC Credomatic is a Central American banking group. We completed the acquisition on December 9, 2010. See "Item 4. Information on the Company—B. Business overview—BAC Credomatic" in our 2011 Annual Report on Form 20-F incorporated by reference herein.

As a consequence of our acquisition of BAC Credomatic, our results of operations for the years ended December 31, 2011, 2010 and 2009 may not be comparable with each other and with prior periods. As permitted by the Superintendency of Finance, we have included a one-month period ended December 31, 2010 of BAC Credomatic financial data in our consolidated results of operations for the year ended December 31, 2010.

In our 2011 Annual Report on Form 20-F incorporated by reference herein, we present financial information for BAC Credomatic on a stand-alone basis in accordance with U.S. GAAP. When comparing financial information of BAC Credomatic to other Grupo Aval subsidiaries, we present LB Panamá results, prepared under Colombian Banking GAAP, to disclose financial information pertaining to BAC Credomatic in this offering memorandum. LB Panamá acquired BAC Credomatic and consolidates its operations under Colombian Banking GAAP; however, LB Panamá's stand-alone operations are immaterial. At June 30, 2012, LB Panamá had Ps 1,828.01 billion of goodwill associated with the BAC Credomatic acquisition and Ps 481.8 billion of indebtedness that it incurred to finance, in part, the BAC Credomatic acquisition. Goodwill amortization and interest expense associated with the BAC Credomatic acquisition for the six-month period ended June 30, 2012 were Ps 27.04 billion and Ps 10.6 billion, respectively.

Market share and other information

We obtained the market and competitive position data, including market forecasts, used throughout this offering memorandum from market research, publicly available information and industry publications. We have presented this data on the basis of information from third-party sources that we believe are reliable, including, among others, the International Monetary Fund, or "IMF," the Superintendency of Finance, the Colombian Stock Exchange, the Colombian National Bureau of Statistics (*Departamento Administrativo Nacional de Estadística*), or "DANE," the 2010 and 2011 World Bank Development Indicators, the Economist Intelligence Unit and Euromonitor International. Industry and government publications, including those referenced herein, generally state that the information presented has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Unless otherwise indicated, gross domestic product, or "GDP," figures with respect to Colombia in this offering memorandum are based on the 2005 base year data series published by DANE. Although we have no reason to believe that any of this information or these reports is inaccurate in any material respect, we have not independently verified the competitive position, market share, market size, market growth or other data provided by third parties or by industry or other publications. We, the initial purchasers and Corficolombiana do not make any representation or warranty as to the accuracy of such information.

Except where otherwise indicated, our balance sheet and statement of income data included in this offering memorandum reflects consolidated Colombian Banking GAAP information, while comparative disclosures of our financial and operating performance against that of our competitors are based on unconsolidated information prepared on the basis of Colombian Banking GAAP reported to the Superintendency of Finance. Our banking subsidiaries report unconsolidated financial data to the Superintendency of Finance; however, Grupo Aval, as a

holding company, is not required to report such data. Unless otherwise indicated or the context otherwise requires, market share and other data comparing our performance and that of our competitors reflects the unconsolidated results of our banking subsidiaries, Porvenir and Corficolombiana. Aggregate Grupo Aval market share data throughout this document pertaining to Grupo Aval reflects the summation of unconsolidated results of our banking subsidiaries. Except where otherwise indicated, financial and market share data pertaining to BAC Credomatic has been prepared on the basis of U.S. GAAP.

Banks, financing companies and finance corporations are deemed credit institutions by the Superintendency of Finance and are the principal institutions authorized to accept deposits and make loans in Colombia. Banks undertake traditional deposit-taking and lending activities. Financing companies place funds in circulation by means of active credit operations, with the purpose of fostering the sale of goods and services, including the development of leasing operations. Finance corporations invest directly in the economy and thus are the only credit institutions that may invest in non-financial sectors. Banks are permitted to invest in finance corporations. See “Item 4. Information on the Company—B. Business overview—Supervision and regulation” in our 2011 Annual Report on Form 20-F incorporated by reference herein. In Colombia, we operate four banks, one financing company and one finance corporation (Corficolombiana), and our market share is determined by comparing our banks to other banks reporting their results to the Superintendency of Finance; however, if market share data including financing companies and finance corporations is considered, our market shares would generally be lower than in a bank-only comparison, and the gaps between our market shares and those of our competitors would be smaller, but our market leadership in most market categories would be unaffected. We consider our principal competitors in Colombia to be Bancolombia S.A., or “Bancolombia,” Banco Davivienda S.A., or “Davivienda,” and Banco Bilbao Vizcaya Argentaria Colombia S.A., or “BBVA Colombia,” which are the three leading banking groups in Colombia after Grupo Aval. We consider the following banking groups with operations in El Salvador, Guatemala, Costa Rica, Nicaragua, Honduras and Guatemala to be our principal competitors in those countries: Banco Industrial, Scotiabank, G&T Continental, Citibank and Bancolombia.

Annualized ratios

Unless otherwise noted, we present return on average assets, return on average shareholders’ equity and charge-offs to average outstanding loans for the six-month periods ended June 30, 2012 and 2011 on an annualized basis by multiplying earnings for the six-month period by two. Annualized ratios are not necessarily indicative of the ratios that will be achieved in full-year 2012.

Other conventions

Certain figures included in this offering memorandum have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic summation of the figures that precede them. References to “billions” in this offering memorandum are to 1,000,000,000s and to “trillions” are to 1,000,000,000,000s.

The terms “minority interest” and “non-controlling interest” refer to the participation of minority shareholders in Grupo Aval and our subsidiaries, as applicable.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains estimates and forward-looking statements, principally in “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 3. Key Information—D. Risk Factors,” “Item 4. Information of the Company—B. Business overview” and “Item 5. Operating and Financial Review and Prospects” in our 2011 Annual Report on Form 20-F incorporated by reference herein. Some of the matters discussed concerning our operations and financial performance include estimates and forward-looking statements within the meaning of the Securities Act and the U.S. Securities Exchange Act of 1934, as amended, or the “Exchange Act.”

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

- changes in Colombian, Central American, regional and international business and economic, political or other conditions;
- developments affecting Colombian and international capital and financial markets;
- government regulation and tax matters and developments affecting our company and industry;
- increases in defaults by our customers;
- increases in goodwill impairment losses;
- decreases in deposits, customer loss or revenue loss;
- increases in provisions for contingent liabilities;
- our ability to sustain or improve our financial performance;
- increases in inflation rates;
- changes in interest rates which may, among other effects, adversely affect margins and the valuation of our treasury portfolio;
- decreases in the spread between investment yields and implied interest rates in annuities;
- movements in exchange rates;
- competition in the banking and financial services, credit card services, insurance, asset management, pension fund administration and related industries;
- adequacy of risk management procedures and credit, market and other risks of lending and investment activities;
- decreases in our level of capitalization;
- changes in market values of Colombian and Central American securities, particularly Colombian government securities;
- adverse legal or regulatory disputes or proceedings;
- internal security issues affecting countries where we will operate and natural disasters;

- loss of key members of our senior management; and
- other risk factors as set forth under “Risk factors” and “Item 3. Key Information—D. Risk Factors” in our 2011 Annual Report on Form 20-F incorporated by reference herein.

The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect” and similar words are intended to identify estimates and forward-looking statements. Estimates and forward-looking statements speak only at the date they were made, and we undertake no obligation to update or to review any estimate and/or forward-looking statement because of new information, future events or other factors. Estimates and forward-looking statements involve risks and uncertainties and are not guarantees of future performance. Our future results may differ materially from those expressed in these estimates and forward-looking statements. In light of the risks and uncertainties described above, the estimates and forward-looking statements discussed in this offering memorandum might not occur and our future results and our performance may differ materially from those expressed in these forward-looking statements due to, inclusive, but not limited to, the factors mentioned above. Because of these uncertainties, you should not make any investment decision based on these estimates and forward-looking statements.

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

ENFORCEMENT OF JUDGMENTS

Cayman Islands

The Issuer is an exempted company incorporated with limited liability under the laws of the Cayman Islands. The Issuer is incorporated in the Cayman Islands because of certain benefits associated with being a Cayman Islands company, such as political and economic stability, an effective judicial system, a favorable tax system, the absence of exchange control or currency restrictions and the availability of professional and support services. However, the Cayman Islands have a different body of securities laws as compared to other jurisdictions. In addition, Cayman Islands companies do not have standing to sue before the federal courts of the United States. All of the Issuer's assets are located outside the United States, and all of the Issuer's directors and executive officers or such person's assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon the Issuer, or such persons, or to enforce against them, judgments obtained in U.S. courts.

We have been advised by our Cayman Islands counsel, Maples and Calder, that, although there is no statutory enforcement in the Cayman Islands of judgments obtained in New York or other states in the United States, a judgment obtained in such jurisdictions will be recognized and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment: (i) is given by a foreign court of competent jurisdiction; (ii) imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given; (iii) is final; (iv) is not in respect of taxes, a fine or a penalty; and (v) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands.

Colombia

Grupo Aval is incorporated under the laws of Colombia. All of our directors and officers reside outside the United States. Substantially all of our assets are located outside the United States, primarily in Colombia. As a result, it may not be possible, or it may be difficult, for you to effect service of process upon us or these other persons within the United States or to enforce judgments obtained in U.S. courts against us or them, including those predicated upon the civil liability provisions of the U.S. federal securities laws.

Colombian courts will determine whether to enforce a U.S. judgment predicated on the U.S. securities laws through a procedural system known under Colombian law as "exequatur." Colombian courts will enforce a foreign judgment, without reconsideration of the merits, only if the judgment satisfies the requirements of Articles 693 and 694 of Colombia's Code of Civil Procedure, which provide that the foreign judgment will be enforced if:

- a treaty or convention exists between Colombia and the country where the judgment was granted or there is reciprocity in the recognition of foreign judgments between the courts of the relevant jurisdiction and the courts of Colombia;
- the foreign judgment does not relate to "in rem" rights vested in assets that were located in Colombia at the time the suit was filed and does not contravene or conflict with Colombian laws relating to public order other than those governing judicial procedures;
- the foreign judgment, in accordance with the laws of the country in which it was obtained, is final and not subject to appeal, and a duly certified and authenticated copy of the judgment has been presented to a competent court in Colombia;
- the foreign judgment does not refer to any matter upon which Colombian courts have exclusive jurisdiction;
- no proceeding is pending in Colombia with respect to the same cause of action, and no final judgment has been awarded in any proceeding in Colombia on the same subject matter and between the same parties; and
- in the proceeding commenced in the foreign court that issued the judgment, the defendant was served in accordance with the law of such jurisdiction and in a manner reasonably designed to give the defendant an opportunity to defend itself against the action.

The United States and Colombia do not have a bilateral treaty providing for automatic reciprocal recognition and enforcement of judgments in civil and commercial matters. The Colombian Supreme Court, which is the only Colombian court that can recognize foreign judgments, has generally accepted that reciprocity exists when it has been proven that either a U.S. court has enforced a Colombian judgment or that a U.S. court would enforce a foreign judgment, including a judgment issued by a Colombian court. However, decisions as to enforceability are considered by Colombian courts on a case-by-case basis, and we do not believe there has been a case to date in which the Colombian Supreme Court was asked to enforce a U.S. judgment relating to U.S. securities laws.

We cannot assure you that a Colombian court would enforce a U.S. court judgment with respect to the notes based on U.S. securities laws. We have been advised by our Colombian counsel that there is no legal basis for original actions to be brought against us or our directors and executive officers in a Colombian court predicated solely upon the provisions of the U.S. securities laws. In addition, certain remedies available under provisions of the U.S. securities laws may not be admitted or enforced by Colombian courts.

Grupo Aval's articles of incorporation and by-laws contain an arbitration clause that provides for the exclusive jurisdiction of an arbitral tribunal to be seated at the Bogotá Chamber of Commerce. The arbitration provision provides that any conflict arising among shareholders, or between shareholders and Grupo Aval in connection with the by-laws must be resolved by an arbitral tribunal.

SUMMARY

This summary highlights selected information about us and the notes that we are offering. It may not contain all of the information that may be important to you. Before investing in our notes, you should read this entire offering memorandum carefully for a more complete understanding of our business and this offering, including our consolidated financial statements and the related notes included elsewhere in this offering memorandum and in our 2011 Annual Report on Form 20-F incorporated by reference herein and the sections entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this offering memorandum and “Item 3. Key Information—D. Risk Factors” and “Item 5. Operating and Financial Review and Prospects” in our 2011 Annual Report on Form 20-F incorporated by reference herein.

Our company

Grupo Aval is Colombia’s largest banking group, and, through our BAC Credomatic operations, we are also a leading banking group in Central America. We are Colombia’s largest banking group based on total assets, and its most profitable based on return on average shareholders’ equity, or “ROAE,” as compared to our principal competitors, in each case based on available information at and for the six-month period ended June 30, 2012 and the years ended December 31, 2011, 2010, 2009 and 2008. Grupo Aval provides a comprehensive range of financial services and products across the Colombian market, ranging from traditional banking services, such as making loans and taking deposits, to pension and severance fund management.

Grupo Aval currently consists of four commercial banks in Colombia (Banco de Bogotá, Banco de Occidente, Banco Popular and Banco AV Villas), as well as the largest pension and severance fund manager in Colombia (Porvenir) and the largest merchant bank in Colombia (Corficolombiana), each of which we control and consolidate into our results.

We have the largest banking network in Colombia, with 1,265 branches and 2,649 automated teller machines, or “ATMs,” at December 31, 2011. Customers of any of our banks may access Grupo Aval’s other bank branches to carry out basic banking transactions throughout our *Red de Grupo Aval* (Grupo Aval network).

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

The following table shows market shares and other metrics of our Colombian banking subsidiaries and principal competitors at the dates indicated.

	Grupo Aval entities					Bancolombia	Davivienda	BBVA Colombia
	Banco de Bogotá	Banco de Occidente	Banco Popular	Banco AV Villas	Consolidated (1)			
	(in percentages)							
	At June 30, 2012							
ROAA(2)	2.5	2.0	2.5	2.1	2.1	1.9	–	–
ROAE(3).....	18.8	14.7	18.8	17.0	17.3	16.2	–	–
Efficiency ratio(4).....	47.3	43.9	50.0	58.5	50.0	51.8	–	–
Colombian market share:								
Deposits	15.3	6.6	4.9	3.2	29.9	19.4	10.8	10.0
Gross loans and financial leases.....	13.5	7.3	5.2	2.6	28.7	21.6	12.4	9.6
Assets.....	14.9	7.1	4.7	2.6	29.4	20.6	11.6	8.9
Net income.....	18.1	6.5	5.3	2.4	32.3	22.7	11.6	7.2
Shareholders’ Equity	19.5	7.2	4.5	2.3	33.5	25.1	12.0	6.0

	Grupo Aval entities					Bancolombia	Davivienda	BBVA Colombia
	Banco de Bogotá	Banco de Occidente	Banco Popular	Banco AV Villas	Consolidated (1)			
	(in percentages)							
	At December 31, 2011							
ROAA(2)	2.6	2.1	2.8	2.3	2.3	2.2	1.9	2.0
ROAE(3)	21.3	15.4	20.8	18.6	20.3	19.6	15.1	20.2
Efficiency ratio(4)	50.9	46.0	50.5	59.2	52.7	53.2	47.2	49.9
Colombian market share:								
Deposits	14.8	6.6	4.9	3.3	29.5	19.6	11.5	9.8
Gross loans and financial leases	13.4	7.3	5.1	2.5	28.3	21.9	12.8	9.4
Assets	14.6	7.1	4.8	2.6	29.0	21.0	11.9	8.8
Branches(5)	12.7	3.7	3.7	5.5	25.7	15.4	11.3	6.9
ATMs(5)	9.4	1.6	8.5	4.9	24.3	26.4	13.3	8.8

Source: Company calculations based on Superintendency of Finance data, except for figures relating to branches and ATMs, which are derived from company data. Comparable financial information for the six-month period ended June 30, 2012 is not publicly available as of the date of this offering memorandum for Davivienda and BBVA Colombia.

- (1) Return on average assets, or “ROAA,” ROAE and efficiency ratio reflect consolidated ratios of Grupo Aval. Colombian market share figures reflect aggregated unconsolidated amounts of Grupo Aval’s Colombian banking subsidiaries.
- (2) For methodology used to calculate ROAA, see below note (2) to the table under “—Our company—Financial and operating data.”
- (3) For methodology used to calculate ROAE, see below note (3) to the table under “—Our company—Financial and operating data.”
- (4) For methodology used to calculate efficiency ratio, see below note (4) to the table under “—Our company—Financial and operating data.”
- (5) As of the date of this offering memorandum, branch and ATM information for Colombian banks is not available at June 30, 2012.

Central American operations

Through our BAC Credomatic operations, we are one of the leading banking groups in Central America based on consolidated assets. BAC Credomatic has operations in each of the six Central American countries: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama. BAC Credomatic is one of the leading credit card issuance and merchant-acquiring franchises in Central America. BAC Credomatic’s credit card accounts represented 25.7% of total credit card accounts in Central America (calculated based on BAC Credomatic data and information published by Euromonitor International) at December 31, 2010. BAC Credomatic has the only network that processes all major credit card brands in the region.

Through a network of 487 points of contact (including 227 full-service branches, 40 in-store branches, 192 on-site branches and 28 auto/drive-thru branches) and 1,227 ATMs at June 30, 2012, BAC Credomatic provides us with more than 2.2 million additional customers and access to a region with a population of approximately 43.9 million, providing significant opportunity for growth in financial services.

BAC Credomatic represented the equivalent of 17.8% of our assets at December 31, 2011 and 16.3% of our assets at June 30, 2012.

The following table shows market shares of our Central American operations, excluding Panama.

	BAC Credomatic	Banco Industrial	Scotiabank	G&T Continental	Citibank	Bancolombia
	(in percentages)					
	At June 30, 2012					
Central American market share:						
Deposits	11.5	13.3	5.6	9.2	6.8	5.5
Net loans and financial leases	13.3	11.4	7.7	7.5	6.2	6.2
Shareholders' equity	12.9	9.5	6.3	6.9	11.5	7.5
Net income	14.9	13.5	3.9	6.1	6.7	7.6

Source: Reflects data aggregated from the local superintendencies of Costa Rica, Honduras, El Salvador, Guatemala and Nicaragua. Market share is determined based on the sum of each bank's operations (excluding state-owned banks) in the above mentioned countries. For comparison purposes, this calculation excludes Panama due to the difficulty of separating international from local businesses of Panamanian banks.

Financial and operating data

The following table presents our key consolidated financial and operating data for the periods and at the dates indicated.

	At and for the six-month period ended June 30,			At and for the year ended December 31,		
	2012	2012	2011	2011	2010	2009
	(in U.S.\$ millions, except where otherwise indicated)(1)			(in Ps billions, except where otherwise indicated)		
Financial data:						
Total assets	66,641.5	118,928.4	104,293.0	111,501.9	96,309.3	70,993.1
Gross loans and financial leases	41,486.4	74,036.6	63,272.9	69,947.7	58,623.6	41,896.7
Deposits	41,790.1	74,578.7	65,596.5	71,007.6	63,669.3	49,348.5
Non-controlling interest	2,956.6	5,276.4	5,081.7	4,927.0	4,475.5	4,038.0
Total shareholders' equity	4,786.3	8,541.7	7,551.8	8,159.1	4,554.6	4,084.3
Net interest income	1,712.7	3,056.5	2,756.5	5,468.9	4,628.8	4,826.0
Total provisions, net	(230.2)	(410.8)	(226.4)	(416.3)	(1,026.9)	(887.6)
Total fees and other services income, net	650.3	1,160.5	1,102.4	2,234.4	1,617.7	1,583.5
Total other operating income	261.4	466.4	435.3	958.0	785.5	684.1
Total operating income	2,394.2	4,272.6	4,067.8	8,244.9	6,005.1	6,205.9
Total operating expenses	(1,419.1)	(2,532.6)	(2,403.7)	(4,932.9)	(3,520.0)	(3,292.4)
Total non-operating income (expense), net	68.0	121.3	125.9	196.2	176.9	67.7
Income tax expense	(381.1)	(680.0)	(541.0)	(1,136.7)	(831.0)	(864.3)
Income before non-controlling interest	662.0	1,181.3	1,249.0	2,371.5	1,831.1	2,116.9
Non-controlling interest	(257.7)	(459.9)	(626.7)	(1,080.2)	(874.2)	(1,051.5)
Income attributable to shareholders	404.3	721.5	622.3	1,291.2	956.9	1,065.4
Financial ratios (in percentages)						
ROAA(2)	—	2.1	2.5	2.3	2.2	3.2
ROAE(3)	—	17.3	20.6	20.3	22.2	29.2
Efficiency ratio(4)	—	50.0	51.7	52.7	46.6	42.9

	At and for the six-month period ended June 30,			At and for the year ended December 31,		
	2012	2012	2011	2011	2010	2009
	(in U.S.\$ millions, except where otherwise indicated)(1)			(in Ps billions, except where otherwise indicated)		
Operational data (in units):						
Number of customers(5)	–	9,850,517	8,934,654	9,596,694	8,700,266	6,532,302
Number of employees(6)	–	57,404	54,138	54,463	53,485	36,976
Number of branches(7)	–	1,503	1,472	1,491	1,438	1,180
Number of ATMs(7)	–	3,999	3,644	3,835	3,518	2,340

- (1) Translated for convenience only using the representative market rate as computed and certified by the Superintendency of Finance of Ps 1,784.60 at June 30, 2012.
- (2) For the years ended December 31, ROAA is calculated as income before non-controlling interest divided by average assets (the average of total assets at December 31 of the fiscal year and total assets at December 31 of the previous fiscal year). For the year ended December 31, 2010, BAC Credomatic's results are included in 1/12 of our 2010 income but in 1/2 of our average assets due to the consolidation of BAC Credomatic financial data in Grupo Aval's financial statements from December 1, 2010. Excluding BAC Credomatic's assets from the calculation, results in an adjusted Grupo Aval ROAA of 2.5%. For the six-month periods ended June 30, ROAA is calculated as income before non-controlling interest for the six-month period multiplied by two, divided by average assets (the sum of total assets at the end of the six-month period and total assets at the end of the previous fiscal year, divided by two). For a reconciliation of ROAA, see "Item 4. Information on the Company—B. Business overview—Non-GAAP measures reconciliation" in our 2011 Annual Report on Form 20-F incorporated by reference herein and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP measures reconciliation."
- If average assets were calculated using monthly consolidated information, rather than the average at the beginning and end of an annual period, our ROAA would be: 2.3%, 2.4%, and 3.2% for the periods ended December 31, 2011, 2010 and 2009. If average assets were calculated using monthly consolidated information, rather than the average at the beginning and end of a six-month period, our ROAA would be: 2.1% and 2.5% for the six-month periods ended June 30, 2012 and 2011. ROAA for the six-month period ended June 30, 2012 would be 2.6% for Banco de Bogotá, 2.0% for Banco de Occidente, 2.5% for Banco Popular and 2.0% for Banco AV Villas. Annualized ratios are not necessarily indicative of the ratios that would result for the full-year 2011, which may be materially different.
- (3) For the years ended December 31, ROAE is calculated as net income divided by average shareholders' equity (shareholders' equity at the end of the period plus shareholders' equity at the end of the prior period, divided by two). For the six-month periods ended June 30, ROAE is calculated as net income multiplied by two, divided by average shareholders' equity (shareholders' equity at the end of the six-month period plus shareholders' equity at the end of the prior fiscal year, divided by two). Annualized ratios are not necessarily indicative of the ratios that would result for the full-year 2012, which may be materially different.
- If average shareholders' equity were calculated using monthly consolidated information, rather than the average at the beginning and end of such period, our ROAE would be as follows: 23.8%, 23.3% and 27.2% for the periods ended December 31, 2011, 2010 and 2009, and 17.4% and 25.9% for the periods ending June 30, 2012 and 2011, respectively, and ROAE for the six-month period ended June 30, 2012 would be 19.0% for Banco de Bogotá, 14.6% for Banco de Occidente, 18.3% for Banco Popular and 17.1% for Banco AV Villas. There is no significant effect to shareholders' equity at December 31, 2011 resulting from the BAC Credomatic transaction. Annualized ratios are not necessarily indicative of the ratios that would result for the full-year 2011, which may be materially different.
- (4) Efficiency ratio is calculated as operating expenses before depreciation and goodwill amortization, divided by the sum of total operating income before net provisions. "Item 4. Information on the Company—B. Business overview—Non-GAAP measures reconciliation" in our 2011 Annual Report on Form 20-F incorporated by reference herein and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP measures reconciliation."
- (5) Reflects aggregated customers of our banking subsidiaries. Customers of more than one of our banking subsidiaries are counted separately for each banking subsidiary.
- (6) At June 30, 2012, we had approximately 41,400 employees in Colombia and approximately 16,000 employees in Central America.
- (7) Reflects aggregated number of branches or ATMs, as applicable, in Colombia and Central America.

Our markets

At and for the six months ended June 30, 2012, the majority of our operations was in Colombia, representing 81.3% and 84.5% of our net income and gross loan portfolio respectively, and in the six countries in Central America, representing 18.7% and 15.5% of our net income and gross loan portfolio in each case at and for the six months ended June 30, 2012.

We believe that Colombia's financial system presents significant growth potential given its favorable economic conditions and one of the lowest penetration rates for banking and financial services in Latin America. According to International Monetary Fund data, at December 31, 2011, Colombia's population and economy were the third and fourth largest in Latin America, respectively. According to DANE, in 2011 Colombia's population was approximately 46.0 million people and its nominal GDP was Ps 615.7 trillion (U.S.\$333.2 billion). Colombia's nominal GDP per capita increased from Ps 7.93 million in 2005 (U.S.\$3,416 using the average exchange rate for that year) to Ps 13.4 million in 2011 (U.S.\$7,236 using the average exchange rate for that year).

During the ten-year period ended December 31, 2011, Colombia outperformed the average GDP growth rate for Latin America by 1.1 percentage points, while reducing the country's dependency on foreign financing as reflected in an external debt to GDP ratio of 22.8% at December 31, 2011. According to IMF data, Colombia has achieved GDP growth every year during the last half century (other than 1999). Unlike other emerging Latin American countries, Colombia has regularly met all principal and interest payments on external debt and has avoided hyperinflation, maintaining a single-digit inflation rate for the ten years ended December 31, 2011. According to the Central Bank of Colombia, or the "Colombian Central Bank," Colombia's annual inflation rate for 2011 was 3.7%, close to the 50-year low of 2.0% in 2009 and was 3.2% for the twelve-month period ended June 30, 2012. These economic fundamentals, together with Colombia's record as a stable democracy, account for Colombia's relative strength during the recent global economic and financial crisis.

During the ten-year period ended December 31, 2011, according to the Superintendency of Finance, Colombia's financial system grew at a compounded annual growth rate, or "CAGR," of 11.5% in terms of loans and 8.9% in terms of deposits, on an inflation-adjusted basis, compared to 4.5% for the country's GDP during the same period. Despite this recent growth, Colombia's bank-loans-to-GDP ratio remains relatively low, with an approximate 32.5% ratio at March 31, 2012, according to the Superintendency of Finance. As Colombia's largest banking group, we believe that we are well-positioned to take advantage of Colombia's potential for growth in financial services and products. The capitalization of Colombia's banking sector consists mostly of primary capital (Tier I) with a primary capital (Tier I) to risk-adjusted assets ratio of 11.4% at June 30, 2012, according to the Superintendency of Finance.

We view Central America as a strategic region that meets our expansion criteria. At December 31, 2011, Central America had a total population of approximately 43 million, making it the fourth-largest market in Latin America by population. At the same date, Central America posted an estimated combined GDP of U.S.\$165.9 billion, ranking the region as the eighth-largest economy in Latin America. According to estimates prepared by the IMF, Central America's GDP is expected to grow at an annual average rate of 4.1% between 2012 and 2014, compared to Colombia's expected average growth rate of 4.5% during the same period. In terms of banking penetration, Central America had a ratio of private credit to GDP of 47.2% as of December 31, 2011, mainly driven by Panama's 91.8% ratio. This indicator for the other countries in the region ranges from 23.4% to 49.2%, leading us to believe that growth in the financial sector could outperform GDP growth. We also see the additional penetration of credit cards in the population as an important growth opportunity in Central America.

Our history

Grupo Aval was created by our chairman, Mr. Luis Carlos Sarmiento Angulo, on January 7, 1994 as a *sociedad anónima*. Mr. Sarmiento Angulo has a 56-year track record, having started his entrepreneurial career in 1956, with the opening of a real estate development firm in Bogotá. In 1971, he acquired a majority stake in Banco de Occidente and, in 1972, founded Corporación de Ahorro y Vivienda Las Villas (the predecessor to Banco AV Villas) to focus on low- and middle-income mortgage financing. In 1988, he completed the acquisition of a majority stake in Banco de Bogotá, consolidating his position as a major participant in the Colombian banking system. In 1991, Banco de Bogotá and Banco de Occidente founded Porvenir as a severance fund manager, which expanded to pension fund management in 1994. Banco Popular was acquired in 1996, and, in 1997, the acquisition of Corporación de Ahorro y Vivienda Ahorramas and its subsequent merger with Corporación de Ahorro y Vivienda Las Villas to form Banco AV Villas, improved its competitive position in the mortgage sector. In 1998, Mr. Sarmiento Angulo contributed a majority of his holdings in financial institutions to Grupo Aval. Since then, Grupo Aval has acquired Banco Aliadas, Banco de Crédito y Desarrollo Social Megabanco or Banco Megabanco, Banco Union and Corporación Financiera del Valle through its subsidiaries to further extend and consolidate its position as the leading participant in the Colombian banking sector.

In 1999, we conducted an initial public offering in Colombia and listed our common shares on the Colombian Stock Exchange under the symbol “GRUPOAVAL.” Our initial public offering was the first large-scale equity offering of a Colombian company to the general public, which allowed several thousand investors to become our shareholders. In addition, Grupo Aval’s shareholders have received a dividend yield of approximately 4% per share on average in the 2006 to 2011 period. We have paid dividends every year since our initial public offering. We concluded our third public offering of shares to the Colombian public on May 12, 2011, consisting of 1.6 billion preferred shares at a price of Ps 1,300 (U.S.\$0.72 at the representative market rate on such date) per share and expanded our shareholder base to over 130,000 shareholders. Our preferred shares are listed on the Colombian Stock Exchange under the symbol “PFAVAL.” Grupo Aval is currently, and after this offering will continue to be, controlled by its chairman, Mr. Sarmiento Angulo.

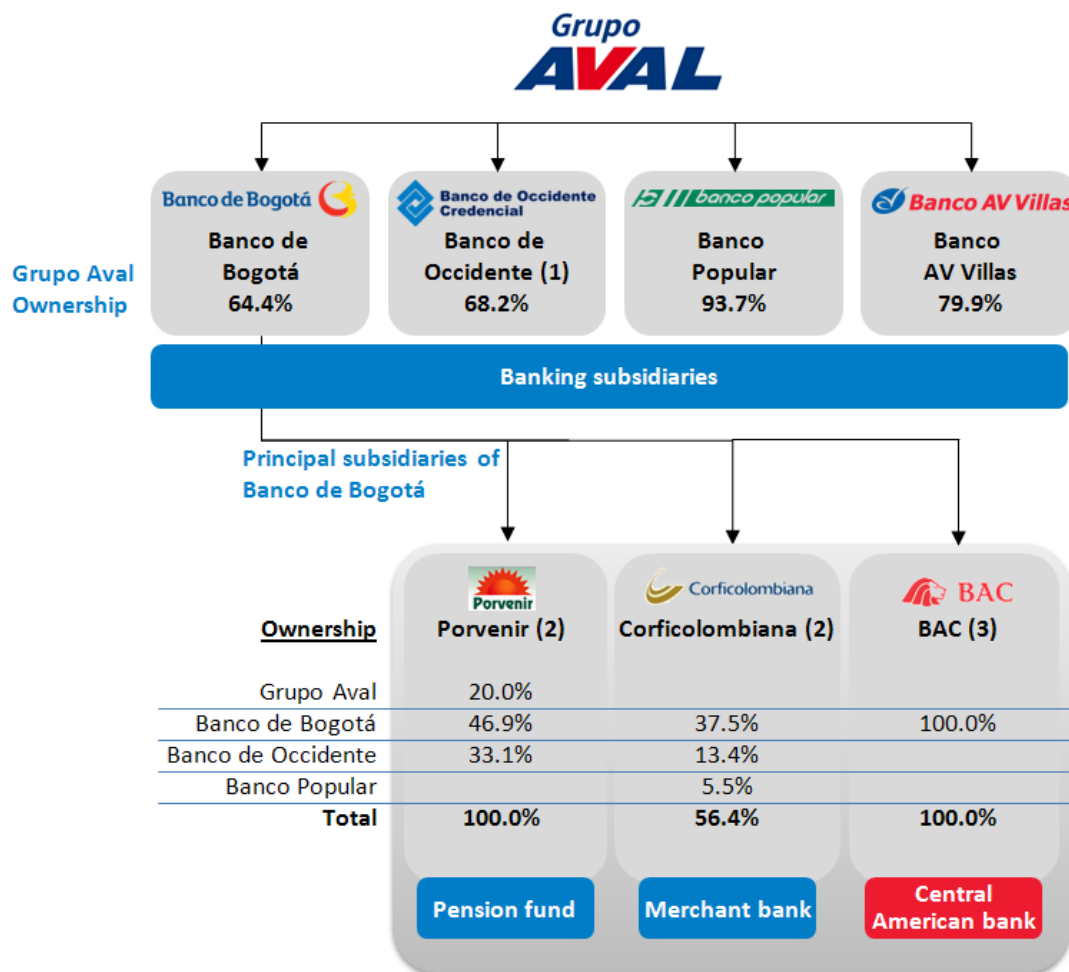
On December 9, 2010, we acquired all of the outstanding shares of BAC Credomatic, pursuant to a stock purchase agreement entered into with GE Capital, for U.S.\$1.92 billion. We operate BAC Credomatic as a separate subsidiary and its results are consolidated into Banco de Bogotá, which already oversees significant businesses run by the management teams in our group, including Corficolombiana and Porvenir.

In 2011, we increased our direct ownership in Banco Popular from 30.7% to 93.7%. See “Item 7. Major Shareholders and Related Party Transactions—B. Related party transactions—Other transactions with Mr. Sarmiento Angulo and his affiliates—Banco Popular share ownership reorganization” in our 2011 Annual Report on Form 20-F incorporated by reference herein.

On February 1, 2012, we successfully completed our inaugural international bond offering, raising U.S.\$600 million of 5.25% Senior Notes due 2017, or the “Grupo Aval Debt Offering.” See “Item 4. Information on the Company—History and development of the company” in our 2011 Annual Report on Form 20-F incorporated by reference herein.

Our operations

We conduct our operations through our four banks (Banco de Bogotá, Banco de Occidente, Banco Popular and Banco AV Villas), our pension and severance fund manager (Porvenir), our merchant bank (Corficolombiana) and our Central American banking group, BAC Credomatic, which we acquired on December 9, 2010. The following chart presents our ownership structure.



Source: Company data at June 30, 2012.

- (1) Corficolombiana held an additional 4.0% beneficial interest in Banco de Occidente at June 30, 2012, due to the merger of Leasing de Occidente into Banco de Occidente in June 2010. These shares are expected to be sold in open-market transactions through the Colombian Stock Exchange.
- (2) Porvenir and Corficolombiana are subsidiaries of Banco de Bogotá, whose financial data is consolidated into Banco de Bogotá's results. Ownership percentages shown include direct and indirect participation.
- (3) This acquisition was completed on December 9, 2010. BAC Credomatic's results of operations prior to December 1, 2010 are not included in Grupo Aval's and Banco de Bogotá's results that are described in this offering memorandum.

We own 64.4% of the share capital of Banco de Bogotá, 68.2% of Banco de Occidente, 93.7% of Banco Popular, 79.9% of Banco AV Villas, 100.0% of Porvenir (20.0% directly and the remainder indirectly through our banks) and 56.4% of Corficolombiana indirectly through our banks, at June 30, 2012. In addition to his interest in Grupo Aval, Mr. Sarmiento Angulo beneficially owns 9.6% of Banco de Bogotá, 13.3% of Banco de Occidente, 0.7% of Banco Popular, 15.4% of Banco AV Villas and 0.3% of Corficolombiana, at June 30, 2012. We acquired an additional 43.5% of Banco Popular's outstanding shares from Rendifin S.A., a company beneficially owned by Mr. Sarmiento Angulo on June 23, 2011 and an additional 19.6% from Popular Securities S.A. and Inversiones Escorial S.A., companies beneficially owned by Mr. Sarmiento Angulo, on September 20, 2011.

Each of our banks and Corficolombiana are publicly-traded on the Colombian Stock Exchange, and the remaining shares in these companies that are not beneficially owned by Mr. Sarmiento Angulo are held by minority shareholders.

Banco de Bogotá, founded in 1870, is Colombia's oldest financial institution and the second-largest bank in the country based on total assets at June 30, 2012 and net income for the six-month period ended June 30, 2012 and the year ended December 31, 2011. Banco de Bogotá had market shares of 15.3% of deposits and 13.5% of loans at June 30, 2012. It is also the largest financial institution within our group by assets and the largest contributor of net income before income tax expense and non-controlling interest. Banco de Bogotá is a full-service bank with nationwide coverage and a comprehensive portfolio of services and products, distributed through a network of 630 branches and 1,088 ATMs. While Banco de Bogotá serves all segments in the market through differentiated service and product offerings, it is particularly focused on commercial lending with a market share of 18.6% of commercial loans at June 30, 2012. Banco de Bogotá's ROAE averaged 25.7% between 2009 and 2011 and was 21.3% for the year ended December 31, 2011 and 18.8% for the six-month period ended June 30, 2012. Following the acquisition of BAC Credomatic, Banco de Bogotá's efficiency ratio worsened from 39.0% in 2009 to 50.9% for the year ended December 31, 2011 but improved to 47.3% for the six-month period ended June 30, 2012.

Banco de Occidente is the fifth-largest bank in Colombia, based on assets and loans at June 30, 2012. It focuses on enterprise customers, state-owned entities and retail customers. Banco de Occidente has strong market shares in the financial leasing business (18.6%, the second-largest market share in the Colombian leasing market, which is comprised of leasing companies and banks). Banco de Occidente's ROAE averaged 18.4% between 2009 and 2011 and was 15.4% for the year ended December 31, 2011 and 14.7% for the six-month period ended June 30, 2012. Its efficiency ratio worsened from 39.8% in 2009 to 46.0% for the year ended December 31, 2011 but improved to 43.9% for the six-month period ended June 30, 2012.

Banco Popular is the pioneer of, and the market leader in, payroll loans in Colombia and is also a premier provider of financial solutions to government entities throughout Colombia. Banco Popular achieved strong returns on its consumer loan portfolio due to its access to payroll deductions for repayment of loans, which results in consumer loans with a substantially lower-risk profile (consumer past due loans of 3.1% compared to a banking system average of 4.8% at June 30, 2012). Banco Popular's ROAE averaged 23.7% between 2009 and 2011 and was 20.8% for the year ended December 31, 2011 and 18.8% for the six-month period ended June 30, 2012. Its efficiency ratio worsened from 46.7% in 2009 to 50.5% for the year ended December 31, 2011, but improved to 50.0% for the six-month period ended June 30, 2012.

Banco AV Villas is a consumer-focused bank, which targets mid- and low-income segments of the population and serves its clients through a nationwide service-point network and an advanced mobile banking platform. It is also Grupo Aval's most active bank in terms of usage of non-traditional channels (mobile banking, non-banking correspondents and virtual branches). Over the past decade, Banco AV Villas has evolved from being a lender exclusively focused on mortgages to a diversified full-service consumer bank. Banco AV Villas' risk management systems provide the bank with real-time and in-depth credit quality analyses that allow the bank to approve consumer loans on an accelerated basis. Banco AV Villas' ROAE averaged 17.6% between 2009 and 2011 and was 18.6% for the year ended December 31, 2011 and 17.0% for the six-month period ended June 30, 2012. Its efficiency ratio worsened from 50.3% in 2009 to 59.2% for the year ended December 31, 2011 but improved to 58.5% for the six-month period ended June 30, 2012.

Porvenir is the market leader in the pension and severance fund management business in Colombia, with a 27.5% market share of assets under management at June 30, 2012. Pension funds provide individual savings for retirement, while severance funds provide temporary income to employees who lose their jobs. Porvenir has experienced a decrease in earnings with a -3.5% CAGR for the 2009 to 2011 period. Porvenir is the most profitable and efficient pension and severance fund manager in the market, with an ROAE that averaged 34.1% between 2009 and 2011 and was 27.1% for the year ended December 31, 2011 and 32.2% for the six-month period ended June 30, 2012.

Corficolombiana is a merchant bank that primarily invests in strategic sectors of the Colombian economy, including infrastructure, energy and finance, and also provides treasury, investment banking and private banking services. Corficolombiana provides Banco de Bogotá with a consistent dividend stream, having declared dividends totaling more than Ps 202 billion (approximately U.S.\$104 million) payable to Banco de Bogotá for the year ended December 31, 2011 and more than Ps 67 billion (approximately U.S.\$38 million) for the six-month period ended

June 30, 2012. Corficolombiana's ROAE averaged 24.0% between 2009 and 2011 and was 21.3% for the year ended December 31, 2011 and 13.9% for the six-month period ended June 30, 2012.

BAC Credomatic is a leading Central American banking group with operations in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama. BAC Credomatic is a full-service financial institution, with one of the leading credit card issuance and merchant-acquiring franchises in Central America. Its credit card accounts represented 25.7% of total credit card accounts in Central America (calculated based on BAC Credomatic data and information published by Euromonitor International) at December 31, 2010. It has achieved processing volumes of U.S.\$9,661 million for the year ended December 31, 2011 and U.S.\$5,175 million for the six-month period ended June 30, 2012 in the merchant acquiring business, which compares favorably to processing volumes of other leading Latin American issuers. BAC Credomatic's ROAE averaged 22.9% between 2007 and 2011 (excluding extraordinary gains in 2007 and 2008) and was 21.8% for the year ended December 31, 2011 and 22.4% for the six-month period ended June 30, 2012.

The following tables present key information regarding the results of our operating subsidiaries at the dates and for the periods indicated.

At and for the six-month period ended June 30, 2012							
Banco de Bogotá	Porvenir(1)	Corficolombiana(1)	LB Panamá(1)	Banco de Occidente	Banco Popular	Banco AV Villas	
(in U.S. millions)(4)							
Loans and financial leases, net.....	22,768	—	415	6,312	8,427	6,009	2,969
Assets.....	41,324	523	6,882	10,835	13,141	8,297	4,615
Deposits	26,061	—	1,890	6,901	8,104	5,384	3,526
Shareholders' equity	4,075	387	1,732	1,819	1,733	1,091	553
Net income.....	373	59	117	118	126	101	46
ROAE(2).....	18.8%	32.2%	13.9%	12.5%	14.7%	18.8%	17.0%
Delinquency ratio past due more than 30 days.....	1.9%	—	1.4%	2.5%	2.6%	2.4%	3.8%
Allowance for loans as a percentage of past due loans.....	136.7%	—	200.5%	63.9%	148.8%	161.5%	120.7%
Solvency ratio(3)	13.3%	—	29.8%	12.7%	11.1%	11.6%	13.4%

At and for the year ended December 31, 2011							
Banco de Bogotá	Porvenir(1)	Corficolombiana(1)	LB Panamá(1)	Banco de Occidente	Banco Popular	Banco AV Villas	
(in U.S. millions)(4)							
Loans and financial leases, net.....	21,818	—	361	6,415	7,923	5,496	2,698
Assets.....	38,557	449	5,761	11,112	12,429	7,986	4,269
Deposits	24,300	—	1,246	6,926	7,800	5,186	3,453
Shareholders' equity	3,836	348	1,642	1,935	1,689	1,055	524
Net income.....	642	87	341	185	242	209	93
ROAE(2).....	21.3%	27.1%	21.3%	9.9%	15.4%	20.8%	18.6%
Delinquency ratio past due more than 30 days.....	1.9%	—	1.3%	2.8%	2.5%	2.1%	3.6%
Allowance for loans as a percentage of past due loans.....	140.9%	—	238.2%	64.3%	158.4%	184.3%	133.1%
Solvency ratio(3)	13.3%	—	31.8%	13.2%	10.1%	11.7%	14.2%

Source: Company data and calculations based on consolidated financial statements of our principal operating subsidiaries.

- (1) Porvenir and Corficolombiana are subsidiaries of Banco de Bogotá. Their financial data is consolidated in Banco de Bogotá's results. BAC Credomatic was acquired by LB Panamá, which is a subsidiary of Banco de Bogotá and its financial data is consolidated in Banco de Bogotá's results from December 1, 2010.
- (2) For methodology used to calculate ROAE, see note (3) to the tables under "—Our company—Financial and operating data."
- (3) Solvency ratio is calculated as technical capital divided by risk-weighted assets. For a definition of technical capital, see "Item 4. Information on the Company—B. Business overview—Supervision and regulation—Capital adequacy requirements" in our 2011 Annual Report on Form 20-F incorporated by reference herein.
- (4) Translated for convenience only using the representative market rate as computed and certified by the Superintendency of Finance at June 30, 2012 of 1,784.60 pesos per U.S.\$1.00.

Our business strengths

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

Our multi-brand business model

Our differentiated multi-brand business model builds on the individual strengths of our banks and the market-wide recognition of their brands. Each of our banks has developed a focus on particular and, to a degree, overlapping market sectors, geographic regions, services and products. We believe that this specialization has contributed to the individual success of our banks and the diversity of Grupo Aval as a whole. Our banking subsidiaries operate as four independent banks that are encouraged to compete among themselves and with other market participants, while operating within central guidelines established by us in the areas of internal control, credit risk management, brand management, strategic planning, general procurement and information technology. These guidelines, together with group support services, are designed to allow each bank to achieve economies of scale and benefit from cross-bank synergies and groupwide best practices without affecting individual competition and the decision-making abilities of each bank's management. We may, in the future, consider merging one or more of our subsidiaries in our group if meaningful improvements in efficiencies, revenue or other benefits could be achieved. We plan to continue executing our multi-brand business model by maintaining the BAC Credomatic brand and integrating BAC Credomatic into our operations.

Largest player in most banking sectors in Colombia

We are the largest participant in most sectors of the Colombian banking market, with market-leading shares of 32.1% of commercial loans and 27.9% of consumer loans, at June 30, 2012. We also have the largest market share of deposits at 29.9% at June 30, 2012. Our Red de Grupo Aval is the largest combined ATM and banking network in the country and has been a key element of our competitive positioning in the Colombian market. At December 31, 2011 our ATM and banking network had market shares of 24.3% and 25.7% of ATMs and branches, respectively.

Strong track record of financial performance

We believe that our leading position in the Colombian market, cross-bank synergies, economies of scale, low-cost funding and operating efficiencies have assisted us in achieving higher and more stable profits compared to our competitors. Our average ROAE of 23.9% and average ROAA of 2.5% for the 2009 to 2011 period, and our ROAE of 17.3% and ROAA of 2.1% for the six-month period ended June 30, 2012, have been the highest among our direct competitors in the Colombian market, and our consolidated net interest margin (net interest income divided by total average interest-earning assets) has ranged from 8.8% at December 31, 2009 to 6.5% at June 30, 2012. We believe that our ROAA and ROAE have outperformed those of our competitors mainly due to better yields on loans (from our diversified loan portfolio), significant yields from our investment portfolio, lower net provisions (due to a lower ratio of charge-offs to total loans) and better efficiency margins. Our total assets have grown at a CAGR of 22.9% from December 31, 2009 to June 30, 2012 (14.5% excluding BAC). During the same period, our total deposits have grown at a CAGR of 18.0% (9.7% excluding BAC). Our consolidated delinquency ratio past due more than 30 days improved from 2.5% at June 30, 2011 to 2.3% at June 30, 2012 and is among the lowest among our direct competitors in the Colombian market.

Diversified sources of funding

We have diverse sources of funding, including deposits and debt securities placed in the Colombian market, which result in a low cost of funding. At June 30, 2012, in Colombia, our market share of deposits was 29.9%, supported by a 40.3% market share in checking accounts and 28.9% in savings accounts. Deposits represented 75.2% of our total funding at that date, compared to 83% at December 31, 2009, which provides us with a stable and cost-effective funding base. As a result of our efforts to broaden our funding base, we increased our funding from Ps 59.4 trillion (U.S.\$33.3 billion) at December 31, 2009 to Ps 92.4 trillion (U.S.\$51.7 billion) at December 31, 2011 and to Ps 99.2 trillion (U.S.\$55.6 billion) at June 30, 2012. On May 12, 2011, we completed an offering of 1.6 billion preferred shares, raising an aggregate amount of Ps 2.1 trillion (U.S.\$1.1 billion) (Ps 1,300 (U.S.\$0.72 at the representative market rate at such date) per share), before deducting brokerage commissions and discounts, and expenses of the offering. On February 1, 2012, we successfully completed our inaugural international bond offering of U.S.\$600 million of 5.25% Senior Notes due 2017. We believe that our funding base supports our initiatives to expand our businesses.

Sound risk management

We believe that we have asset quality that is superior to the market average. We have maintained our relative asset quality, as evidenced by our ratio of non-performing loans to total loans of 1.6% for June 30, 2012 and for December 31, 2011, and a ratio of charge-offs to average outstanding loans (annualized) of 0.9% and 1.1% at June 30, 2012 and December 31, 2011, respectively. In addition, we believe that our reputation as a conservative banking group has allowed us to consistently retain and attract new customers. Each of our banking subsidiaries has a comprehensive risk management system, which we view as fundamental to their long-term stability and viability, and enables them to identify risks and resolve potential problems on a timely basis. In addition, we have established upward loan reporting processes, and Grupo Aval's risk management staff meets on a weekly basis to discuss the loan portfolio, developments in the industry, risks and opportunities.

Each of our banks and Grupo Aval has strong capital adequacy ratios. The aggregate solvency ratio of our banks on an unconsolidated basis was 13.8% at both June 30, 2012 and December 31, 2011, compared to an average solvency ratio of 16.2% and 14.8% for our principal competitors at the same dates and to 9.0%, Colombia's minimum regulatory requirement.

Focus on best practices

Grupo Aval applies groupwide best practices for all of its operating subsidiaries. These practices are designed to encourage a consistent approach with respect to effective risk management, efficient use of capital, cost control, brand management, general procurement and integration of information technology. We believe that these practices have helped us to achieve economies of scale and synergies to reduce operating and administrative costs. At December 31, 2011, we had a consolidated efficiency ratio of 52.7%, and our banking subsidiaries had efficiency ratios ranging from 46.0% (Banco de Occidente) to 59.2% (Banco AV Villas). At June 30, 2012, we had a consolidated efficiency ratio of 50.0%, and our banking subsidiaries had efficiency ratios ranging from 43.9% (Banco de Occidente) to 58.5% (Banco AV Villas). We intend to transfer these best practices to BAC Credomatic, which had an efficiency ratio of 55.3% at June 30, 2012.

Leading banking operations in Central America

BAC Credomatic is one of the leading financial institutions in Central America with a record of strong financial performance. It has achieved an average of 22.9% in annual ROAE for the period from 2007 to 2011 (excluding extraordinary gains in 2007 and 2008). BAC Credomatic is a full-service financial institution with one of the leading card-issuing and acquiring businesses in the region. Its Credomatic brand has key alliances with major credit card networks, such as Visa, MasterCard, American Express and Diners Club, and has the only network that processes all major credit card brands in the region. BAC Credomatic customer base and distribution network are sizable when compared to our Colombian banks. At June 30, 2012, it served more than 2.2 million customers through 487 points of contact including 227 full-service branches, 40 in-store branches offering teller services in retail stores, 192 on-site branches offering full banking services for corporate employees, and 28 auto/drive-thru branches throughout

Central America, connected through a single technological platform that allows online transactions between countries in the region. BAC Credomatic's market share in terms of gross loans varies in the different countries as follows, as of June 30, 2012: Costa Rica 10.8%, El Salvador 9.8%, Guatemala 4.7%, Honduras 13.0%, Nicaragua 26.8% and Panama 3.0%.

Experienced management teams

Our qualified and experienced management teams, both at the group and operating subsidiary levels, have played a key role in guiding our growth. Our chairman, Mr. Sarmiento Angulo, has over 55 years of business experience, including 40 years in the banking and related financial services industry. Our president Mr. Luis Carlos Sarmiento Gutiérrez, has over 15 years of experience in the banking and related financial services industry and over 25 years of business experience as a banking executive in Colombia and the United States. The presidents of our four banks have an average tenure of over 25 years with these banks, and the president of BAC Credomatic has a tenure of over 35 years with BAC Credomatic. We believe that the strength of management at all levels within Grupo Aval has enabled us to become Colombia's largest banking group and its most profitable based on return on ROAE as compared to our principal competitors. Our and each of our operating subsidiaries' management teams are dedicated to formulating and executing business strategies through a culture of excellence, innovation and cooperation, which has served as our guiding vision throughout the various acquisitions and initiatives undertaken by Grupo Aval.

Our strategy

Our overall objectives are to build upon our competitive strengths to pursue opportunities for growth and to enhance our long-term financial performance. To achieve these objectives, we intend to pursue a strategy with the following principal elements:

Further penetrate the Colombian market

We believe that Colombia offers significant opportunities to expand our business because of the country's strong economic fundamentals and low penetration rates for banking and other financial services and products, as compared to other countries in the region. For example, according to the 2011 World Bank Development Indicators, domestic credit to the private sector accounted for 45.3% of GDP in Colombia as compared to 89.3% for Chile, 61.4% for Brazil and 26.4% for Peru at December 31, 2011. See "Item 4. Information on the Company—B. Business overview—Industry—Colombia—Credit volumes." We anticipate that demand for such services and products will increase across all customer sectors. As Colombia's leading banking group, and drawing upon our distinctive multi-brand business model, we believe that we are well-positioned to take advantage of this significant growth potential.

Continue capitalizing on synergies and improving efficiencies

We believe that there is additional room to create synergies among our subsidiaries and leverage their combined strength without affecting our multi-brand business model. We intend to continue identifying and working on groupwide projects, mainly in information technology, and we will continue to seek economies of scale by fostering procurement of goods and services for multiple subsidiaries, which we believe have contributed to improvements in our efficiency ratios. As an example, we are in the process of replacing the core banking systems in our subsidiaries to converge to a common platform.

Expand our services offerings and diversify our sources of income

We believe that we offer the most comprehensive range of banking services and products in Colombia, and we continually seek to expand these offerings to meet evolving customer needs and enhance our profitability. For example, we are currently implementing initiatives to increase our non-interest income, which consists primarily of net fee income. Net fee income accounted for 24.8% and 25.8% of our consolidated total operating income before net provisions for the six-month period ended June 30, 2012 and the year ended December 31, 2011, respectively. We believe that we can expand the contribution of non-interest income to our profitability in future periods by, for example, expanding bancassurance (i.e., bank-offered third-party insurance products) through our distribution networks and credit card fee income through an increase in credit card loan volume across all of our banks.

Integrate BAC Credomatic and further penetrate the Central American market

We plan to continue executing our multi-brand business model by maintaining the BAC Credomatic brand and integrating it into our operations. We intend to capitalize on the expansion of the Central American market as we believe the BAC Credomatic acquisition will offer us significant opportunities for organic and acquisition growth in financial services in this region. In order to improve operational efficiency and increase market share in key sectors, we intend to share our groupwide commercial and operational standards and best practices with BAC Credomatic, while capitalizing on its regional expertise, brand recognition, customer base, and services and products, such as credit card issuance and merchant-acquiring businesses. We believe that we can substantially improve BAC Credomatic's efficiency ratio, which at June 30, 2012 was 55.3%, compared to 48.7% for Grupo Aval's Colombian operations, by implementing our best practices at BAC Credomatic.

Pursue other selected acquisitions

We have a proven track record of identifying, acquiring and integrating interests in companies that we believe have strategic value to us. We are interested in expanding our businesses in Colombia and Central America and to other regions. We regularly evaluate acquisition candidates that may permit us to expand the services and products we offer and markets we can access, such as BAC Credomatic. We actively consider additional strategic investments, alliances and acquisitions, principally in Colombia, Central America and other selected Latin American countries.

Recent developments

Promigas shareholding restructuring

In February 2011, Corficolombiana acquired a 14.39% direct interest and a 10.58% indirect economic interest in Promigas S.A. E.S.P., or "Promigas", Corficolombiana's principal investment in the energy and gas sector. In addition, Corficolombiana and Porvenir together hold a further 24.9% economic exposure to Promigas as a result of their respective holdings in a private investment fund. Corficolombiana has taken the following steps to restructure its ownership in, and acquire up to 100% ownership of, the outstanding share capital of Promigas.

On June 5, 2012, the 10.58% indirect economic interest held by Corficolombiana in Promigas was transferred to CFC Limited, a wholly-owned subsidiary of Corficolombiana through *escisión*, a process under which, pursuant to Colombian law, a company segregates a portion of its assets to transfer it to another company. Following that step, CFC Limited merged into CFC Gas Holdings SAS, a Colombian wholly-owned subsidiary of Corficolombiana.

On July 31, 2012, Corficolombiana launched a tender offer (*oferta pública de adquisición*) for the purchase up to the remaining 75.03%, or 99,726,875, of outstanding common shares in Promigas at a purchase price of Ps 25,000 per share. The tender offer closed on September 12, 2012 with the purchase of 1,281,993 shares for a total consideration of Ps 32.0 billion.

New capital adequacy rules

On August 24, 2012, the Colombian government enacted Decree 1771 of 2012, or “Decree 1771,” which amended certain capital adequacy requirements for Colombian credit institutions set forth in Decree 2555 of 2010.

Decree 1771 maintains the requirement for a credit institution’s technical capital to be at least 9.0% of that institution’s total risk-weighted assets. For the current applicable definition of technical capital, see “Supervision and Regulation—Capital adequacy requirements” in our 2011 Annual Report on Form 20-F incorporated by reference herein.

From August 1, 2013, Technical capital will continue to consist of the sum of basic capital (*patrimonio básico*), or primary capital (Tier I), and secondary capital (*patrimonio adicional*), or secondary capital (Tier II); however, primary capital (Tier I) will also consist of the sum of ordinary basic capital (*patrimonio básico ordinario*), or Common Equity Tier I, and a new category of additional basic capital (*patrimonio básico adicional*), or Additional Tier I.

In addition, Decree 1771 introduces a new measure of “core solvency” for Common Equity Tier 1, which requires higher quality capital and is set at a minimum of 4.5% of risk-weighted assets.

Colombian credit institutions, including Grupo Aval’s banking subsidiaries must comply with the new capital adequacy requirements set forth in Decree 1771 by August 1, 2013, and they must provide an implementation plan to the Superintendency of Finance by January 31, 2013. Grupo Aval is currently studying which measures, if any, it may be required to take in response to the regulations; however, we do not currently anticipate a material adverse effect on Grupo Aval or its banking subsidiaries as a result of the new capital adequacy requirements. For more information see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capitalization Ratios.”

Pension fund solvency measures

Decree 1548 of 2012, or “Decree 1548,” introduces a new measure of solvency for pension fund administrators, which sets technical capital (*patrimonio técnico*) at a total of 9% of exposure to operational risk. “Exposure to operational risk” is defined as the product of multiplying 100/9 by the sum of:

- 16% of fee income from mandatory pension funds;
- 16% of fee income from severance funds;
- 0% of fee income from voluntary pension funds; and
- 1/48 of all other funds managed by pension fund administrators.

We expect the changes introduced by Decree 1548 to permit the release of approximately Ps 100 billion of capital of Porvenir, which pursuant to Decree 1548 must be offset by Porvenir’s stabilization reserves (the stabilization reserve is equivalent to 1.00% of the funds it manages).

New insolvency law

On June 12, 2012, the Colombian Congress enacted Law 1564 of 2012, or “Law 1564,” which provides insolvency protection for non-merchant individuals. Under the new insolvency regulation, which comes into effect on October 1, 2012, once a non-merchant individual has ceased paying his or her debts, that individual can initiate a voluntary insolvency proceeding before a notary public or mediator to reach an agreement with its creditors. The terms of any agreement reached with a group (two or more) of creditors that represent more than 50% of the total amount of the claims will be mandatorily applicable to all relevant creditors. The law also provides for increased debtor protections, including an automatic stay for a maximum of 90 days.

Bond offerings by banking subsidiaries

On August 9, 2012, Banco de Occidente issued Ps 300 billion (U.S.\$168.1 million) in peso-denominated bonds. The bonds were issued in three tranches: (i) Ps 50 billion (U.S.\$28.0 million) of three-year bonds bearing interest at DTF plus 1.67%; (ii) Ps 101 billion (U.S.\$56.6 million) of ten-year bonds bearing interest at IPC plus 4.10%; and (iii) Ps 149 billion (U.S.\$83.5 million) of fifteen-year bonds bearing interest at IPC plus 4.27%. Banco de Occidente intends to use the proceeds for general corporate purposes.

Banco Popular has announced that it intends to issue Ps 400 billion (U.S.\$224.1 million) in Colombian peso-denominated bonds on September 19, 2012. The maturity and interest rate for the bonds will be determined prior to that date. The use of proceeds are expected to be general corporate purposes.

Management appointments

In May 2012, Jorge Adrián Rincón Plata (age 33) was appointed as our Chief Legal Counsel. Mr. Rincón has been a member of the board of directors of Credomatic International Corporation since December 2010. He previously served as Legal Counsel to Banco de Bogotá. He holds a degree in law from the Universidad Autónoma de Bucaramanga and a Masters in International Business Law from Queen Mary University & Westfield College, University of London. His business address is Carrera 13 No. 26A-47, Bogotá D.C., Colombia.

In May 2012, Mauricio Maldonado Umaña (age 34) was as appointed our Vice President of Strategy. Mr. Maldonado served as engagement manager at McKinsey & Co. and investment banking director at Corficolombiana. He holds a degree in industrial engineering from the Universidad de los Andes and a Master of Business Administration from the University of Chicago Booth School of Business. His business address is Carrera 13 No. 26A-47, Bogotá D.C., Colombia.

Risk factors

We face risks and uncertainties that may affect our future financial and operating performance, including, among others, the following: economic and political conditions in Colombia and other countries in which we operate; internal security issues affecting the countries in which we operate; governmental and regulatory actions and developments affecting our operating subsidiaries and our industry; natural disasters; declines in the quality of our loan portfolio and other assets; adequacy of risk management procedures and systems; counterparty risks; exposures in derivatives transactions; increases in funding costs; changes in interest and exchange rates and other market risks; losses from trading operations; completion and integration of acquisitions, including our recent BAC Credomatic acquisition; failures of information technology and other systems; competition; loss of key members of senior management; and litigation and other legal proceedings. One or more of these matters could negatively affect our business or financial performance as well as our ability to successfully implement our strategy. See “Risk Factors” beginning on page 26 and “Item 3. Key Information—D. Risk Factors” of our 2011 Annual Report on Form 20-F incorporated by reference herein for a discussion of certain risk factors you should consider before investing in the notes.

The Issuer

Grupo Aval Limited is a wholly owned subsidiary of Grupo Aval and was incorporated in the Cayman Islands as an exempted company with limited liability on December 29, 2011 for an unlimited period. The registered office of the Issuer is located at Uglan House, South Church Street, George Town, Grand Cayman KY1-1104, Cayman Islands. Grupo Aval Limited was registered and filed with company number 265169 by the Assistant Registrar of Companies of the Cayman Islands.

On February 1, 2012, Grupo Aval Limited issued U.S.\$600 million (Ps 1,070.8 billion) of its 5.25% Senior Notes due 2017, or the “2017 notes.” The activities of Grupo Aval Limited are and will be limited by the terms of the indenture relating to the notes offered hereby and the 2017 notes, and to certain activities incidental or related to the notes and the 2017 notes. See “Description of the Notes.” Grupo Aval Limited is not required to and has not published financial statements for any period and does not intend to publish any financial statements for future periods. The notes and other senior debt obligations guaranteed by Grupo Aval will be the only outstanding debt of Grupo Aval Limited. The directors of Grupo Aval Limited are Luis Fernando Pabón Pabón and Javier Díaz Fajardo. Each of the directors of Grupo Aval Limited resides in Colombia.

Our registered and principal executive offices are located at Carrera 13 No. 26A - 47, Bogotá D.C., Colombia, and our general telephone number is (+57) 1 241-9700. Our website is *www.grupoaval.com*. Information contained on, or accessible through, our website is not incorporated by reference in, and shall not be considered part of, this offering memorandum.

The offering

The following summary highlights selected information regarding the terms of the notes and the guarantees and is not intended to be complete. It does not contain all the information that is important to you. For a more complete understanding of the notes and the guarantees, you should read the entire offering memorandum carefully, including "Description of the Notes."

Issuer	Grupo Aval Limited
Guarantor	Grupo Aval
Securities offered	U.S.\$1,000,000,000 aggregate principal amount of 4.75% senior notes due 2022.
Issue price	99.607%, plus accrued interest, if any, from September 26, 2012.
Issue date	September 26, 2012
Currency	U.S. dollars
Maturity date	The notes will mature on September 26, 2022.
Interest	The notes will accrue interest at a rate of 4.75% per year. Interest will accrue from the issue date of the notes.
Interest payment dates	Interest on the notes will be payable semi-annually in arrears on March 26 and September 26 of each year, beginning on March 26, 2013.
Ranking.....	The notes will be senior unsecured obligations of the Issuer and will rank equal in right of payment to all the future unsecured and unsubordinated indebtedness of the Issuer.

The guarantees will be senior unsecured obligations of Grupo Aval and will rank at all times:

- equal in right of payment to its other existing and future senior unsecured and unsubordinated indebtedness (other than certain liabilities preferred by statute or by operation of law);
- effectively subordinated to any of its future secured indebtedness to the extent of the value of indebtedness securing such indebtedness; and
- structurally subordinated to all indebtedness and other liabilities (including trade payables) of subsidiaries of Grupo Aval. Structural subordination refers to the claims of Grupo Aval (as a shareholder of its subsidiaries) to the assets of those subsidiaries being subordinate to the claims of the creditors of those subsidiaries. Accordingly, in the event of the insolvency of one or more of its subsidiaries, Grupo Aval would not have access to the assets of these subsidiaries to pay claims on Grupo Aval (such as the Guarantee) until such time as all of the claims of the subsidiaries' creditors had been satisfied.

At June 30, 2012, the Issuer had U.S.\$613.4 million of indebtedness, and Grupo Aval had total unsecured unconsolidated indebtedness of U.S.\$1,122.8 million. Grupo Aval does not have any secured consolidated indebtedness.

Optional redemption The notes will not be redeemable prior to maturity, except as set forth below.

Make-whole redemption. We may redeem the notes, in whole or in part, at any time, at a redemption price equal to the greater of 100% of the outstanding principal amount of the notes and a “make-whole” amount, in each case plus accrued and unpaid interest to the date of redemption. Any redemption in part may not result in less than U.S.\$250.0 million aggregate principal amount of notes being outstanding after such redemption. See “Description of the Notes—Optional redemption—Make-whole redemption.”

Tax redemption. We may redeem the notes, in whole but not in part, at any time upon the occurrence of specified events relating to Cayman Islands or Colombian tax law, at a redemption price equal to 100% of the outstanding principal amount plus accrued and unpaid interest to the date of redemption and any additional amounts. See “Description of the Notes—Optional redemption—Tax redemption.”

Additional amounts..... All payments in respect of the notes will be made without any withholding or deduction for any Colombian or Cayman Islands taxes unless such withholding or deduction is required by law. In that event, the Issuer or Grupo Aval will pay such additional amounts as will result in receipt by the holders of notes of such amounts as would have been received by them had no such withholding or deduction for Colombian or Cayman Islands taxes been required, subject to certain exceptions set forth under “Description of the Notes—Additional Amounts.”

Covenants of the Issuer..... The indenture will prohibit the Issuer from incurring indebtedness, other than the notes and other unsecured indebtedness ranking equally with the notes, and will impose certain other limitations and restrictions on the Issuer, as described under “Description of the Notes—Covenants.”

Covenants The indenture governing the notes will limit Grupo Aval’s ability, among other things, to dispose of share capital of its significant subsidiaries, merge or consolidate with another entity or sell, lease or transfer substantially all of our properties or assets to another entity, subject to specified conditions or certain requirements. However, these covenants are subject to a number of significant exceptions. In addition, the indenture does not otherwise contain covenants restricting us or our subsidiaries. See “Description of the Notes—Covenants.”

Events of default..... The indenture will set forth the events of default applicable to the notes. See “Description of the Notes—Events of Default.”

Further issues	The Issuer may from time to time, without notice or consent of the holders of the notes, create and issue an unlimited principal amount of additional notes having the same terms and conditions (except for issue date, issue price and, if applicable, the first interest payment date) as, and forming a single series with, the notes initially issued in this offering; <i>provided that</i> if the additional notes are not fungible with the notes for U.S. federal income tax purposes, the additional notes will have separate CUSIP and ISIN numbers.
Use of proceeds	We intend to use the net proceeds from this offering for general corporate purposes, which may include enhancing our strategic interests in the financial services sector, through acquisitions or other corporate transactions, strengthening the capital base of our subsidiaries and prepaying outstanding indebtedness, including to related parties.
Form and denomination.....	The notes will be issued in book-entry form, in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof, and will be represented by global notes deposited with, or on the behalf of, The Depository Trust Company, or “DTC,” and registered in the name of a nominee of DTC. Beneficial interest in the global notes will be shown on, and transfers will be effected only through, records maintained by DTC for the accounts of its direct and indirect participants, including Euroclear and Clearstream. The global notes will be exchangeable or transferable for certificated notes only in limited circumstances. See “Description of the Notes—Form of the notes.”
CUSIP/ISIN numbers	Rule 144 notes CUSIP: 40053F AB4 ISIN: US40053FAB40 Regulation S notes CUSIP: G42045 AB3 ISIN: USG42045AB32
Transfer restrictions	The notes have not been, and will not be, registered under the Securities Act or the laws of any other jurisdiction. The notes may not be publicly offered or sold in Colombia without the prior authorization of the Colombian Superintendency of Finance (<i>Superintendencia Financiera de Colombia</i>) and registration with the National Registry of Securities and Issuers (<i>Registro Nacional de Valores y Emisores</i>). The notes have not been registered in the Cayman Islands and may not be offered or sold in the Cayman Islands except in compliance with the securities laws thereof. The notes will be subject to limitations on transferability and resale. See “Transfer Restrictions.”
Listing and trading	We will apply to have the notes listed on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF market. However, the notes are a new issue of securities, and there is no established trading market for the notes. Accordingly, we cannot assure you that a trading market for the notes will develop or, if a market develops, that it will be maintained.

Governing law	The indenture, the notes and the guarantees will be governed by, and construed in accordance with, the law of the State of New York.
Trustee, Registrar, Transfer Agent and Paying Agent	Deutsche Bank Trust Company Americas
Luxembourg Transfer Agent, Paying Agent and Listing Agent.....	Deutsche Bank Luxembourg S.A.
Risk factors.....	You should carefully consider all of the information in this offering memorandum. See “Risk Factors” in this offering memorandum and in “Item 3. Key Information—D. Risk Factors” of our 2011 Annual Report on Form 20-F incorporated by reference herein for a description of risks involved in making an investment in the notes.

Summary financial and operating data

The following financial data of Grupo Aval at December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 have been derived from the audited annual consolidated financial statements prepared in accordance with Colombian Banking GAAP included in our 2011 Annual Report on Form 20-F incorporated by reference herein. The financial data at June 30, 2011 and for the six-month periods ended June 30, 2012 and 2011 are derived from our unaudited condensed consolidated financial statements at June 30, 2012 and for the six-month periods ended June 30, 2012 and 2011 prepared in accordance with Colombian Banking GAAP included in this offering memorandum. Our historical results are not necessarily indicative of results to be expected for future periods. Results for the six-month period ended June 30, 2012 are not necessarily indicative of results expected for full-year 2012.

This financial data should be read in conjunction with our unaudited interim consolidated financial statements, our audited annual consolidated financial statements and the related notes and “Presentation of Financial and Other Information,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this offering memorandum and “Item 3. Key Information—Selected financial data” and “Item 5. Operating and Financial Review and Prospects—Operating results” included in our 2011 Annual Report on Form 20-F incorporated by reference herein.

Statement of income data

	Grupo Aval					
	For the six-month period ended June 30,			For the year ended December 31,		
	2012	2012	2011	2011	2010	2009
	(in U.S.\$ millions)(1)			(In Ps billions, unless otherwise indicated)		
Colombian Banking GAAP						
Operating income:						
Net interest income	1,712.7	3,056.5	2,756.5	5,468.9	4,628.8	4,826.0
Total provisions, net	(230.2)	(410.8)	(226.4)	(416.3)	(1,026.9)	(887.6)
Total fees and other services income, net.....	650.3	1,160.5	1,102.4	2,234.4	1,617.7	1,583.5
Total other operating income	261.4	466.4	435.3	958.0	785.5	684.1
Total operating income.....	2,394.2	4,272.6	4,067.8	8,244.9	6,005.1	6,205.9
Total operating expenses.....	(1,419.1)	(2,532.6)	(2,403.7)	(4,932.9)	(3,520.0)	(3,292.4)
Net operating income.....	975.0	1,740.1	1,664.1	3,312.0	2,485.1	2,913.5
Non-operating income (expense):						
Other income	117.4	209.5	186.9	320.7	364.6	367.4
Other expense	(49.4)	(88.2)	(61.0)	(124.5)	(187.6)	(299.7)
Total non-operating income (expense), net.....	68.0	121.3	125.9	196.2	176.9	67.7
Income before income tax expense and non-controlling interest						
interest	1,043.0	1,861.4	1,790.0	3,508.2	2,662.1	2,981.2
Income tax expense.....	(381.1)	(680.0)	(541.0)	(1,136.7)	(831.0)	(864.3)
Income before non-controlling interest						
interest	662.0	1,181.3	1,249.0	2,371.5	1,831.1	2,116.9
Non-controlling interest.....	(257.7)	(459.9)	(626.7)	(1,080.2)	(874.2)	(1,051.5)
Net income attributable to shareholders	404.3	721.5	622.3	1,291.2	956.9	1,065.4

	Grupo Aval					
	For the six-month period ended June 30,			For the year ended December 31,		
	2012	2012	2011	2011	2010	2009
	(in U.S.\$ millions)(1)					(In Ps billions, unless otherwise indicated)
U.S. GAAP(2)						
Net income attributable to						
Grupo Aval shareholders	-	-	-	885.3	965.3	934.5

(1) Translated for convenience only using the representative market rate as computed and certified by the Superintendency of Finance of Ps 1,784.60 at June 30, 2012.

(2) See note 30 to our audited annual consolidated financial statements for reconciliations to U.S. GAAP. We do not produce U.S. GAAP reconciliations for interim periods.

Balance sheet data

	At and for the six-month period ended				At and for the year ended	
	June 30,				December 31,	
	2012	2012	2011	2011	2010	2009
	(in U.S.\$ millions, except share information)(1)					(In Ps billions, unless otherwise indicated)
Colombian Banking GAAP						
Assets:						
Total cash and cash equivalents(2)	7,391.0	13,190.0	11,199.2	11,698.6	9,682.6	7,370.9
Total investment securities, net(3)	11,367.2	20,285.8	19,409.9	18,975.2	19,174.9	16,587.3
Total loans and financial leases, net.....	40,142.8	71,638.9	61,046.9	67,641.2	56,439.7	40,015.6
Total interest accrued on loans and financial leases, net	372.2	664.3	499.0	583.5	448.2	406.1
Bankers' acceptances, spot transactions and derivatives	193.5	345.3	432.2	418.8	306.9	78.8
Accounts receivable, net	901.7	1,609.3	1,496.9	1,612.9	1,337.3	783.1
Property, plant and equipment, net	1,018.5	1,817.7	1,662.2	1,761.3	1,643.7	1,096.5
Operating leases, net.....	204.3	364.6	268.0	323.2	263.9	282.5
Foreclosed assets, net.....	49.5	88.4	88.4	77.8	85.5	48.0
Prepaid expenses and deferred charges...	1,055.5	1,883.6	1,687.7	1,956.2	920.7	611.6
Goodwill, net	1,624.7	2,899.5	2,962.7	3,110.7	3,031.4	1,020.1
Other assets, net	941.9	1,681.0	1,361.8	1,072.6	912.0	769.5
Reappraisal of assets.....	1,378.4	2,460.0	2,178.0	2,269.7	2,062.5	1,923.1
Total assets	66,641.5	118,928.4	104,293.0	111,501.9	96,309.3	70,993.1
Liabilities:						
Deposits	41,790.1	74,578.7	65,596.5	71,007.6	63,669.3	49,348.5
Bankers' acceptances.....	158.4	282.7	333.0	469.0	309.3	41.6
Interbank borrowings and overnight funds	4,104.4	7,324.8	5,200.9	3,225.1	2,477.4	2,753.7
Borrowings from banks and others	5,396.0	9,629.7	10,227.7	11,437.8	10,491.2	3,854.9
Accounts payable.....	1,632.1	2,912.7	2,732.5	3,093.9	2,243.5	1,518.5
Accrued interest payable.....	221.3	395.0	203.8	313.0	247.4	269.1
Other liabilities	807.3	1,440.7	1,377.0	1,447.8	1,291.9	950.7
Long-term debt (bonds)	4,221.8	7,534.2	5,100.8	6,566.2	5,952.4	3,422.2
Estimated liabilities	567.0	1,011.8	887.4	855.3	596.9	711.6
Non-controlling interest.....	2,956.6	5,276.4	5,081.7	4,927.0	4,475.5	4,038.0
Total liabilities.....	61,855.1	110,386.7	96,741.2	103,342.7	91,754.7	66,908.8

	At and for the six-month period ended			At and for the year ended		
	June 30,			December 31,		
	2012	2012	2011	2011	2010	2009
	(in U.S.\$ millions, except share information)(1)	(In Ps billions, unless otherwise indicated)				
Shareholders' equity:						
Subscribed and paid-in capital:						
Outstanding shares.....	10.4	18.6	17.6	18.6	13.9	13.9
Additional paid-in capital.....	2,057.4	3,671.7	2,090.6	3,671.1	647.4	647.4
Retained earnings:						
Appropriated.....	1,476.6	2,635.1	2,052.9	2,332.0	1,930.3	1,266.0
Unappropriated.....	404.3	721.5	622.3	669.0	483.3	679.7
Equity surplus:						
Equity inflation adjustments.....	392.9	701.1	741.9	741.9	742.1	743.2
Unrealized gains (losses) on investment securities available for sale.....	(102.4)	(182.7)	(140.8)	(293.0)	29.7	18.3
Reappraisal of assets.....	547.2	976.5	1,246.7	1,019.6	707.8	715.7
Total shareholders' equity.....	4,786.3	8,541.7	7,551.8	8,159.1	4,554.6	4,084.3
Total liabilities and shareholders' equity.....	66,641.5	118,928.4	104,293.0	111,501.9	96,309.3	70,993.1
U.S. GAAP(4)						
Total shareholders' equity.....	—	—	—	6,466.7	3,949.5	3,285.7

- (1) Translated for convenience only using the representative market rate as computed and certified by the Superintendency of Finance of Ps 1,784.60 at June 30, 2012.
- (2) At June 30, 2012, Banco de Bogotá had Ps 9,393.4 billion (U.S.\$5,263.6 million), Banco de Occidente had Ps 2,479.2 billion (U.S.\$1,389.2 million), Banco Popular had Ps 851.4 billion (U.S.\$477.1 million) and Banco AV Villas had Ps 577.3 billion (U.S.\$323.5 million) of cash and cash equivalents.
- (3) At June 30, 2012, Banco de Bogotá had Ps 13,878.8 billion (U.S.\$7,777.0 million) Banco de Occidente had Ps 3,932.4 billion (U.S.\$2,203.5 million), Banco Popular had Ps 2,172.8 billion (U.S.\$1,217.5 million) and Banco AV Villas had Ps 1,849.6 billion (U.S.\$1,036.4 million) of investment securities, net.
- (4) See note 30 to our audited annual consolidated financial statements for reconciliations to U.S. GAAP. We do not produce U.S. GAAP reconciliations for interim periods.

Other financial and operating data

	Grupo Aval				
	At and for the six-month period ended June 30,		At and for the year ended December 31,		
	2012	2011	2011	2010	2009
Profitability ratios:					
Net interest margin(1)	6.5	6.8	6.5	7.2	8.8
ROAA(2)	2.1	2.5	2.3	2.2	3.2
ROAE(3).....	17.3	20.6	20.3	22.2	29.2
Efficiency ratio:					
Operating expenses before depreciation and amortization / total operating income before net provisions(4)	50.0	51.7	52.7	46.6	42.9
Capital ratios:					
Period-end shareholders' equity and non- controlling interest as a percentage of period-end total assets.....	11.6	12.1	11.7	9.4	11.4
Credit quality data:					
Non-performing loans as a percentage of total loans(5)	1.6	1.9	1.6	1.9	2.7
Delinquency ratio past due more than 30 days	2.3	2.5	2.2	2.7	3.6
“C,” “D” and “E” loans as a percentage of total loans(6)	3.2	3.6	3.2	3.9	4.8
Allowance for loans as a percentage of non-performing loans.....	199.2	189.3	200.6	194.0	169.3
Allowance for loans as a percentage of past due loans	141.5	138.6	150.0	139.1	124.5
Allowance for loans as a percentage of “C,” “D” and “E” loans	99.7	99.1	103.8	96.2	94.1
Allowance for loans as a percentage of total loans	3.2	3.5	3.3	3.7	4.5
Operational data (in units):					
Number of customers(7)	9,850,517	8,934,654	9,596,694	8,700,266	6,532,302
Number of employees(8)	57,404	54,138	54,463	53,485	36,976
Number of branches(9)	1,503	1,472	1,491	1,438	1,180
Number of ATMs(9)	3,999	3,644	3,835	3,518	2,340

(1) Net interest margin is calculated as net interest income divided by total average interest-earning assets.

(2) For methodology used to calculate ROAA, see note (2) to the table under “—Our company—Financial and operating data.”

(3) For methodology used to calculate ROAE, see note (3) to the table under “—Our company—Financial and operating data.”

(4) See “Item 3. Key Information—A. Selected financial data—Non-GAAP measures reconciliation” in our 2011 Annual Report on Form 20-F incorporated by reference herein and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP measures reconciliation.”

(5) Non-performing loans are microcredit loans that are 31 days or more past due, mortgage and consumer loans that are 61 days or more past due and commercial loans that are 91 days or more past due. Each category includes financial leases respectively. See “Selected Statistical Data—Loan portfolio—Risk categories.”

(6) See “Selected Statistical Data—Loan portfolio—Risk categories.”

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

(8) At June 30, 2012, we had approximately 41,400 employees in Colombia and approximately 16,000 employees in Central America.

(9) Reflects aggregated number of branches or ATMs, as applicable, in Colombia and Central America.

Capitalization ratios

The following table presents consolidated capitalization ratios for our banking subsidiaries, Grupo Aval and our principal competitors at the dates indicated.

At June 30, 2012									
Grupo Aval entities									
Colombian Banking GAAP	Banco de Bogotá	Banco de Occidente	Banco Popular	Banco AV Villas	Aggregate(1)	Grupo Aval consolidated	Bancolombia	Davivienda	BBVA Colombia
(in percentages)									
Tangible equity ratio(2)	10.5	13.1	13.5	12.0	11.5	9.4	11.8	–	–
Tier 1 ratio(3).....	12.1	8.8	9.1	11.8	11.1	–	11.6	–	–
Solvency ratio(4)	13.3	11.1	11.6	13.4	12.7	–	14.9	–	–
At December 31, 2011									
Grupo Aval entities									
Colombian Banking GAAP	Banco de Bogotá	Banco de Occidente	Banco Popular	Banco AV Villas	Aggregate(1)	Grupo Aval consolidated	Bancolombia	Davivienda	BBVA Colombia
(in percentages)									
Tangible equity ratio(2)	10.0	13.5	13.6	12.3	11.4	9.2	9.9	10.3	8.3
Tier 1 ratio(3).....	12.0	8.7	9.1	12.5	11.0	–	9.0	11.4	9.5
Solvency ratio(4)	13.3	10.1	11.7	14.2	12.6	–	12.5	14.4	12.3

Source: Company calculations based on each entity's respective financial statements for the period indicated. Consolidated capitalization ratios at June 30, 2012 for Davivienda and BBVA Colombia are not publicly available.

- (1) Reflects the summation of calculated amounts for each line item for each of our banking subsidiaries.
- (2) Tangible equity ratio is calculated as total shareholders' equity plus minority interest minus goodwill, divided by total assets minus goodwill. See "Item 3. Key Information—A. Selected financial data—Non-GAAP measures reconciliation" in our 2011 Annual Report on Form 20-F incorporated by reference herein and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP measures reconciliation."
- (3) Tier 1 ratio is calculated as primary capital divided by risk-weighted assets.
- (4) Solvency ratio is calculated as technical capital divided by risk-weighted assets. For a definition of technical capital, see "Item 4. Information on the Company—B. Business overview—Supervision and regulation—Capital adequacy requirements" in our 2011 Annual Report on Form 20-F incorporated by reference herein.

Tangible solvency ratio differs from solvency ratio. Tangible solvency ratio is calculated as technical capital minus goodwill, divided by risk-weighted assets minus goodwill. The tangible solvency ratios for the following entities at June 30, 2012 were: Banco de Bogotá, 9.9%; Banco de Occidente, 11.0%; Banco Popular, 11.6%; Banco AV Villas, 13.4%; Grupo Aval (aggregate), 10.5%; and Bancolombia, 14.2%. The tangible solvency ratios for the following entities at December 31, 2011 were: Banco de Bogotá, 9.3%; Banco de Occidente, 9.9%; Banco Popular, 11.7%; Banco AV Villas, 14.2%; Grupo Aval (aggregate), 10.0%; Bancolombia, 11.7%; Davivienda, 11.3%; and BBVA Colombia, 10.5%.

RISK FACTORS

An investment in the notes involves a high degree of risk. Our 2011 Annual Report on Form 20-F, which is incorporated by reference herein, describes the risks with respect to our company, our industry and operating environment. You should carefully consider these risk factors and the ones set forth below, as well as the other information presented in this offering memorandum, before buying the notes. Our business, financial condition and results of operations could be materially and adversely affected if any of these risks should occur. In that event, the market price of the notes could decline, and you could lose all or part of your investment. We may face additional risks and uncertainties that are not presently known to us, or that we currently deem immaterial, which may also impair our business.

Risks relating to the offering, the guarantees and the notes

Grupo Aval's ability to make payment in respect of the notes and the guarantees will depend on the dividend distributions that it receives from its subsidiaries and affiliates, and holders of the notes will be effectively subordinated to the claims of creditors of Grupo Aval's subsidiaries and affiliates.

Grupo Aval is the controlling shareholder of a group of companies operating throughout various industries, with no substantial assets other than the equity interests it holds in its subsidiaries and affiliates. Consequently, Grupo Aval and Grupo Aval Limited will depend on dividend distributions from Grupo Aval's subsidiaries and affiliates to be able to make payments in respect of the notes and the guarantees. Moreover, Grupo Aval's subsidiaries and affiliates are separate and distinct legal entities, and, other than Grupo Aval Limited, they will have no obligation, contingent or otherwise, to pay the amounts due under the notes or to make any funds available to pay these amounts, whether by dividend, distribution, loan or other payments. You will not have any direct claim on the cash flows or assets of Grupo Aval's subsidiaries or affiliates.

The ability of Grupo Aval's subsidiaries and affiliates to make dividends and other payments to us will depend on their cash flows and earnings, which, in turn, will be affected by the factors discussed in "Risk Factors—Risks relating to our businesses and industry." The ability of Grupo Aval's subsidiaries and affiliates to make distributions to Grupo Aval may be restricted by, among other things, applicable laws and regulations and the terms of agreements into which they enter. There are various regulatory restrictions in Colombia and other jurisdictions that may limit our subsidiaries' and affiliates' ability to pay dividends or make other payments to us, such as the obligation to maintain minimum regulatory capital, minimum liquidity and minimum reserves. If we are unable to obtain funds from Grupo Aval's subsidiaries and affiliates as a result of restrictions under their debt or other agreements, applicable laws or otherwise, we may not be able to pay interest or principal on the notes when due. We cannot assure you that the agreements governing the future indebtedness of Grupo Aval's subsidiaries and affiliates will permit them to provide us with sufficient dividends, distributions or loans to fund principal and interest payments on the notes.

Our right to receive any distribution of assets of our subsidiaries and affiliates upon any subsidiary's or affiliate's liquidation or reorganization or otherwise will be subject to the prior claims of creditors of that subsidiary or affiliate, as the case may be, except to the extent that any claims by us as a creditor of such subsidiary or affiliate, as the case may be, may be recognized. Accordingly, holders of our notes will have rights that will effectively be subordinated to all existing and future indebtedness of our subsidiaries and affiliates, and, in the event of any claim against us, noteholders may have recourse only against our assets, and not those of our subsidiaries or affiliates, for payments. Under Colombian corporate law, a parent company is generally not liable for the indebtedness of its subsidiaries and affiliates unless the parent company agrees to guarantee that indebtedness. The only significant assets that we currently hold are our equity interests in our subsidiaries and affiliates. In the event of bankruptcy or insolvency, you may receive less, ratably, than holders of debt and other liabilities or Grupo Aval's subsidiaries or affiliates.

The indenture governing the notes will not restrict Grupo Aval's subsidiaries and affiliates, including their ability to incur debt, sell assets or agree to restrict dividend payment.

Grupo Aval Limited has no operations of its own, and holders of the notes must depend on Grupo Aval to provide funds to make payments on the notes when due.

Grupo Aval Limited, a wholly-owned Cayman Islands subsidiary of Grupo Aval, has no operations other than issuing and making payments on the notes, the 2017 notes and other senior debt obligations guaranteed by Grupo Aval, and, in the case of the notes, using the proceeds therefrom as described herein. Accordingly, the ability of Grupo Aval Limited to pay principal, interest and other amounts due in respect of the notes and other indebtedness will depend upon Grupo Aval's financial condition. Grupo Aval Limited may not have sufficient funds to repay all amounts due on or with respect to the notes.

We may invest or spend our net proceeds from this offering in ways that may not yield an acceptable return to you.

We intend to use the net proceeds of this offering for general corporate purposes, which may include enhancing our strategic interests in the financial services sector, through acquisitions or other corporate transactions, strengthening the capital base of our subsidiaries and prepaying outstanding indebtedness, including to related parties. You will have no opportunity to evaluate our decisions and may not agree with the manner in which we spend such proceeds. We may invest or spend our net proceeds from this offering in ways that may not yield an acceptable return to you.

The notes constitute a new issue of securities for which there is no existing market, and an active market for the notes may not develop.

The notes constitute a new issue of securities for which there is no existing market, and we cannot assure you that in the future a market for the notes will develop or that you will be able to sell any notes you have purchased or that any such notes may be sold for any particular price. Although we intend to apply to list the Notes on the Luxembourg Stock Exchange for trading on the Euro MTF market, we cannot assure you that a trading market for the notes will develop, or if a trading market does develop, that it will be maintained.

The initial purchasers have advised us that they intend to make a market in the notes, but they are not obligated to do so and may, in their sole discretion, discontinue any market making in the notes at any time. If the initial purchasers do not facilitate trading in the notes for any reason, we cannot assure you that another firm or person will do so. In addition, trading or resale of the notes may be negatively affected by other factors described in this offering memorandum. As a result, we cannot assure you as to the liquidity of any trading market for the notes and, accordingly, you may be required to bear the financial risk of your investment in the notes indefinitely. The notes may also trade at a discount from their initial issue price. If a trading market were to develop, future trading prices of the notes may be volatile and will depend on many factors, including:

- our financial condition and results of operations;
- prevailing interest rates;
- the interest of securities dealers in making a market for them;
- the market for the notes and similar securities; and
- economic, financial, geopolitical, regulatory or judicial events that affect us or the financial markets generally.

Payment of judgments against Grupo Aval in Colombia may be made in Colombian pesos, which may expose you to exchange rate risks.

Article 79 of Regulation 8 of the Colombian Central Bank (2000) provides that, in case of legal proceedings in Colombia, the conversion of foreign currency-denominated obligations of Colombian residents, such as Grupo Aval, would be made by using the foreign exchange rate prevailing on the payment date. Accordingly, in the event that proceedings are brought and a judgment entered against Grupo Aval in Colombia, we may be required to discharge these obligations in Colombian pesos. As a result, investors may be exposed to exchange rate risks.

The notes will be subject to transfer restrictions.

The notes have not been registered under the Securities Act, any state securities laws or the laws of any other jurisdiction. As a result, the notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. These exemptions include offers and sales that occur outside the United States in compliance with Regulation S under the Securities Act in accordance with any applicable securities laws of any other jurisdiction and sales to qualified institutional buyers as defined under Rule 144A under the Securities Act. Due to these transfer restrictions, you may be required to bear the risk of your investment for an indefinite period of time. For a discussion of restrictions on resale and transfer of the notes, see “Transfer Restrictions.”

The obligations under the notes and guarantees will be subordinated to statutory preferences.

Under Colombian law, the obligations under the notes and guarantees and the indenture are subordinated to specified statutory preferences, including claims for salaries, wages, social security, taxes and court fees and expenses. In the event of our liquidation, these statutory preferences will have preference over any other claims, including claims by any holder in respect of any notes, and as a result, holders of notes may be unable to recover amounts due under the notes and guarantees, in whole or in part.

It may be difficult to enforce your rights if we enter into a bankruptcy, liquidation or similar proceeding in Colombia.

The insolvency laws of Colombia, particularly as they relate to the priority of creditors (secured or unsecured), the ability to obtain post-petition interest and the duration of insolvency proceedings, may be less favorable to your interests than the bankruptcy laws of the United States. Your ability to recover payments due on the notes and guarantees may be more limited than would be the case under U.S. bankruptcy laws. The following is a brief description of certain aspects of insolvency laws in Colombia.

Your ability to enforce your rights under the notes and guarantees may be limited if we become subject to the insolvency proceedings set forth in Law 1116 of 2006, as amended from time to time, which establishes the events under which a company may request its admission to insolvency proceedings in order to look for an agreement with its creditors (*acuerdo de reorganización empresarial*) as to the terms of its debt structure. In addition, pursuant to Law 1116 of 2006, if a debtor breaches an insolvency agreement, or if continuation of a debtor’s business is not economically feasible, the company would be liquidated.

Developments in other emerging markets may adversely affect the market value of the notes.

Emerging markets, such as those in Colombia and Central America, are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt business in Colombia and adversely affect the price of the notes. Moreover, financial turmoil in any emerging market country may adversely affect prices in stock markets and prices for debt securities of issuers in other emerging market countries as investors move their money to more stable, developed markets. An increase in the perceived risks associated with investing in emerging markets could dampen capital flows to Colombia and adversely affect the Colombian economy in general, and the interest of investors in the notes in particular. We cannot assure you that the value of the notes will not be negatively affected by events in other emerging markets or the global economy in general.

Trading prices for the notes may be highly volatile.

The prices at which the notes may trade will depend on many factors, including, among others, prevailing interest rates, general economic conditions, our performance and financial results and markets for similar securities. Historically, the markets for debt such as the notes have been subject to disruptions that have caused substantial volatility in their prices. The market, if any, for the notes may be subject to similar disruptions, which may have an adverse effect on the holders of the notes.

The indenture governing the notes and guarantees will not include any covenants limiting or restricting our ability to incur future indebtedness or complete other transactions.

The indenture governing the notes does not contain any financial or operating covenants or restrictions on the payment of dividends, the incurrence of indebtedness, change of control, transactions with affiliates, incurrence of liens or the issuance or repurchase of securities by us or any of our subsidiaries. We therefore may incur additional indebtedness and engage in other transactions that may not be in the interests of the noteholders.

The ratings of the notes may be lowered or withdrawn depending on various factors, including the rating agency's assessments of our financial strength and Colombian sovereign risk.

One or more independent credit rating agencies may assign credit ratings to the notes. The ratings address the timely payment of interest on each payment date. The ratings of the notes are not a recommendation to purchase, hold or sell the notes, and the ratings do not comment on market price or suitability for a particular investor. Ratings are limited in scope, and do not address all material risks relating to an investment in the notes, but rather reflect only the views of the rating agencies at the time the ratings are issued. The ratings of the notes are subject to change and may be lowered or withdrawn. We cannot assure you that ratings will remain in effect for any given period of time or that ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in the judgment of rating agencies, circumstances so warrant. A downgrade in or withdrawal of the ratings of the notes will not be an event of default under the indenture governing the notes. The assigned ratings may be raised or lowered depending, among other things, on the rating agency's assessment of our financial strength, as well as its assessment of Colombian sovereign risk generally. Any lowering, suspension or withdrawal of ratings may have an adverse effect on the market price and marketability of the notes.

We cannot assure you that a judgment of a court for liabilities under the securities laws of a jurisdiction outside Colombia would be enforceable in Colombia, or that an original action can be brought in Colombia against us for liabilities under applicable securities laws.

Grupo Aval Limited, our wholly-owned subsidiary, is incorporated under the laws of the Cayman Islands. We are incorporated under the laws of Colombia, and substantially all of our assets are located in Colombia and Central America. Substantially all of our directors, executive officers and certain advisors named herein reside in Colombia. As a result, it may not be possible for investors to effect service of process within the United States upon Grupo Aval Limited or us or our respective directors, executive officers and advisors or to enforce against Grupo Aval Limited or us in U.S. courts any judgments predicated upon the civil liability provisions of the applicable securities laws. See "Item 4. Information on the Company—B. Business overview—Service of process and enforcement of judgments" in our 2011 Annual Report on Form 20-F incorporated by reference herein.

EXCHANGE RATES AND FOREIGN EXCHANGE CONTROLS

Exchange rates

The Colombian foreign exchange system allows the purchase and sale of foreign currency and the international transfer of pesos by any person or legal entity, regardless of the amount, subject to certain regulatory procedures.

The Superintendency of Finance calculates the representative market rate based on the weighted averages of the buy/sell foreign exchange rates quoted daily by certain financial institutions, including us, for the purchase and sale of U.S. dollars. On June 30, 2012, the representative market rate was Ps 1,784.60 per U.S.\$1.00, and on December 31, 2011 and 2010, the representative market rate was Ps 1,942.70 and Ps 1,913.98 per U.S.\$1.00, respectively. The Federal Reserve Bank of New York does not report a noon buying rate for pesos/ U.S. dollars.

The following table presents the monthly high and low representative market rate during the months indicated.

Recent exchange rates of peso per U.S. dollar	Low	High
Month:		
March 2012.....	1,758.03	1,792.07
April 2012.....	1,761.20	1,793.30
May 2012.....	1,754.89	1,845.17
June 2012.....	1,766.91	1,834.71
July 2012.....	1,771.53	1,799.48
August 2012.....	1,785.29	1,833.14
September 2012 (through September 18, 2012).....	1,789.54	1,825.21

Source: Superintendency of Finance.

Fluctuation of Colombian peso against U.S. dollar and measures adopted by the Colombian government

During 2007, the peso appreciated against the U.S. dollar by 10.0%. As the peso appreciated against the U.S. dollar, the Colombian Central Bank intervened in the foreign exchange markets to control currency fluctuation. During 2008 the peso depreciated by 11.4% and closed at an exchange rate of Ps 2,243.59 per U.S.\$1.00. During 2010 the peso appreciated against the U.S. dollar by 6.4%, during 2011 the peso depreciated against the U.S. dollar by 1.5% and in the six-month period ended June 30, 2012 the peso appreciated against the U.S. dollar by 8.1%.

The Colombian Central Bank and the Ministry of Finance have, in recent years, adopted a set of measures intended to tighten monetary policy and control the fluctuation of the peso against the U.S. dollar. Pursuant to Resolution 5 of 2008 and Resolution 11 of 2008 of the Colombian Central Bank, such measures include, among others: reserve requirements on private demand deposits, savings deposits and other deposits on liabilities currently set at 11.0%, reserves of 4.5% for term deposits, or “CDTs,” with maturities for less than 540 days and 0.0% for term deposits with maturities for more than 540 days; and the deposit requirements with respect to indebtedness in a foreign currency, currently set at 0.0%. During 2007 and 2008, both the Ministry of Finance and the Colombian Central Bank adopted several measures aimed at controlling the fluctuation of the Colombian peso against the U.S. dollar. These measures include, among others, the following:

- 50.0% non-interest-bearing deposit requirement at the Colombian Central Bank, currently applicable to short-term portfolio investments in assets other than shares or convertible bonds or collective investment funds that only invest in shares or convertible bonds, for a period of six months, which was rescinded in 2008;
- a six-month 40.0% non-interest-bearing deposit at the Colombian Central Bank applicable to corporate reorganization transactions, including mergers, acquisitions and spin-offs if the successor thereof is a Colombian resident required to repay foreign indebtedness that would have otherwise been subject to the deposit requirement of Resolution No. 2 of May 6, 2007;
- exemptions to the 40.0% non-interest-bearing deposit requirement applicable to foreign investment in local private equity funds and ADR and GDR programs of Colombian issuers;

- restrictions on the repatriation of foreign direct investments;
- increases to the reference rate (repo rate); and
- interest-free deposits with the Colombian Central Bank applicable to the proceeds resulting from imports financings.

On October 8, 2008 and October 9, 2008, through Decree 3913 and Resolution 10, issued by the Colombian government and the Colombian Central Bank, respectively, the deposit requirement was set at 0.0% in connection with foreign portfolio investment and foreign indebtedness operations, including foreign loans, import financing and export financing. Additionally, on September 1, 2008 by means of Decree 3264, the Colombian government eliminated restrictions on the repatriation of foreign direct investments.

On March 3, 2010, the Colombian Central Bank resumed intervention in the foreign exchange market, accumulating international reserves through daily purchases of U.S.\$20.0 million in competitive auctions during the first half of 2010 in response to indications of an exchange rate misalignment. From March 2010 to June 2011, the Colombian Central Bank accumulated U.S.\$5.5 billion. The Colombian Central Bank made public its decision to extend its intervention in the Colombian foreign exchange spot market until September 2011. On October 28, 2011, the Colombian Central Bank replaced the intervention in the spot market and announced the intervention by means of volatility options, which was in place until February 2012. Since then, the previous mechanism of daily purchases was reinstated and has been extended until November 2012. Furthermore, on August 24, 2012, the Colombian Central Bank announced that it would increase the pace of daily purchases during the five-week period ending on September 28, 2012 to an average of U.S.\$28 million per day. On November 5, 2010, the Colombian government issued Decree 4145, pursuant to which, among other things, interest payments on foreign indebtedness by Colombian companies became subject to a 33.0% withholding tax rate. On December 29, 2010, the Colombian government enacted Law 1430 of 2010, which among other things reduced the withholding tax rate on interest payments on foreign indebtedness of Colombian companies having a term of one year or more, to 14.0%.

The Colombian government has considerable power to determine governmental policies and actions that relate to the Colombian economy and, consequently, to affect the operations and financial performance of businesses. The Colombian government and the Colombian Central Bank may seek to implement and are currently implementing additional measures aimed at controlling further fluctuation of the Colombian peso and fostering domestic price stability. A prediction cannot be made on the policies that may be adopted by the Colombian government and whether those policies may negatively affect the Colombian economy or our business or financial performance. Furthermore, we cannot assure you that the Colombian peso will not depreciate or appreciate relative to other currencies in the future.

USE OF PROCEEDS

We expect to receive total estimated gross proceeds of this offering of approximately U.S.\$996.1 million, before deducting the fees, commissions and offering expenses payable by us.

We intend to use the net proceeds from this offering for general corporate purposes, which may include enhancing our strategic interests in the financial services sector, through acquisitions or other corporate transactions, strengthening the capital base of our subsidiaries and prepaying outstanding indebtedness, including to related parties.

CAPITALIZATION

The following table presents our consolidated capitalization at June 30, 2012:

- on an actual basis derived from our unaudited consolidated financial statements prepared in accordance with Colombian Banking GAAP;
- as adjusted to give effect to this offering.

You should read this table in conjunction with our financial statements and the related notes and with the sections entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Selected Statistical Data” included in this offering memorandum and “Item 3. Key Information—Selected financial data” and “Item 5. Operating and Financial Review and Prospects—Results of operations” in our 2011 Annual Report on Form 20-F incorporated by reference herein. For a summary of our technical capital, see “Item 4. Information on the Company—B. Business overview—Supervision and regulation—Capital adequacy requirements” in our 2011 Annual Report on Form 20-F incorporated by reference herein.

	At June 30, 2012			
	Actual	As adjusted (unaudited)	Actual	As adjusted (unaudited)
	(in U.S.\$ millions)(1)		(in Ps billions)	
Long-term debt				
Long-term debt (bonds), including current portion (2)				
Ordinary unsecured bonds (3)	3,162.0	3,162.0	5,643.0	5,643.0
Subordinated bonds	459.8	459.8	820.5	820.5
5.25% Senior Notes due 2017	600.0	600.0	1,070.8	1,070.8
Notes offered hereby	–	1,000.0	–	1,784.6
Total	4,221.8	5,221.8	7,534.2	9,318.9
Borrowings from banks and others (4)	5,396.0	5,396.0	9,629.7	9,629.7
Total shareholders’ equity	4,786.3	4,786.3	8,541.7	8,541.7
Total capitalization (total long-term debt plus shareholders’ equity)	14,404.1	15,404.1	25,705.7	27,490.3

(1) Translated for convenience only using the representative market rate as computed and certified by the Superintendency of Finance for pesos into U.S. dollars of Ps 1,784.60 to U.S.\$1.00 at June 30, 2012.

(2) All long-term debt is unsecured and only an immaterial portion of BAC Credomatic’s long-term debt (U.S.\$55.7 million or Ps 99.4 billion as of June 30, 2012) was secured with certain of its mortgage loans.

The maturity schedule for our bonds is: Ps 725.2 billion mature in less than one year, Ps 2,352.3 billion between one and three years, Ps 2,294.8 billion between three and five years, and Ps 2,162.0 billion in five years or more.

The balance of long-term debt issued by Grupo Aval at the parent company level, including Grupo Aval Limited, was Ps 1,920.5 billion, with the following maturity schedule: Ps 125.7 billion maturing in less than one year, Ps 105.5 billion between one and three years, Ps 214.6 billion between three and five years, and Ps 1,474.7 billion in five years or more.

(3) Includes Banco de Bogotá’s U.S.\$600.0 million 5.00% Senior Notes due 2017.

(4) Reflects loans made by other financial institutions including development banks and international correspondent banks.

The maturity schedule for borrowings from banks and others is: Ps 2,406.4 billion mature in less than one year, Ps 3,687.9 billion between one and three years, Ps 1,348.2 billion between three and five years, and Ps 2,187.1 billion in 5 years or more.

The balance of borrowings from banks and others held by Grupo Aval at the parent company level at June 30, 2012 was at Ps 1,153.8 billion, with the following maturity schedule: Ps 84.6 billion maturing in less than one year, Ps 747.1 billion between one and three years, and Ps 322.0 billion between three and five years.

Material changes to our consolidated capitalization since June 30, 2012 consist of the following additional indebtedness:

- Banco de Occidente issued Ps 300 billion (U.S.\$168.1 million) in peso-denominated bonds on August 9, 2012. The bonds were issued in three tranches: (i) Ps 50 billion (U.S.\$28.0 million) of three-year bonds bearing interest at DTF plus 1.67%; (ii) Ps 101 billion (U.S.\$56.6 million) of ten-year bonds bearing interest at IPC plus 4.10%; and (iii) Ps 149 billion (U.S.\$83.5 million) of fifteen-year bonds bearing interest at IPC plus 4.27%; and
- Banco Popular has announced that it intends to issue Ps 400 billion (U.S.\$224.1 million) in peso-denominated bonds on September 19, 2012. The maturity and interest rate for the bonds will be determined prior to that date.

SELECTED STATISTICAL DATA

The following information is included for analytical purposes and should be read in conjunction with our consolidated financial statements included in our 2011 Annual Report on Form 20-F and this offering memorandum as well as “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this offering memorandum and “Item 5. Operating and Financial Review and Prospects” in our 2011 Annual Report on Form 20-F incorporated by reference herein. This information has been derived from our financial records, which are prepared in accordance with Colombian Banking GAAP. This information includes our unaudited consolidated financial information at June 30, 2012 and June 30, 2011 and for the six-month periods ended June 30, 2012 and 2011. For information regarding annual periods, please see “Item 4. Information on the Company—B. Business overview—Selected statistical data” in our 2011 Annual Report on Form 20-F incorporated by reference herein.

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

Average balances have been calculated as follows: for each month, the actual month-end balances were established. The average balance for each period is the average of the period-end data for the preceding December 31 and each month in the relevant six-month period. We stop accruing interest on loans after they are past due by more than a certain number of days that depends on the type of loan. See “—Loan portfolio—Suspension of accruals.” For purposes of the presentation in the following tables, non-performing loans have been treated as non-interest-earning assets.

Under Colombian Banking GAAP, interest on investment securities includes accrued interest on debt instruments, valuation adjustments and gains (losses) realized on debt and equity securities that are accounted for as “available for sale,” gains (losses) on repurchase transactions (repos), gains (losses) realized on the sale of debt securities, and mark-to-market gains (losses) on our trading securities portfolio.

Average balance sheet

For the six-month periods ended June 30, 2012 and 2011, the following table presents:

- average balances calculated using actual month-end balances for our assets and liabilities (based on non-consolidated period-end data for the preceding December 31 and each month in the relevant six-month period, adjusted for consolidation by the addition or subtraction of, as applicable, average balances for the respective periods);
- interest income and expense amounts; and
- annualized average yield and annualized interest rate for our interest-earning assets and interest-bearing liabilities, respectively.

The interest rate subtotals are based on the weighted average of the average peso-denominated and foreign currency-denominated balances.

**Average balance sheet and income from interest-earning assets
for the six-month periods ended June 30,**

	2012			2011		
	Average balance	Interest income earned	Average yield	Average balance	Interest income earned	Average yield
(in Ps billions, except percentages)						
Assets						
Interest-earning assets						
Interbank and overnight funds						
Domestic						
Peso-denominated.....	1,089.7	78.1	14.3%	1,137.0	50.0	8.8%
Foreign-denominated.....	889.3	5.6	1.3%	515.7	3.6	1.4%
Total domestic.....	1,979.0	83.6	8.5%	1,652.7	53.6	6.5%
Foreign.....	928.6	14.8	3.2%	1,103.4	11.7	2.1%
Total.....	2,907.6	98.5	6.8%	2,756.1	65.3	4.7%
Investment securities (1)						
Domestic						
Peso-denominated.....	16,402.7	582.2	7.1%	15,893.8	541.5	6.8%
Foreign-denominated.....	2,537.1	32.4	2.6%	1,873.2	70.2	7.5%
Total domestic.....	18,939.7	614.6	6.5%	17,767.0	611.7	6.9%
Foreign.....	1,475.5	31.0	4.2%	1,321.6	25.7	3.9%
Total.....	20,415.2	645.6	6.3%	19,088.6	637.4	6.7%
Loans and financial leases (2)						
Domestic						
Peso-denominated.....	54,460.4	3,368.6	12.4%	45,970.8	2,552.1	11.1%
Foreign-denominated.....	4,753.7	83.9	3.5%	3,824.2	54.7	2.9%
Total domestic.....	59,214.1	3,452.4	11.7%	49,795.0	2,606.8	10.5%
Foreign.....	10,942.1	700.6	12.8%	9,680.6	648.0	13.4%
Total.....	70,156.2	4,153.0	11.8%	59,475.6	3,254.8	10.9%
Total interest-earnings assets						
Domestic						
Peso-denominated.....	71,952.8	4,028.8	11.2%	63,001.6	3,143.5	10.0%
Foreign-denominated.....	8,180.1	121.9	3.0%	6,213.1	128.5	4.1%
Total domestic.....	80,132.8	4,150.7	10.4%	69,214.7	3,272.0	9.5%
Foreign.....	13,346.2	746.4	11.2%	12,105.6	685.5	11.3%
Total interest-earnings assets.....	93,479.0	4,897.1	10.5%	81,320.3	3,958.5	9.7%
Non-interest-earnings assets						
Cash and due from banks						
Domestic						
Peso-denominated.....	4,098.8			4,664.4		
Foreign-denominated.....	1,150.7			360.6		
Total domestic.....	5,249.5			5,025.1		
Foreign.....	2,830.3			2,394.8		
Total.....	8,079.9			7,419.9		
Allowance for loan and financial lease losses						
Domestic						
Peso-denominated.....	(2,143.3)			(1,903.4)		
Foreign-denominated.....	(13.6)			(10.9)		
Total domestic.....	(2,156.9)			(1,914.3)		
Foreign.....	(193.0)			(201.5)		
Total.....	(2,349.9)			(2,115.9)		
Non-performing past due loans (3)						
Domestic						
Peso-denominated.....	941.0			946.4		
Foreign-denominated.....	5.1			8.9		
Total domestic.....	946.1			955.4		
Foreign.....	239.8			256.8		
Total.....	1,185.9			1,212.1		

Average balance sheet and income from interest-earning assets
for the six-month periods ended June 30,

	2012			2011		
	Average balance	Interest income earned	Average yield	Average balance	Interest income earned	Average yield
(in Ps billions, except percentages)						
Bankers' acceptances, spot transactions and derivatives						
Domestic						
Peso-denominated.....	4,008.1			3,179.8		
Foreign-denominated.....	(3,583.4)			(2,819.2)		
Total domestic	424.8			360.6		
Foreign	12.4			12.8		
Total	437.2			373.4		
Accounts receivable, net						
Domestic						
Peso-denominated.....	2,007.4			1,569.6		
Foreign-denominated.....	69.5			56.3		
Total domestic.....	2,077.0			1,625.8		
Foreign	240.9			318.8		
Total	2,317.9			1,944.7		
Foreclosed assets, net						
Domestic						
Peso-denominated.....	47.9			60.9		
Foreign-denominated.....	-			-		
Total domestic.....	47.9			60.9		
Foreign	27.9			40.3		
Total	75.8			101.3		
Property, plant and equipment And Operating leases, net						
Domestic						
Peso-denominated.....	1,826.5			1,600.3		
Foreign-denominated.....	34.2			45.9		
Total domestic.....	1,860.7			1,646.2		
Foreign	297.3			309.7		
Total	2,157.9			1,955.9		
Other assets net						
Domestic						
Peso-denominated.....	6,119.4			5,042.7		
Foreign-denominated.....	55.7			39.6		
Total domestic.....	6,175.1			5,082.3		
Foreign	2,243.3			2,227.4		
Total	8,418.4			7,309.7		
Total non-interest-earnings assets						
Domestic						
Peso-denominated.....	16,905.7			15,160.7		
Foreign-denominated.....	(2,281.6)			(2,318.7)		
Total domestic.....	14,624.1			12,842.0		
Foreign	5,698.9			5,359.0		
Total non-interest-earnings assets	20,323.0			18,201.1		
Total interest and non-interest-earnings assets						
Domestic						
Peso-denominated.....	88,858.5	4,028.8	9.1%	78,162.3	3,143.5	8.0%
Foreign-denominated.....	5,898.4	121.9	4.1%	3,894.4	128.5	6.6%
Total domestic.....	94,756.9	4,150.7	8.8%	82,056.7	3,272.0	8.0%
Foreign	19,045.1	746.4	7.8%	17,464.7	685.5	7.8%
Total assets	113,802.0	4,897.1	8.6%	99,521.4	3,957.5	8.0%

**Average balance sheet and income from interest-bearing liabilities
for the six-month periods ended June 30,**

	2012			2011		
	Average balance	Interest expense paid	Average interest rate	Average balance	Interest expense paid	Average interest rate
(in Ps billions, except percentages)						
Liabilities and shareholders' equity						
Interest-bearing liabilities						
<i>Checking accounts</i>						
Domestic						
Peso-denominated.....	2,489.4	53.4	4.3%	1,634.3	18.4	2.3%
Foreign-denominated.....	1,004.1	4.1	0.8%	176.5	0.2	0.2%
Total domestic.....	3,493.6	57.4	3.3%	1,810.8	18.6	2.1%
Foreign.....	4,359.9	15.4	0.7%	4,173.0	15.3	0.7%
Total.....	7,853.5	72.9	1.9%	5,983.7	33.9	1.1%
<i>Savings deposits</i>						
Domestic						
Peso-denominated.....	25,588.8	502.6	3.9%	24,915.9	357.7	2.9%
Foreign-denominated.....	341.1	0.9	0.5%	275.3	0.9	0.6%
Total domestic.....	25,929.8	503.5	3.9%	25,191.2	358.6	2.8%
Foreign.....	2,379.1	14.6	1.2%	2,158.6	16.3	1.5%
Total.....	28,309.0	518.1	3.7%	27,349.9	374.9	2.7%
<i>Time deposits</i>						
Domestic						
Peso-denominated.....	17,205.9	523.7	6.1%	12,437.0	266.7	4.3%
Foreign-denominated.....	3,038.1	34.9	2.3%	2,633.7	29.0	2.2%
Total domestic.....	20,243.9	558.6	5.5%	15,070.7	295.7	3.9%
Foreign.....	4,295.3	90.4	4.2%	4,060.5	84.9	4.2%
Total.....	24,539.3	649.0	5.3%	19,131.3	380.6	4.0%
<i>Interbank borrowings and overnight funds (4)</i>						
Domestic						
Peso-denominated.....	4,088.4	95.3	4.7%	4,130.3	59.4	2.9%
Foreign-denominated.....	176.4	1.7	2.0%	205.1	1.7	1.7%
Total domestic.....	4,264.8	97.0	4.5%	4,335.5	61.1	2.8%
Foreign.....	93.0	3.0	6.4%	107.7	3.1	5.7%
Total.....	4,357.8	100.0	4.6%	4,443.2	64.2	2.9%
<i>Borrowings from banks and others (5)</i>						
Domestic						
Peso-denominated.....	4,423.9	157.4	7.1%	4,482.3	121.8	5.4%
Foreign-denominated.....	2,959.9	29.7	2.0%	3,723.1	22.4	1.2%
Total domestic.....	7,383.8	187.2	5.1%	8,205.4	144.2	3.5%
Foreign.....	2,834.3	53.0	3.7%	2,183.6	38.7	3.5%
Total.....	10,218.1	240.2	4.7%	10,389.0	182.9	3.5%
<i>Bonds</i>						
Domestic						
Peso-denominated.....	5,310.3	198.7	7.5%	5,277.0	155.3	5.9%
Foreign-denominated.....	1,851.0	51.6	5.6%	–	–	–
Total domestic.....	7,161.3	250.3	7.0%	5,277.0	155.3	5.9%
Foreign.....	316.6	10.1	6.4%	289.6	9.3	6.4%
Total.....	7,477.9	260.4	7.0%	5,566.6	164.5	5.9%
Total interest-bearing liabilities						
Domestic						
Peso-denominated.....	59,106.7	1,531.1	5.2%	52,876.9	979.3	3.7%
Foreign-denominated.....	9,370.5	122.9	2.6%	7,013.7	54.2	1.5%
Total domestic.....	68,477.2	1,654.0	4.8%	59,890.6	1,033.4	3.5%
Foreign.....	14,278.4	186.6	2.6%	12,973.1	167.6	2.6%
Total.....	82,755.6	1,840.6	4.4%	72,863.6	1,201.0	3.3%
Total non-interest-bearing liabilities and shareholders' equity	31,046.4	–	–	26,657.7	–	–
Total liabilities and shareholders' equity	113,802.0	1,840.6	3.2%	99,521.4	1,201.0	2.4%

(1) Includes available for sale securities, in which yields are based on historical cost balances.

- (2) Includes an immaterial amount of interest earned on loans rated “C,” “D” and “E.”
- (3) Loans past due more than 90 days for commercial loans, more than 60 days for consumer loans, more than 30 days for microcredit loans, more than 60 days for mortgage, more than 90 days for commercial financial leases and more than 60 days for consumer financial leases. See “—Loan portfolio—Risk categories.”
- (4) Reflects operations involving: common short-term interbank funds, repurchase transactions (repos), simultaneous operations and transactions involving the temporary transfer of securities.
- (5) Reflects loans made by other financial institutions including development banks and international correspondent banks.

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

The following tables allocate by currency of denomination, changes in our net interest income to changes in average volume, changes in nominal rates and the net variance caused by changes in both average volume and nominal rates for the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011. Volume and rate variances have been calculated based on variances in average balances over the period and changes in nominal interest rates on average interest-earning assets and average interest-bearing liabilities. Net changes attributable to changes in both volume and interest rate have been allocated to changes in volume.

	June 30, 2012 – June 30, 2011		
	Increase (decrease) due to changes in		
	Volume	Rate	Net change
(in Ps billions, except percentages)			
Interest-earnings assets			
<i>Interbank and overnight funds</i>			
Domestic			
Peso-denominated	(3.4)	31.5	28.1
Foreign currency-denominated	2.3	(0.4)	2.0
Total domestic	(1.0)	31.1	30.1
<i>Investment securities</i>			
Domestic			
Peso-denominated	18.1	22.7	40.7
Foreign currency-denominated	8.5	(46.2)	(37.8)
Total domestic	26.5	(23.6)	3.0
<i>Loans and financial leases(1)</i>			
Domestic			
Peso-denominated	525.1	291.3	816.5
Foreign currency-denominated	16.4	12.8	29.2
Total domestic	541.5	304.1	845.7
<i>Total interest-earnings assets</i>			
Domestic			
Peso-denominated	539.8	345.5	885.3
Foreign currency-denominated	27.2	(33.8)	(6.6)
Total domestic	567.0	311.7	878.7
Foreign			60.9
Total interest-earnings assets	664.4	275.1	939.6

- (1) Includes an immaterial amount of interest earned on loans rated “C,” “D” and “E.”

	June 30, 2012 – June 30, 2011		
	Increase (decrease) due to changes in		
	Volume	Rate	Net change
	(in Ps billions, except percentages)		
Interest-bearing liabilities			
<i>Checking accounts</i>			
Domestic			
Peso-denominated	18.3	16.6	35.0
Foreign currency-denominated	3.4	0.5	3.9
Total domestic	21.7	17.2	38.9
<i>Savings deposits</i>			
Domestic			
Peso-denominated	13.2	131.7	144.9
Foreign currency-denominated	0.2	(0.2)	–
Total domestic	13.4	131.5	144.9
<i>Time deposits</i>			
Domestic			
Peso-denominated	145.1	111.8	256.9
Foreign currency-denominated	4.7	1.3	6.0
Total domestic	149.8	113.1	262.9
<i>Interbank borrowings and overnight funds</i>			
Domestic			
Peso-denominated	(1.0)	36.9	35.9
Foreign currency-denominated	(0.3)	0.3	–
Total domestic	(1.3)	37.1	35.9
<i>Borrowings from banks and others</i>			
Domestic			
Peso-denominated	(2.1)	37.7	35.6
Foreign currency-denominated	(7.7)	15.0	7.4
Total domestic	(9.7)	52.7	43.0
<i>Long-term debt (bonds)</i>			
Domestic			
Peso-denominated	1.2	42.2	43.4
Foreign currency-denominated	51.6	-	51.6
Total domestic	52.8	42.2	95.0
Total interest-bearing liabilities			
Domestic			
Peso-denominated	174.9	376.9	551.8
Foreign currency-denominated	51.8	17.0	68.8
Total domestic	226.7	393.9	620.5
Foreign			19.0
Total interest-bearing liabilities	242.2	397.3	639.6

Interest-earning assets — net interest margin and spread

The following table presents average balances of interest-earning assets as well as our yields on our average interest-earning assets, net interest earned, net interest margin and interest spread for the six-month periods ended June 30, 2012 and 2011.

	For the six-month period ended	
	June 30,	
	2012	2011
	(in Ps billions, except percentages)	
<i>Interbank and overnight funds</i>		
Domestic		
Peso-denominated	1,089.7	1,137.0
Foreign currency-denominated	889.3	515.7
Total domestic	1,979.0	1,652.7
Foreign	928.6	1,103.4
Total	2,907.6	2,756.1

	For the six-month period ended June 30,	
	2012	2011
	(in Ps billions, except percentages)	
Investment securities		
Domestic		
Peso-denominated	16,402.7	15,893.8
Foreign currency-denominated	2,537.1	1,873.2
Total domestic	18,939.7	17,767.0
Foreign.....	1,475.5	1,321.6
Total	20,415.2	19,088.6
Loans and financial leases (1)		
Domestic		
Peso-denominated	54,460.4	45,970.8
Foreign currency-denominated	4,753.7	3,824.2
Total domestic	59,214.1	49,795.0
Foreign.....	10,942.1	9,680.6
Total	70,156.2	59,475.6
Other interest-earning assets		
Domestic		
Peso-denominated	-	-
Foreign currency-denominated	-	-
Total domestic	-	-
Foreign.....	-	-
Total	-	-
Total average interest-earning assets		
Domestic		
Peso-denominated	71,952.8	63,001.6
Foreign currency-denominated	8,180.1	6,213.1
Total domestic	80,132.8	69,214.7
Foreign.....	13,346.2	12,105.6
Total	93,479.0	81,320.3
Net interest earned (2)		
Domestic		
Peso-denominated	2,497.8	2,164.3
Foreign currency-denominated	(1.0)	74.3
Total domestic	2,496.8	2,238.6
Foreign.....	559.8	517.9
Total	3,056.5	2,756.5
Average yield on interest-earning assets		
Domestic		
Peso-denominated	11.2%	10.0%
Foreign currency-denominated	3.0%	4.1%
Total domestic	10.4%	9.5%
Foreign.....	11.2%	11.3%
Total	10.5%	9.7%
Net interest margin (3)		
Domestic		
Peso-denominated	6.9%	6.9%
Foreign currency-denominated	-	2.4%
Total domestic	6.2%	6.5%
Foreign.....	8.4%	8.6%
Total	6.5%	6.8%

	For the six-month period ended June 30,	
	2012	2011
	(in Ps billions, except percentages)	
Interest spread on loans and financial leases (4)		
Domestic		
Peso-denominated	7.2%	7.4%
Foreign currency-denominated	0.9%	1.3%
Total domestic	6.8%	7.0%
Foreign.....	10.2%	10.8%
Total.....	7.4%	7.6%
Interest spread on total interest-earning assets (5)		
Domestic		
Peso-denominated	6.0%	6.3%
Foreign currency-denominated	0.4%	2.6%
Total domestic	5.5%	6.0%
Foreign.....	8.6%	8.7%
Total.....	6.0%	6.4%

- (1) Includes an immaterial amount of interest earned on loans rated “C,” “D” and “E.”
- (2) Net interest earned is calculated as interest income less interest paid and includes accrued interest, valuation adjustments and gains (losses) realized on debt and equity securities that are accounted for as “available for sale,” gains (losses) on repurchase transactions (repos), gains (losses) realized on the sale of debt securities, and mark-to-market gains (losses) on trading securities portfolio.
- (3) Net interest margin is calculated as net interest income divided by total average interest-earning assets.
- (4) Interest spread on loans and financial leases is calculated as the difference between the average yield on interest-earning loans and financial leases and the average rate paid on interest-bearing liabilities.
- (5) Interest spread on total interest-earning assets is calculated as the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities.

Investment portfolio

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

	At June 30,	At June 30,
	2012	2011
	(in Ps billions)	
Debt securities		
Peso-denominated		
Securities issued or secured by the Colombian central government (1).....	11,061.3	10,353.5
Securities issued or secured by the Colombian Central Bank	—	—
Securities issued or secured by other Colombian government entities.....	2,535.9	2,416.6
Securities issued or secured by other financial entities (2).....	376.7	520.5
Other securities (3).....	418.6	653.8
Total peso-denominated.....	14,392.5	13,944.4
Foreign currency-denominated		
Securities issued or secured by the Colombian central government (1).....	417.5	529.2
Securities issued or secured by other Colombian government entities.....	99.1	429.4
Securities issued or secured by other financial entities (2).....	816.4	685.4
Securities issued by foreign governments	1,654.8	749.8
Other securities (3).....	180.2	216.2
Total foreign currency-denominated.....	3,168.1	2,610.0
Total debt securities, net.....	17,560.6	16,554.4
Equity securities, net.....	2,725.2	2,855.6
Total investment securities, net.....	20,285.8	19,409.9

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

At June 30, 2012 and June 30, 2011, we held securities issued by foreign governments and in the principal amounts, as follows.

	Issuer	Investment amount – book value (in P's billions)	Investment amount – book value (in U.S.\$ thousands)
June 30			
2012			
	Brazil.....	3.9	2.2
	Costa Rica	384.0	215.2
	Mexico	21.5	12.0
	Panama.....	112.2	62.9
	United States of America	20.2	11.3
	El Salvador.....	29.5	16.5
	Chile.....	9.9	5.6
	Guatemala	112.1	62.8
	Nicaragua	11.4	6.4
	Honduras	111.7	62.6
	Total June 30, 2012	816.4	457.5
June 30			
2011			
	Brazil.....	6.4	3.6
	Costa Rica	237.1	133.8
	Mexico	10.1	5.7
	Panama.....	83.7	47.2
	United States of America	55.5	31.3
	El Salvador.....	26.8	15.1
	Chile.....	2.9	1.6
	Guatemala	153.7	86.7
	Nicaragua	11.7	6.6
	Honduras	97.5	55.0
	Total 2011	685.4	386.8

Investment securities portfolio maturity

The following table summarizes the maturities and weighted average nominal yields of our debt investment securities at June 30, 2012.

At June 30, 2012										
	Maturity less than 1 year		Maturity between 1 and 5 years		Maturity between 5 and 10 years		Maturity more than 10 years		Total	
	Balance (1)	Yield % (2)	Balance (1)	Yield % (2)	Balance (1)	Yield % (2)	Balance (1)	Yield % (2)	Balance (1)	Yield % (2)
(in Ps billions, except yields)										
Debt securities										
Peso-denominated										
Securities issued or secured by the Colombian central government	883.0	5.2%	4,979.9	5.6%	4,632.0	6.6%	566.4	7.0%	11,061.3	6.1%
Securities issued or secured by the Colombian Central Bank	-	-	-	-	-	-	-	-	-	-
Securities issued or secured by Colombian government entities	2,387.4	3.0%	47.5	6.3%	101.0	7.2%	-	-	2,535.9	3.2%
Securities issued or secured by other financial entities	134.8	5.7%	121.2	6.9%	101.3	7.0%	19.4	8.0%	376.6	6.6%
Other securities	11.5	5.9%	30.0	6.5%	334.7	6.1%	42.5	12.1%	418.6	6.7%
Total peso-denominated	3,416.7	3.7%	5,178.6	5.7%	5,169.0	6.6%	628.3	7.4%	14,392.5	5.6%
Foreign currency-denominated										
Securities issued or secured by the Colombian central government	97.4	(0.3%)	319.0	1.7%	1.2	2.5%	-	-	417.5	1.2%
Securities issued or secured by Colombian government entities	-	-	-	-	99.1	4.9%	-	-	99.1	4.9%
Securities issued or secured by other financial entities	433.4	5.8%	363.0	7.0%	20.0	7.8%	0.0	5.6%	816.4	6.4%
Securities issued by foreign governments	951.9	2.8%	684.4	4.2%	18.5	6.7%	-	-	1,654.8	3.4%
Other securities	4.2	3.4%	131.2	3.2%	44.9	4.7%	-	-	180.2	3.6%
Total foreign currency-denominated	1,486.8	3.5%	1,497.6	4.2%	183.6	5.3%	0.0	5.6%	3,168.1	3.9%
Total debt securities, net	4,903.5		6,676.2		5,352.6		628.3		17,560.6	
Equity securities, net ..									2,725.2	
Total investment securities, net									20,285.8	

(1) Amounts for debt securities are net of allowances for decline in value, which amounted to Ps 3,628.6 billion at June 30, 2012. Amounts for equity securities are net of allowances, which amounted to Ps 4,707.4 billion at June 30, 2012.

(2) Yield was calculated using the internal rate of return, or "IRR," at June 30, 2012.

At June 30, 2012 and June 30, 2011, we had the following investments in securities of issuers that exceeded 10% of our shareholders' equity.

June 30, 2012			
Issuer	Book value	Market value	
(in Ps billions)			
Securities issued or secured by the Colombian central government.....	Ministry of Finance	11,474.7	11,364.1
Securities issued or secured by Colombian government entities.....	Finagro	2,237.4	2,223.5
Securities issued by other financial entities	Titularizadora Colombiana S.A. (1)	425.2	427.1
Total		14,137.3	14,014.7

June 30, 2011			
Issuer	Book value	Market value	
(in Ps billions)			
Securities issued or secured by the Colombian central government.....	Ministry of Finance	10,818.8	10,736.6
Securities issued or secured by Colombian government entities.....	Finagro	1,962.3	1,947.0
Securities issued by other financial entities	Titularizadora Colombiana S.A. (1)	527.2	528.5
Total		13,308.3	13,212.1

(1) Titularizadora Colombiana S.A. is a corporation owned by the International Finance Corporation, or "IFC," an affiliate of the World Bank, and certain mortgage-lending Colombian banks; it carries out mortgage securitizations.

Loan portfolio

The following table presents our loan portfolio classified into commercial, consumer, microcredit, financial leases and mortgage loans.

	At June 30, 2012	At June 30, 2011
(in Ps billions)		
Domestic		
Commercial		
General purpose loans (1).....	27,517.3	24,343.5
Loans funded by development banks.....	1,805.1	1,586.3
Working capital loans.....	8,721.8	7,778.6
Credit cards.....	219.5	171.6
Overdrafts.....	510.2	254.0
Total commercial	38,773.9	34,134.0
Consumer		
Credit cards.....	1,890.2	1,560.5
Personal loans.....	13,058.3	10,918.6
Automobile and vehicle loans	1,791.2	1,557.2
Overdrafts.....	66.3	64.4
Loans funded by development banks.....	0.2	0.2
General purpose loans	160.3	153.9
Working capital loans.....	1.5	–
Total consumer	16,967.9	14,254.8
Microcredit.....	281.2	251.5
Mortgages.....	911.1	794.0
Financial leases.....	5,653.1	4,138.4
Total domestic	62,587.3	53,572.8

	At June 30, 2012	At June 30, 2011
	(in Ps billions)	
Foreign		
Commercial		
General purpose loans (1).....	2,029.8	1,764.0
Loans funded by development banks.....	-	-
Working capital loans.....	1,736.9	1,104.1
Credit cards.....	-	-
Overdrafts.....	58.3	43.1
Total commercial	3,825.0	2,911.2
Consumer		
Credit cards.....	2,646.2	2,302.5
Personal loans.....	688.5	571.4
Automobile and vehicle loans.....	855.8	723.0
Overdrafts.....	15.0	12.6
Loans funded by development banks.....	-	-
General purpose loans.....	-	-
Working capital loans.....	-	-
Total consumer	4,205.6	3,609.5
Microcredit.....	-	-
Mortgages.....	3,175.0	2,973.6
Financial leases.....	243.7	205.9
Total foreign	11,449.3	9,700.1
Total portfolio	74,036.6	63,272.9
Allowance for loan portfolio.....	(2,397.7)	(2,226.0)
Total portfolio, net	71,638.9	61,046.9

- (1) General purpose commercial loans primarily include short-term loans (*créditos de tesorería*), trade finance loans, project finance loans and loans for capital expenditures.

Maturity and interest rate sensitivity of loans and financial leases

The following tables present the maturities of our loan portfolio at June 30, 2012 and December 31, 2011.

	At June 30, 2012			
	Due in one year or less	Due from one to five years	Due after five years	Total
	(in Ps billions)			
Domestic currency-denominated				
Commercial				
General purpose loans.....	13,805.6	12,419.2	1,261.2	27,485.9
Loans funded by development banks.....	614.9	895.4	294.8	1,805.1
Working capital loans.....	8,198.4	458.7	29.9	8,687.1
Credit cards.....	200.7	18.9	-	219.5
Overdrafts.....	454.3	55.9	-	510.2
Total commercial	23,273.9	13,848.1	1,585.8	38,707.8
Consumer				
Credit cards.....	1,328.0	562.2	-	1,890.2
Personal loans.....	3,827.6	8,434.6	796.2	13,058.3
Automobile and vehicle loans.....	584.7	1,167.3	39.1	1,791.2
Overdrafts.....	66.2	-	-	66.3
Loans funded by development banks.....	0.1	0.1	-	0.2
General purpose loans.....	75.5	84.8	-	160.3
Working capital loans.....	0.4	1.1	-	1.5
Total consumer	5,882.4	10,250.1	835.4	16,967.9

At June 30, 2012				
	Due in one year or less	Due from one to five years	Due after five years	Total
(in Ps billions)				
Microcredit	169.2	111.9	0.1	281.2
Mortgages	103.7	328.4	479.1	911.1
Financial leases	1,678.2	3,135.9	839.0	5,653.1
Total domestic portfolio	31,107.5	27,674.4	3,739.4	62,521.2
Foreign currency-denominated				
Commercial				
General purpose loans	354.5	810.0	896.6	2,061.1
Loans funded by development banks	-	-	-	-
Working capital loans	1,584.8	175.7	11.2	1,771.7
Credit cards	-	-	-	-
Overdrafts	58.3	-	-	58.3
Total commercial	1,997.6	985.7	907.8	3,891.1
Consumer				
Credit cards	2,558.8	78.9	8.5	2,646.2
Personal loans	42.0	162.0	484.5	688.5
Automobile and vehicle loans	26.9	441.3	387.6	855.8
Overdrafts	15.0	-	-	15.0
Loans funded by development banks	-	-	-	-
General purpose loans	-	-	-	-
Working capital loans	-	-	-	-
Total consumer	2,642.7	682.2	880.6	4,205.6
Microcredit	-	-	-	-
Mortgages	2.2	67.6	3,105.1	3,175.0
Financial leases	18.0	220.4	5.3	243.7
Total foreign portfolio	4,660.6	1,956.0	4,898.8	11,515.4
Total loan portfolio	35,768.0	29,630.3	8,638.2	74,036.6
At December 31, 2011				
	Due in one year or less	Due from one to five years	Due after five years	Total
(in Ps billions)				
Domestic currency-denominated				
Commercial				
General purpose loans	12,742.2	12,094.9	1,102.4	25,939.5
Loans funded by development banks	553.7	971.0	346.7	1,871.4
Working capital loans	7,805.4	686.6	32.3	8,524.2
Credit cards	130.7	52.9	-	183.6
Overdrafts	187.6	(2.4)	-	185.3
Total commercial	21,419.6	13,803.0	1,481.4	36,704.0
Consumer				
Credit cards	1,319.0	416.4	-	1,735.3
Personal loans	3,662.2	7,558.9	601.1	11,822.2
Automobile and vehicle loans	542.9	1,135.8	28.1	1,706.8
Overdrafts	53.2	-	-	53.2
Loans funded by development banks	-	0.1	-	0.2
General purpose loans	74.4	85.6	-	160.0
Working capital loans	-	-	-	-
Total consumer	5,651.7	9,196.7	629.2	15,477.7
Microcredit	117.5	166.7	-	284.2
Mortgages	102.4	320.2	412.0	834.6
Financial leases	1,441.6	2,815.1	661.0	4,917.8
Total domestic portfolio	28,732.8	26,301.7	3,183.7	58,218.2

At December 31, 2011				
	Due in one year or less	Due from one to five years	Due after five years	Total
(in Ps billions)				
Foreign currency-denominated				
Commercial				
General purpose loans	464.4	985.9	748.2	2,198.5
Loans funded by development banks.....	-	-	-	-
Working capital loans	1,385.0	198.1	4.5	1,587.6
Credit cards.....	-	-	-	-
Overdrafts.....	55.5	-	-	55.5
Total commercial.....	1,904.9	1,184.0	752.7	3,841.6
Consumer				
Credit cards.....	2,601.0	110.5	2.9	2,714.5
Personal loans.....	48.4	175.3	451.3	675.0
Automobile and vehicle loans	27.1	608.7	221.1	856.9
Overdrafts.....	11.7	-	-	11.8
Loans funded by development banks.....	-	-	-	-
General purpose loans	-	-	-	-
Working capital loans.....	-	-	-	-
Total consumer	2,688.3	894.6	675.3	4,258.2
Microcredit.....	-	-	-	-
Mortgages.....	3.1	116.2	3,264.6	3,383.8
Financial leases.....	21.0	222.8	2.1	246.0
Total foreign portfolio.....	4,617.3	2,417.6	4,694.7	11,729.6
Total loan portfolio	33,350.1	28,719.3	7,878.4	69,947.7

The following table presents the interest rate sensitivity of our loan portfolio due after one year and within one year or less at June 30, 2012 and June 30, 2011.

	At June 30, 2012	At June 30, 2011
(in Ps billions)		
Loans with terms of one year or less		
Variable rate		
Domestic		
Domestic-denominated.....	23,330.3	19,141.2
Foreign-denominated.....	43.8	58.5
Total domestic.....	23,374.2	19,199.7
Foreign	1,754.3	1,083.1
Total.....	25,128.5	20,282.8
Fixed rate		
Domestic		
Domestic-denominated.....	7,777.1	6,958.7
Foreign-denominated.....	12.4	5.7
Total domestic.....	7,789.5	6,964.4
Foreign	2,850.0	2,071.3
Total.....	10,639.5	9,035.7
Total loans with terms of one year or less.....	35,768.1	29,318.5

Loans with terms of more than one year

Variable rate		
Domestic-denominated	19,604.5	17,504.0
Foreign-denominated	9.6	6.3
Total domestic	19,614.0	17,510.2
Foreign	1,602.3	3,419.4
Total	21,216.3	20,929.6
Fixed rate		
Domestic-denominated	11,809.3	9,898.5
Foreign-denominated	0.4	0.0
Total domestic	11,809.6	9,898.5
Foreign	5,242.6	3,126.3
Total	17,052.3	13,024.7
Total loans with terms of more than one year	38,268.6	33,954.4
Total loan portfolio	74,036.6	63,272.9

Loan portfolio by economic activity

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

	At June 30,		At June 30,	
	2012	%	2011	%
(in Ps billions, except when in percentages)				
Agricultural	1,846.0	2.5	1,294.0	2.0
Mining products and oil	1,598.4	2.2	1,564.9	2.5
Food, beverage and tobacco	1,964.1	2.7	2,047.2	3.2
Chemical production	3,251.0	4.4	1,400.6	2.2
Other industrial and manufacturing products	4,098.6	5.5	4,466.5	7.1
Government	2,235.2	3.0	1,851.5	2.9
Construction	5,472.9	7.4	3,435.3	5.4
Trade and tourism	902.7	1.2	730.8	1.2
Transportation and communications	4,714.4	6.4	3,131.1	4.9
Public services	2,959.4	4.0	3,498.8	5.5
Consumer services	25,735.0	34.8	21,319.8	33.7
Commercial services	17,587.9	23.8	13,081.5	20.7
Other(1)	1,671.2	2.3	5,450.8	8.6
Total loan portfolio	74,036.6	100.0	63,272.9	100.0

(1) In 2012, the Superintendency of Finance implemented the revised International Standard Industrial Classification of All Economic Activities as published by the United Nations, which updated the loans base by economic activity and also contributed to the decrease in loans recorded under "Other" since December 2011.

Credit categories

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

	Loan portfolio by type of loan	
	At June 30,	
	2012	2011
	(in Ps billions)	
Commercial loans	38,773.9	34,135.0
Consumer loans	16,967.9	14,254.8
Microcredit loans	281.2	251.5
Mortgages	911.1	794.0
Financial leases	5,653.1	4,138.4
Total domestic loan portfolio	62,587.3	53,573.8
Allowance for loans and financial lease losses	(2,212.3)	(2,026.1)
Total domestic loan portfolio, net	60,375.0	51,547.7

	Loan portfolio by type of loan	
	At June 30,	
	2012	2011
	(in Ps billions)	
Commercial loans	3,825.0	2,911.2
Consumer loans	4,205.6	3,609.5
Microcredit loans	–	–
Mortgages	3,175.0	2,973.6
Financial leases	243.7	205.9
Total foreign loan portfolio	11,449.3	9,700.1
Allowance for loans and financial lease losses	(185.4)	(199.9)
Total foreign loan portfolio, net	11,263.9	9,500.2
Total loan portfolio, net	71,638.9	61,046.9

Risk categories

The following table presents the breakdown of our loan portfolio by risk classification in effect at June 30 of each year.

	At June 30,		At June 30,	
	2012	%	2011	%
	(in Ps billions, except percentages)			
Domestic				
“A” Normal risk	58,606.2	93.6	49,640.6	92.7
“B” Acceptable risk, above normal	1,912.8	3.1	2,057.6	3.8
“C” Appreciable risk	871.6	1.4	732.4	1.4
“D” Significant risk	788.6	1.3	783.8	1.5
“E” Risk of non-recoverability	408.2	0.7	359.4	0.7
Total domestic loan portfolio	62,587.3	100.0	53,573.8	100.0
Loan portfolio classified as “C,” “D” and “E” as a percentage of total domestic loan portfolio	–	3.3	–	3.5
Foreign				
“A” Normal risk	10,885.5	95.1	9,123.7	94.1
“B” Acceptable risk, above normal	228.2	2.0	204.7	2.1
“C” Appreciable risk	200.6	1.8	215.7	2.2
“D” Significant risk	80.8	0.7	88.3	0.9
“E” Risk of non-recoverability	54.2	0.5	67.7	0.7
Total foreign loan portfolio	11,449.3	100.0	9,700.1	100.0
Loan portfolio classified as “C,” “D” and “E” as a percentage of total foreign loan portfolio	–	2.9	–	3.8
Total loan portfolio	74,036.6	–	63,272.9	–
Loan portfolio classified as “C,” “D” and “E” as a percentage of total loan portfolio	–	3.2	–	3.6

Suspension of accruals

The Superintendent of Finance mandates that interest, UVRs, lease payments and other items of income cease to be accrued in the statement of income and begin to be recorded in memorandum accounts until any payment is collected, once a loan or financial lease is in arrears for more than 90 days for commercial loans or financial leases, 60 days for mortgage and consumer loans or financial leases and 30 days for microcredit loans.

Interest paid on non-accrued loans is recorded as “interest on loans” on our statement of income.

The following table presents the breakdown of our past due loans by type of loan in accordance with the criteria of the Superintendent of Finance in effect at June 30 of each year and at December 31, 2011.

	At June 30,		At June 30,		At December 31,	
	2012	%	2011	%	2011	%
(in Ps billions, except percentages)						
Domestic						
<i>Performing past due loans:(1)</i>						
Commercial loans past due from 31 days to 90 days	130.5	9.3	104.9	8.1	85.7	7.1
Consumer loans past due from 31 days to 60 days.....	204.9	14.6	159.8	12.3	143.4	11.9
Microcredit loans past due up to 30 days	0.5	–	0.7	0.1	0.6	–
Mortgage loans past due from 31 days to 60 days	24.3	1.7	30.0	2.3	22.8	1.9
Financial leases past due from 31 days to 60/90 days(2)	69.5	4.9	63.7	4.9	72.5	6.0
Total domestic performing past due loans portfolio	429.7	30.6	359.1	27.7	324.9	27.0
<i>Non-performing past due loans:</i>						
Commercial loans past due more than 90 days	357.4	25.4	407.9	31.5	347.7	28.8
Consumer loans past due more than 60 days.....	453.2	32.3	383.4	29.6	398.0	33.0
Microcredit loans past due more than 30 days	23.7	1.7	13.2	1.0	12.6	1.0
Mortgage loans past due more than 60 days	45.5	3.2	49.9	3.9	46.8	3.9
Financial leases past due more than 60/90 days	95.2	6.8	81.3	6.3	75.4	6.3
Total domestic non-performing past due loan portfolio	975.0	69.4	935.7	72.3	880.5	73.0
Total past due loan portfolio	1,404.7	100.0	1,294.7	100.0	1,205.5	100.0
Total non-performing past due loan portfolio	975.0		935.7		880.5	
Foreclosed assets	183.2		159.6		161.8	
Other accounts receivable more than 180 days past due	29.8		34.3		31.8	
Total domestic non-performing assets	1,188.0		1,129.6		1,074.1	
Allowance for loan and financial lease losses	2,212.3		2,026.1		2,093.0	
Allowance for estimated losses on foreclosed assets	119.5		108.4		113.6	
Allowance for accounts receivable and accrued interest losses ...	73.1		58.2		57.2	
Loans and financial leases at least 31 days past due as a percentage of total loans.....	2.2%		2.4%		2.1%	
Allowance for loan and financial lease losses as a percentage of loans at least 31 days past due.....	157.5%		156.5%		173.6%	
Allowance for loan and financial lease losses as a percentage of loans classified as “C,” “D” and “E”	107.0%		108.0%		114.1%	
Percentage of performing loans and financial leases to total loans and financial leases	98.4%		98.3%		98.5%	
Foreign						
<i>Performing past due loans:(1)</i>						
Commercial loans past due from 31 days to 90 days	14.8	5.1	20.2	6.5	14.4	4.3
Consumer loans past due from 31 days to 60 days.....	46.3	16.0	50.4	16.2	46.4	14.0
Microcredit loans past due up to 30 days	–	–	–	–	–	–
Mortgage loans past due from 31 days to 60 days	–	–	–	–	–	–
Financial leases past due from 31 days to 60/90 days(2)	0.4	0.2	0.7	0.2	1.5	0.5
Total foreign performing past due loans portfolio	61.6	21.2	71.3	22.9	62.4	18.8

	At June 30,		At June 30,		At December 31,	
	2012	%	2011	%	2011	%
(in Ps billions, except percentages)						
Non-performing past due loans:						
Commercial loans past due more than 90 days	57.9	20.0	57.3	18.4	80.0	24.1
Consumer loans past due more than 60 days.....	85.1	29.3	93.3	29.9	86.9	26.2
Microcredit loans past due more than 30 days	—	—	—	—	—	—
Mortgage loans past due more than 60 days	84.7	29.2	89.5	28.7	100.1	30.2
Financial leases past due more than 60/90 days	0.8	0.3	0.4	0.1	2.3	0.7
Total foreign non-performing past due loan portfolio	228.6	78.8	240.5	77.1	269.4	81.2
Total past due loan portfolio	290.2	100.0	311.8	100.0	331.8	100.0
Total non-performing past due loan portfolio	228.6		240.5		269.4	
Foreclosed assets	48.1		59.7		61.8	
Other accounts receivable more than 180 days past due	—		—		—	
Total foreign non-performing assets	276.7		300.1		331.2	
Allowance for loan and financial lease losses	185.4		199.9		213.5	
Allowance for estimated losses on foreclosed assets	23.4		22.5		29.5	
Allowance for accounts receivable and accrued interest losses	—		—		—	
Loans and financial leases at least 31 days past due as a percentage of total loans	2.5%		3.2%		2.8%	
Allowance for loan and financial lease losses as a percentage of loans at least 31 days past due	63.9%		64.1%		64.3%	
Allowance for loan and financial lease losses as a percentage of loans classified as “C,” “D” and “E”	55.3%		53.8%		55.0%	
Percentage of performing loans and financial leases to total loans and financial leases	98.0%		96.8%		97.2%	

- (1) Performing past due loans are loans upon which interest has not been received for the periods indicated; however, we continue to recognize income. Once interest is unpaid on accrual loans for greater than the amount of days specified in the respective line item above, the loan is classified as non-performing.
- (2) Includes commercial and consumer financial leases.

The following table presents the breakdown of the non-performing past due loans by type of loan in accordance with the criteria of the Superintendent of Finance for domestic and foreign loans at the periods indicated.

	At June 30,		At December 31,
	2012	2011	2011
(in Ps billions)			
Domestic			
Non-performing past due loans:			
Commercial loans past due more than 90 days	357.4	407.9	347.7
Consumer loans past due more than 60 days	453.2	383.4	398.0
Microcredit loans past due more than 30 days	23.7	13.2	12.6
Mortgage loans past due more than 60 days	45.5	49.9	46.8
Financial leases past due more than 60 days	95.2	81.3	75.4
Total domestic non-performing past due loan portfolio	975.0	935.7	880.5
Foreign			
Non-performing past due loans:			
Commercial loans past due more than 90 days	57.9	57.3	80.0
Consumer loans past due more than 60 days	85.1	93.3	86.9
Microcredit loans past due more than 30 days	—	—	—
Mortgage loans past due more than 60 days	84.7	89.5	100.1
Financial leases past due more than 60/90 days	0.8	0.4	2.3
Total foreign non-performing past due loan portfolio	228.6	240.5	269.4
Total domestic and foreign non-performing past due loan portfolio	1,203.5	1,176.2	1,149.9

The following table presents our past due loan portfolio by type of loan.

	At June 30,		At December 31,			
	2012	%	2011	%		
(in Ps billions, except percentages)						
Commercial						
General purpose loans.....	405.5	23.9	440.8	27.4	384.3	25.0
Loans funded by development banks.....	30.0	1.8	39.6	2.5	31.1	2.0
Working capital loans.....	59.4	3.5	82.4	5.1	48.4	3.2
Credit cards.....	13.8	0.8	15.9	1.0	12.6	0.8
Overdrafts.....	51.9	3.1	11.7	0.7	51.5	3.3
Total commercial	560.7	33.1	590.3	36.7	527.9	34.3
Consumer						
Credit cards.....	218.3	12.9	215.5	13.4	202.2	13.2
Personal loans.....	446.8	26.4	371.3	23.1	371.3	24.2
Automobile and vehicle loans.....	109.3	6.4	85.9	5.3	87.1	5.7
Overdrafts.....	8.5	0.5	7.4	0.5	8.6	0.6
Loans funded by development banks.....	0.1	0.0	–	–	0.1	–
General purpose loans.....	6.5	0.4	6.3	0.4	5.5	0.4
Working capital loans.....	–	–	0.5	–	–	–
Total consumer	789.5	46.6	686.8	42.8	674.7	43.9
Microcredit.....	24.2	1.4	13.9	0.9	13.2	0.9
Mortgages.....	154.5	9.1	146.0	9.1	169.7	11.0
Financial leases.....	165.9	9.8	169.5	10.5	151.8	9.9
Total past due loan portfolio	1,694.9	100.0	1,606.6	100.0	1,537.3	100.0

The following table presents information with respect to our loan portfolio at least 31 days past due based on the nature of the collateral for the loan.

	At June 30,		At June 30,	
	2012	%	2011	%
(in Ps billions, except percentages)				
Secured				
Past due 31 to 360 days				
Commercial.....	157.8	0.2	148.5	0.2
Consumer.....	103.4	0.1	82.3	0.1
Microcredit.....	15.6	–	8.0	–
Mortgages.....	136.8	0.2	145.6	0.2
Financial leases.....	129.2	0.2	110.3	0.2
Total 31 to 360 days	542.8	0.8	494.7	0.8
Total past due more than 360 days.....	121.4	0.2	121.9	0.2
Total current.....	22,917.2	32.0	19,995.1	32.8
Total secured loan portfolio	23,581.4	32.9	20,611.6	33.8
Unsecured(1)				
Past due 31 to 360 days				
Commercial.....	208.5	0.3	243.2	0.4
Consumer.....	618.2	0.9	537.2	0.9
Microcredit.....	7.8	–	4.7	–
Mortgages.....	–	–	–	–
Financial leases.....	–	–	–	–
Total 31 to 360 days	834.5	1.2	785.1	1.3
Total past due more than 360 days	196.2	0.3	204.9	0.3
Total current.....	49,424.6	69.0	41,671.3	68.3
Total unsecured loan portfolio	50,455.2	70.4	42,661.3	69.9
Total loan portfolio, gross	74,036.6	103.3	63,272.9	103.6
Allowances.....	(2,397.7)	(3.3)	(2,226.0)	(3.6)
Total loan portfolio, net	71,638.9	100.0	61,046.9	100.0

(1) Includes loans with personal guarantees.

Non-accrual, non-performing loans, performing loans, and performing troubled restructured loans

Non-accrual loans

The following tables present loans accounted for on a non-accrual basis classified into domestic and foreign loans, the gross interest income that would have been recorded in the relevant period if the loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination, and the amount of interest income on those loans that was included in net income for that period.

At and for the six-month period ended June 30, 2012			
	Amount of loans	Gross interest income	Interest income included in net income for the period
		(in Ps billions)	
Domestic.....	975.0	122.6	37.3
Foreign.....	228.6	6.5	–
Total non-accrual loan portfolio.....	1,203.6	129.1	37.3

At and for the six-month period ended June 30, 2011			
	Amount of loans	Gross interest income	Interest income included in net income for the period
		(in Ps billions)	
Domestic.....	935.7	156.0	49.4
Foreign.....	240.5	12.9	–
Total non-accrual loan portfolio.....	1,176.2	168.9	49.4

Non-performing troubled debt restructured loans

The following tables present our non-performing troubled debt restructured loans classified into domestic and foreign loans, the gross interest income that would have been recorded in the relevant period if the loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination, and the amount of interest income on those loans that was included in net income for that period.

At and for the six-month period ended June 30, 2012			
	Amount of loans	Gross interest income	Interest income included in net income for the period
		(in Ps billions)	
Domestic.....	786.8	43.0	27.0
Foreign.....	20.5	1.7	–
Total non-performing troubled debt restructured loan portfolio	807.3	44.7	27.0

At and for the six-month period ended, 2011			
	Amount of loans	Gross interest income	Interest income included in net income for the period
		(in Ps billions)	
Domestic.....	766.7	58.3	22.9
Foreign.....	56.4	9.8	–
Total non-performing troubled debt restructured loan portfolio	823.1	68.1	22.9

Performing troubled restructured loans

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

	<u>At and for the six-month period ended June 30, 2012</u>		
	<u>Amount of loans</u>	<u>Gross interest income</u>	<u>Interest income included in net income for the period</u>
	<u>(in Ps billions)</u>		
Domestic.....	818.8	42.0	33.1
Foreign.....	123.1	10.4	10.1
Total performing troubled debt restructured loan portfolio	941.9	52.4	43.3

	<u>At and for the six-month period ended, 2011</u>		
	<u>Amount of loans</u>	<u>Gross interest income</u>	<u>Interest income included in net income for the period</u>
	<u>(in Ps billions)</u>		
Domestic.....	651.8	33.5	30.3
Foreign.....	117.5	23.0	22.5
Total performing troubled debt restructured loan portfolio	769.2	56.5	52.8

The following table presents a summary of our troubled debt restructuring loan portfolio, classified into domestic and foreign loans, accounted for on a performing basis in accordance with the criteria of the Superintendency of Finance in effect at the end of each period.

	<u>At June 30,</u>		<u>At December 31,</u>
	<u>2012</u>	<u>2011</u>	<u>2011</u>
	<u>(in Ps billions)</u>		
Domestic.....	818.8	651.8	613.3
Foreign.....	123.1	117.5	122.0
Total performing troubled debt restructuring loan portfolio(1)	941.9	769.2	735.2

(1) Restructured loans are loans that have been modified due to an impairment of the conditions of the beneficiary.

Movements in allowances for credit losses

Allowance for loan losses

We record allowance for loan and financial lease losses in accordance with regulations established by the Superintendency of Finance. For further information regarding the regulation and methodologies for the calculation of such allowances, see note 2(i) to our audited consolidated financial statements.

The following tables present the changes in the allowance for loan and financial lease losses during the periods indicated.

	Six-month period ended June 30,	
	2012	2011
	(in Ps billions)	
Domestic		
Balance at beginning of period	2,093.0	1,977.6
Increase in allowance through business combinations(1)	5.5	0.5
Allowance for financial leasing reclassification	–	–
Provisions for loan losses	969.4	872.2
Charge-offs	(257.3)	(265.2)
Effect of difference in exchange rate	(1.0)	(2.1)
Reclassification – securitization	(1.0)	(3.8)
Reversals of provisions	(596.2)	(553.1)
Balance at end of year (domestic)	2,212.3	2,026.1
	(in Ps billions)	
Foreign		
Balance at beginning of period	213.5	206.3
Increase in allowance through business combinations(1)	–	–
Allowance for financial leasing reclassification	–	–
Provisions for loan losses	71.3	86.1
Charge-offs	(57.9)	(74.5)
Effect of difference in exchange rate	(17.3)	(18.0)
Reclassification – securitization	–	–
Reversals of provisions	(24.2)	–
Balance at end of year (foreign)	185.4	199.9
Balance at end of year total(2)	2,397.7	2,226.0

(1) Reflects business acquisitions of BAC Credomatic in 2010.

(2) The allowance balance for accrued interest receivable, which is not included in this item, amounted to Ps 73.1 billion and Ps 58.2 billion for the six-month periods ended June 30, 2012 and 2011 and Ps 61.2 billion for the year ended December 31, 2011.

Recoveries of charged-off loans are recorded on the statement of income under recovery of charged-off assets and are not included in provisions for loan losses.

The following table presents the allocation of our allowance for loan losses by category of loan and financial lease losses.

	At June 30,	At June 30,
	2012	2011
	(in Ps billions)	
Domestic		
Commercial	1,133.5	1,142.0
Consumer	858.3	698.7
Microcredit	14.6	10.6
Mortgages	17.1	16.2
Financial leases	177.7	149.0
General (1)	11.0	9.6
Total domestic	2,212.3	2,026.1

	At June 30,	At June 30,
	2012	2011
(in Ps billions)		
Foreign		
Commercial	55.3	55.6
Consumer.....	116.0	117.8
Microcredit	-	-
Mortgages.....	12.0	25.1
Financial leases.....	2.2	1.4
General (1).....	-	-
Total foreign	185.4	199.9
Total allowance for loan and financial lease losses	2,397.7	2,226.0

(1) Our banking subsidiaries adopted the Commercial Reference Model (July 2007) and the Consumer Reference Model (July 2008) issued by the Superintendency of Finance. Notwithstanding the elimination of the general allowance for loan losses dictated by these models, this did not result in a decrease in the total amount of allowances, as allowances for individual loans increased. At June 30, 2012 and December 31, 2010, the general allowance includes an amount equal to 1.0% of gross mortgage and microcredit loans in Colombia and general allowances in other jurisdictions.

The following tables present the allocation of our allowance for loans and financial lease losses by type of loan.

	At June 30,		At June 30,	
	2012	%	2011	%
(in Ps billions, except percentages)				
Domestic				
Commercial				
General purpose loans	874.8	36.5	898.4	40.4
Loans funded by development banks	53.5	2.2	54.4	2.4
Working capital loans.....	175.4	7.3	163.0	7.3
Credit cards.....	15.1	0.6	14.8	0.7
Overdrafts.....	14.7	0.6	11.4	0.5
Total commercial	1,133.5	47.3	1,142.0	51.3
Consumer				
Credit cards.....	116.5	4.9	91.5	4.1
Personal loans.....	649.8	27.1	526.2	23.6
Automobile and vehicle loans	76.2	3.2	67.0	3.0
Overdrafts.....	5.5	0.2	5.5	0.2
Loans funded by development banks	-	-	-	-
General purpose loans	10.2	0.4	8.5	0.4
Working capital loans.....	0.1	-	-	-
Total consumer	858.3	35.8	698.7	31.4
Microcredit	14.6	0.6	10.6	0.5
Mortgages	17.1	0.7	16.2	0.7
Financial leases.....	177.7	7.4	149.0	6.7
General	11.0	0.5	9.6	0.4
Total domestic	2,212.3	92.3	2,026.1	91.0
Foreign				
Commercial				
General purpose loans	38.1	1.6	48.7	2.2
Loans funded by development banks	-	-	-	-
Working capital loans.....	15.7	0.7	6.1	0.3
Credit cards.....	-	-	-	-
Overdrafts.....	1.5	0.1	0.7	-
Total commercial	55.3	2.3	55.6	2.5

	At June 30,		At June 30,	
	2012	%	2011	%
(in Ps billions, except percentages)				
Consumer				
Credit cards.....	105.9	4.4	106.4	4.8
Personal loans.....	4.5	0.2	5.4	0.2
Automobile and vehicle loans	3.6	0.2	4.1	0.2
Overdrafts.....	2.0	0.1	1.9	0.1
Loans funded by development banks	-	-	-	-
General purpose loans	-	-	-	-
Working capital loans.....	-	-	-	-
Total consumer	116.0	4.8	117.8	5.3
Microcredit	-	-	-	-
Mortgages	12.0	0.5	25.1	1.1
Financial leases.....	2.2	0.1	1.4	0.1
General	-	-	-	-
Total foreign	185.4	7.7	199.9	9.0
Total allowance for loan and financial lease losses	2,397.7	100.0	2,226.0	100.0

Charge-offs

The following table presents the allocation of our charge-offs by type of loan for the six-month periods ended June 30, 2012 and 2011.

	Six-month period ended June 30,	
	2012	2011
(in Ps billions)		
Domestic		
Commercial and consumer		
General purpose loans.....	42.8	74.7
Loans funded by development banks	2.3	3.0
Working capital loans	2.8	27.1
Credit cards	50.3	34.7
Personal loans.....	125.1	90.6
Automobile and vehicle loans	14.2	20.6
Overdrafts.....	3.8	3.4
Total commercial and consumer.....	241.3	254.0
Microcredit	4.8	6.2
Mortgages and other	0.2	-
Financial leases.....	11.0	4.9
Total domestic	257.3	265.2
Foreign		
Commercial and consumer		
General purpose loans.....	3.4	4.0
Loans funded by development banks	-	-
Working capital loans	1.6	0.7
Credit cards	42.5	54.9
Personal loans.....	2.7	-
Automobile and vehicle loans	0.6	1.4
Overdrafts.....	3.1	8.6
Total commercial and consumer.....	53.9	69.6

	Six-month period ended June 30,	
	2012	2011
	(in Ps billions)	
Microcredit	—	—
Mortgages and other	3.1	5.2
Financial leases.....	0.9	(0.2)
Total foreign	57.9	74.5
Total charge-offs	315.2	339.7

The ratio of charge-offs to average outstanding loans for the periods indicated was as follows.

	Six-month period ended June 30,	
	2012	2011
	(in percentages)	
Ratio of charge-offs to average outstanding loans.....	0.9%	1.1%

Loans are subject to charge-offs when all possible collection mechanisms have been exhausted and when they are one hundred percent (100%) provisioned.

Charge-offs do not, however, eliminate the bank's obligation to continue to engage in collection efforts to accomplish recovery. The recovery of charged-off loans is accounted for in our consolidated statements of income.

The board of directors of each of our banks is the only administrative body with legal authority to approve charge-offs of transactions deemed uncollectable. The recovery of charged-off loans is accounted for as income in our consolidated statement of income.

Potential problem loans

In order to carefully monitor the credit risk associated with clients, we have established a committee that meets monthly to identify potential problem loans, which are then included on a watch list. In general, these are loans issued to clients that could face difficulties in the future repayment of their obligations, but who have had a good payment record with us in the past. These potential difficulties could be related to factors such as a decline in economic activity, financial weakness or any other event that could affect the client's business. Our banks also monitor the credit risk associated with these clients.

Potential problem loans are primarily those classified as "B" under the Superintendent of Finance's credit classification and provisioning guidelines. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk management—Credit classification and provisioning." At June 30, 2012, Ps 2,141.0 billion, or 2.9%, of our subsidiaries' loans were classified as potential problem loans under these guidelines.

Separately, we also monitor loans granted by our banks to a single borrower where we have an aggregate exposure of Ps 2.0 billion.

Cross-border outstanding loans and investments

We do not have any cross-border outstanding loans and investments to a borrower in any country that exceeded 0.75% of our total assets. The following table presents information with respect to our cross-border outstanding loans and investments, at the periods indicated. See "—Loan portfolio" above for a description of cross-border outstandings by type of foreign borrower.

	At June 30,		At December 31,
	2012	2011	2011
	(in Ps billions)		
Loans			
Commercial			
Costa Rica.....	913.4	745.6	956.0
El Salvador	505.5	437.3	520.4
Guatemala.....	397.6	251.3	337.7
Honduras.....	894.6	755.5	934.6
Nicaragua.....	709.3	508.3	704.2
Panama	432.7	259.6	350.0
Consumer			
Costa Rica.....	445.7	329.5	423.7
El Salvador	177.1	143.5	174.8
Guatemala.....	83.5	66.1	79.5
Honduras.....	148.6	131.3	158.6
Nicaragua.....	148.6	111.2	138.0
Panama	584.0	512.9	602.3
Financial Leases			
Costa Rica.....	198.8	159.2	195.9
El Salvador	14.3	17.3	16.4
Guatemala.....	8.7	0.3	9.6
Honduras.....	3.2	0.9	4.1
Nicaragua.....	1.6	3.3	3.8
Panama	45.3	25.9	49.4
Mortgages			
Costa Rica.....	1,191.4	1,070.0	1,235.9
El Salvador	478.3	485.9	530.1
Guatemala.....	462.1	463.4	512.7
Honduras.....	439.8	411.4	474.1
Nicaragua.....	162.1	154.7	170.8
Panama	469.5	389.8	493.4
Credit Cards			
Costa Rica.....	823.5	700.3	827.9
El Salvador	391.2	379.0	417.7
Guatemala.....	400.7	307.8	407.1
Honduras.....	375.0	320.1	388.4
Nicaragua.....	193.9	174.0	201.2
Panama	385.3	311.0	394.3
Unearned Income			
Costa Rica.....	—	—	—
El Salvador	—	—	—
Guatemala.....	—	—	—
Honduras.....	—	—	—
Nicaragua.....	—	—	—
Panama	—	—	—
Total per country			
Costa Rica.....	3,572.8	3,004.6	3,639.4
El Salvador	1,566.4	1,463.0	1,659.4
Guatemala.....	1,352.7	1,088.8	1,346.6
Honduras.....	1,861.1	1,619.2	1,959.8
Nicaragua.....	1,215.6	951.5	1,217.9
Panama	1,916.8	1,499.2	1,889.5
Investments			
Australia	4.6	0.9	279.0
Bahamas	5.3	—	—
Brazil	205.0	133.0	136.9
British Virgin Islands.....	—	6.0	—
Barbados	—	—	—
Canada	5.1	17.4	10.3
Cayman Islands.....	28.9	158.7	120.9
Chile	35.0	50.5	49.9

	At June 30,		At December 31,
	2012	2011	2011
	(in Ps billions)		
Costa Rica.....	468.7	311.8	372.3
El Salvador	32.0	26.8	23.2
France	–	5.3	–
Germany	7.6	8.5	14.2
Guatemala.....	112.2	153.8	–
Honduras.....	279.7	291.0	32.6
Mexico.....	37.2	12.3	40.6
Netherlands.....	–	–	–
Nicaragua.....	21.0	29.2	5.5
Panama	211.8	146.3	116.8
Peru.....	88.6	40.2	46.7
Spain.....	5.4	9.4	-
United Kingdom	12.9	10.7	13.9
United States of America	479.5	252.6	441.4
BAC San José Liquid Fund (BAC San José Fondo líquido – Riesgo País Mixto)	5.2	–	–
Multilateral – Bank Information Center (Centro de información sobre la banca).....	3.7	–	4.0
Multilateral – Andean Development Corporation (Corporación Andina de Fomento).....	10.5	16.7	18.3
Multilateral – Central American Bank for Economic Integration	41.1	52.5	46.8
Multilateral – Latin America Reserve Fund (Fondo Latinoamericano de Reservas).....	–	–	–
Total investments	2,100.7	1,733.6	1,773.2

Deposits

The principal components of our deposits are customer demand (checking and saving accounts) and time deposits. Our retail customers are the principal source of our demand and time deposits. The following table presents the composition of our deposits for the periods indicated.

	At June 30,	
	2012	2011
	(in Ps billions)	
Domestic		
Interest-bearing deposits:		
Checking accounts	4,244.2	2,143.2
Time deposits.....	21,476.6	15,778.7
Savings deposits.....	25,946.3	26,080.8
Total	51,667.1	44,002.7
Non-interest-bearing deposits:		
Checking accounts	9,959.2	10,240.0
Other deposits (1).....	637.3	617.8
Total	10,596.5	10,857.7
Total domestic deposits	62,263.7	54,860.5
Foreign		
Interest-bearing deposits:		
Checking accounts	4,398.8	3,941.2
Time deposits.....	4,605.9	3,845.6
Savings deposits.....	2,370.5	2,154.8
Total	11,375.1	9,941.6

	At June 30,	
	2012	2011
	(in Ps billions)	
Non-interest-bearing deposits:		
Checking accounts	777.9	667.1
Other deposits (1).....	162.0	127.3
Total	939.9	794.4
Total foreign deposits	12,315.0	10,736.0
Total deposits	74,578.7	65,596.5

(1) Consists of deposits from correspondent banks, cashier checks and collection services.

The following tables present time deposits, by amount and maturity, at June 30, 2012 and June 30, 2011.

	At June 30, 2012		
	Peso-denominated	Foreign currency-denominated	Total
	(in Ps billions)		
Domestic			
Up to 3 months	4,542.0	2,122.5	6,664.4
From 3 to 6 months.....	2,773.3	477.7	3,251.0
From 6 to 12 months.....	2,140.0	361.3	2,501.3
More than 12 months.....	6,448.3	79.1	6,527.3
Time deposits less than U.S.\$100,000 (1)	2,366.4	166.1	2,532.5
Total domestic.....	18,270.0	3,206.6	21,476.6
Foreign (2)	–	4,605.9	4,605.9
Total	18,270.0	7,812.5	26,082.5

	At June 30, 2011		
	Peso-denominated	Foreign currency-denominated	Total
	(in Ps billions)		
Domestic			
Up to 3 months	2,708.2	2,854.9	5,563.1
From 3 to 6 months.....	2,230.1	319.9	2,550.0
From 6 to 12 months.....	1,660.3	(296.5)	1,363.8
More than 12 months.....	4,360.2	(457.4)	3,902.7
Time deposits less than U.S.\$100,000 (1)	2,226.3	172.7	2,399.0
Total domestic.....	13,185.1	2,593.7	15,778.7
Foreign (2)	–	3,845.6	3,845.6
Total	13,185.1	6,439.3	19,624.3

(1) U.S.\$100,000 is the equivalent of Ps 178,460,000 (translated at the representative market rate of Ps 1,784.60 to U.S.\$1.00 at June 30, 2012).

(2) Represents operations outside of Colombia.

Return on equity and assets

The following table presents certain selected financial ratios for the periods indicated.

	At June 30,	
	2012	2011
	(in percentages)	
ROAA: Return on average total assets (1)	2.1	2.5
ROAE: Return on average shareholders' equity (2)	17.3	20.6
Average shareholders' equity as a percentage of average total assets	6.2	4.8
Period-end shareholders' equity and non-controlling interest as a percentage of period-end total assets	11.6	12.1
Dividend payout ratio (3).....	57.1	62.6

Source: Company calculations based on Grupo Aval data.

- (1) For methodology used to calculate ROAA, see note (2) to the table under "Summary—Our company—Financial and operating data."
- (2) For methodology used to calculate ROAE, see note (3) to the table under "Summary—Our company—Financial and operating data."
- (3) Dividend payout ratio (dividends declared per share divided by net income per share). For June 30, 2012, calculated with dividends approved by Grupo Aval's Board of Directors, subject to approval by the shareholders meeting.

Short-term borrowings

The following table presents our short-term borrowings, consisting of interbank and overnight funds, for the periods indicated.

	At June 30,			
	2012		2011	
	Amount	Nominal rate	Amount	Nominal rate
	(in Ps billions, except percentages)			
Short-term borrowings				
Interbank borrowings and overnight funds				
End of period	7,324.8	—	5,200.9	—
Average during period	4,357.8	4.6%	4,443.2	2.9%
Maximum amount of borrowing at any month-end	7,321.6	—	5,430.6	—
Interest paid during the period	100.0	—	64.2	—

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our audited annual consolidated financial statements at December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009, and the related notes thereto included in our 2011 Annual Report on Form 20-F incorporated by reference herein, our unaudited condensed consolidated financial statements at June 30, 2012 and for the six-month periods ended June 30, 2012 and 2011 and the related notes thereto, and with the other financial information included in this offering memorandum as well as the information under "Presentation of Financial Information" and under "Item 5. Operating and Financial Review and Prospects" in our 2011 Annual Report on Form 20-F incorporated by reference herein. The preparation of the financial statements required the adoption of assumptions and estimates that affect the amounts recorded as assets, liabilities, revenue and expenses in the years and periods addressed and are subject to certain risks and uncertainties. Our future results may vary substantially from those indicated because of various factors that affect our business, including, among others, those identified under "Forward-Looking Statements" and "Risk Factors" and other factors discussed in this offering memorandum. Our audited annual consolidated financial statements at December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 and the related notes thereto and our unaudited condensed consolidated financial statements at June 30, 2012 and 2011 and for the six-month periods ended June 30, 2012 and 2011 and the related notes thereto, are each included in this offering memorandum and in our 2011 Annual Report on Form 20-F incorporated by reference herein and have been prepared in accordance with Colombian Banking GAAP.

Overview

Grupo Aval is Colombia's largest banking group based on total assets, and its most profitable based on ROAE, as compared to our principal competitors, in each case at and for the six-month period ended June 30, 2012 and the years ended December 31, 2011, 2010 and 2009. Grupo Aval provides a comprehensive range of financial services and products across the Colombian market, ranging from traditional banking services, such as loans and deposits, to pension and severance fund management.

Grupo Aval currently consists of four commercial banks in Colombia (Banco de Bogotá, Banco de Occidente, Banco Popular and Banco AV Villas), as well as the largest pension and severance fund manager in Colombia (Porvenir) and the largest merchant bank in Colombia (Corficolombiana), each of which we control and consolidate into our results.

We have the largest banking network in Colombia, with 1,265 branches and 2,649 ATMs, at December 31, 2011. Customers of any of our banks may access Grupo Aval's other bank branches to carry out basic banking transactions throughout our Red de Grupo Aval (Grupo Aval network).

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

Recent developments

Promigas shareholding restructuring

In February 2011, Corficolombiana acquired a 14.39% direct interest and a 10.58% indirect economic interest in Promigas, Corficolombiana's principal investment in the energy and gas sector. In addition, Corficolombiana and Porvenir together hold a further 24.9% economic exposure to Promigas as a result of their respective holdings in a private investment fund. Corficolombiana has taken the following steps to restructure its ownership in, and acquire up to 100% ownership of, the outstanding share capital of Promigas.

On June 5, 2012, the 10.58% indirect economic interest held by Corficolombiana in Promigas was transferred to CFC Limited, a wholly-owned subsidiary of Corficolombiana through *escisión*. Following that step, CFC Limited merged into CFC Gas Holdings SAS, a Colombian wholly-owned subsidiary of Corficolombiana.

On July 31, 2012, Corficolombiana launched a tender offer (*oferta pública de adquisición*) for the purchase up to the remaining 75.03%, or 99,726,875, of outstanding common shares in Promigas at a purchase price of Ps 25,000 per share. The tender offer closed on September 12, 2012 with the purchase of 1,281,993 shares for a total consideration of Ps 32.0 billion.

New capital adequacy rules

On August 24, 2012, the Colombian government enacted Decree 1771, which amended certain capital adequacy requirements for Colombian credit institutions set forth in Decree 2555 of 2010.

Decree 1771 maintains the requirement for a credit institution's technical capital to be at least 9.0% of that institution's total risk-weighted assets. For the current applicable definition of technical capital, see "Supervision and Regulation—Capital adequacy requirements" in our 2011 Annual Report on Form 20-F incorporated by reference herein.

From August 1, 2013, Technical capital will continue to consist of the sum of basic capital (*patrimonio básico*), or primary capital (Tier I), and secondary capital (*patrimonio adicional*), or secondary capital (Tier II); however, primary capital (Tier I) will also consist of the sum of ordinary basic capital (*patrimonio básico ordinario*), or Common Equity Tier I, and a new category of additional basic capital (*patrimonio básico adicional*), or Additional Tier I.

In addition, Decree 1771 introduces a new measure of "core solvency" for Common Equity Tier 1, which reflects higher quality capital and is set at a minimum of 4.5% of risk-weighted assets.

Colombian credit institutions, including Grupo Aval's banking subsidiaries must comply with the new capital adequacy requirements set forth in Decree 1771 by August 1, 2013, and they must provide an implementation plan to the Superintendency of Finance by January 31, 2013. Grupo Aval is currently studying which measures, if any, it may be required to take in response to the regulations; however, we do not currently anticipate a material adverse effect on Grupo Aval or its banking subsidiaries as a result of the new capital adequacy requirements. For more information see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—New capital adequacy rules."

Pension fund solvency measures

Decree 1548 introduces a new measure of solvency for pension fund administrators, which sets technical capital (*patrimonio técnico*) at a total of 9% of exposure to operational risk. "Exposure to operational risk" is defined as the product of multiplying 100/9 by the sum of:

- 16% of fee income from mandatory pension funds;
- 16% of fee income from severance funds;
- 0% of fee income from voluntary pension funds; and
- 1/48 of all other funds managed by pension fund administrators.

We expect the changes introduced by Decree 1548 to permit the release of approximately Ps 100 billion of capital of Porvenir, which pursuant to Decree 1548 must be offset by Porvenir's stabilization reserves (the stabilization reserve is equivalent to 1.00% of the funds it manages).

New insolvency law

On June 12, 2012, the Colombian Congress enacted Law 1564, which provides insolvency protection for non-merchant individuals. Under the new insolvency regulation, which comes into effect on October 1, 2012, once a non-merchant individual has ceased paying his or her debts, that individual can initiate a voluntary insolvency proceeding before a notary public or mediator to reach an agreement with its creditors. The terms of any agreement

reached with a group (two or more) of creditors that represent more than 50% of the total amount of the claims will be mandatorily applicable to all relevant creditors. The law also provides for increased debtor protections, including an automatic stay for a maximum of 90 days.

Bond offerings by banking subsidiaries

On August 9, 2012, Banco de Occidente issued Ps 300 billion (U.S.\$168.1 million) in peso-denominated bonds. The bonds were issued in three tranches: (i) Ps 50 billion (U.S.\$28.0 million) of three-year bonds bearing interest at DTF plus 1.67%; (ii) Ps 101 billion (U.S.\$56.6 million) of ten-year bonds bearing interest at IPC plus 4.10%; and (iii) Ps 149 billion (U.S.\$83.5 million) of fifteen-year bonds bearing interest at IPC plus 4.27%. Banco de Occidente intends to use the proceeds for general corporate purposes.

Banco Popular has announced that it intends to issue Ps 400 billion (U.S.\$224.1 million) in peso-denominated bonds on September 19, 2012. The maturity and interest rate for the bonds will be determined prior to that date. The use of proceeds are expected to be general corporate purposes.

Management appointments

In May 2012, Jorge Adrián Rincón Plata (age 33) was appointed as our Chief Legal Counsel. Mr. Rincón has been a member of the board of directors of Credomatic International Corporation since December 2010. He previously served as Legal Counsel to Banco de Bogotá. He holds a degree in law from the Universidad Autónoma de Bucaramanga and a Masters in International Business Law from Queen Mary University & Westfield College, University of London. His business address is Carrera 13 No. 26A-47, Bogotá D.C., Colombia.

In May 2012, Mauricio Maldonado Umaña (age 34) was appointed as our Vice President of Strategy. Mr. Maldonado served as engagement manager at McKinsey & Co. and investment banking director at Corficolombiana. He holds a degree in industrial engineering from the Universidad de los Andes and a Master of Business Administration degree from the University of Chicago Booth School of Business. His business address is Carrera 13 No. 26A-47, Bogotá D.C., Colombia.

Principal factors affecting our financial condition and results of operations

Colombian economic conditions. The Colombian economy has expanded in recent years, driven by strong growth in fundamental areas including capital investment, domestic consumption and exports. Colombian GDP grew at a CAGR of 4.4% in the five-year period from 2007 to 2011.

Our operations are primarily concentrated in Colombia, such that our results are linked to the country's economic performance. After peaking at 6.9% in 2007, the pace of economic growth declined in 2008 and 2009, in large part due to the effects of the global economic and financial crisis. Annual GDP grew by 3.5% in 2008 and 1.7% in 2009, while the level of gross capital formation reached a peak of 25.2% of GDP in 2008 and dropped slightly to 24.1% of GDP in 2009. In response to the global economic environment and in order to stimulate growth in Colombia, the Colombian Central Bank loosened its monetary policy by cutting interest rates by 700 basis points between December 2008 and April 2010. As a result, economic activity in the country experienced a healthy recovery in the following two years, and the Colombian Central Bank was able to bring monetary policy to a neutral stance by raising interest rates by 200 basis points between February 2011 and February 2012. For example, the economy expanded 5.9% in 2011 as compared to 2010 (6.1% during the three-month period ended December 31, 2011 as compared to the same period in 2010) and 4.0% in 2010 as compared to 2009, coupled with improved consumer confidence levels, strong capital inflows and an improvement in foreign trade. For 2012, the Colombian Central Bank's GDP growth forecast initially stood in a range of 4.0% to 6.0%, but the renewed concerns of the European crisis led to a downward revision of the forecast range by mid-2012, which now stands at 3.0% to 5.0%.

Labor markets. During the twelve-month period ended June 30, 2012, the Colombian unemployment rate decreased to 10.0% as compared to 10.9% at June 30, 2011, according to DANE. The participation rate (i.e., economically active population divided by working age population) grew to 65.3% at June 30, 2012 from 62.9% at June 30, 2011, and the employment rate (i.e., employed population divided by working age population) increased to 58.8% at June 30, 2012 as compared to 56.0% at June 30, 2011. The increase in the employment rate derived primarily from increased employment in the trade, services and manufacturing economic sectors.

Interest rates. Since the implementation of an inflation-targeting regime in 1999, the Colombian Central Bank's overnight lending rate has been reduced from 26.0% in 1999 to 6.0% at the end of 2005, to 3.0% at the end of 2010, to 4.75% at December 31, 2011, and to 5.25% at June 30, 2012.

Between 2006 and the summer of 2008, the Colombian Central Bank increased the overnight lending rate by 400 basis points to 10% in the face of accelerated growth and a series of perceived supply shortages. The conservative monetary policy of the Colombian Central Bank during this period, which included increases in reserve requirements, contributed to an increase in the DTF, which reached a high of 10.33% in 2008, the first double-digit DTF rate in six years. The DTF is a benchmark interest rate that represents the financial system's average rate for 90-day term deposits.

A significant portion of Grupo Aval's assets are linked to the DTF; accordingly, changes in the DTF affect our net interest income. The average DTF was 7.96% during 2007, and 9.69% during 2008. With the loosening of monetary policy that began in late 2008, the DTF fell throughout 2009, reaching a low of 4.11% and an average of 6.22% during 2009, and a low of 3.39% and an average of 3.67% during 2010. As the economy recovered and the output gap began to close, the Colombian Central Bank increased its interest rate throughout 2011, starting in February of that year, and through to the first quarter of 2012. As the economy began to slow down more than expected, due to the intensification of the European crisis, the Colombian Central Bank decreased the interest rate by 25 basis points on July 27 and by 25 basis points on August 24, 2012, lowering it to 4.75%. It is expected that the DTF will be higher in 2012 as compared to 2011, but will remain at historically low levels during most of 2012. The average DTF was 4.15% during 2011 and 5.32% during the first half of 2012.

Inflation. Lower interest rates and stability in terms of inflation generally lead to increased consumer confidence and increased consumer demand for credit. Colombian Central Bank independence, and the adoption of an inflation-targeting regime and a free-floating currency in 1999, have contributed to declining inflation rates and increased price stability in Colombia. However, an increase in levels of economic activity in Colombia, combined with typical inflationary pressures in an expanding economic cycle, which inflated the price of basic food items, caused inflation to rise in 2007 and 2008, notwithstanding significant efforts by the Colombian Central Bank to control inflation. These efforts included increasing the intervention rate while maintaining reserve requirements, restrictions on foreign indebtedness and, as described above, increases in the overnight lending rate. Inflation rates reached 5.7% in 2007 and 7.7% in 2008, in excess of the Colombian Central Bank's target rate.

In 2009, declines in commodity prices as a result of the global economic downturn and the slowdown in aggregate demand led to a significant downward adjustment in the inflation rate to 2.0%, the lowest rate in 50 years and well below the Colombian Central Bank's target band of 4.5%-5.5% for that year. Despite the economic recovery, the inflation rate increased only slightly to 3.2% in 2010. At December 31, 2011, the inflation rate was 3.7%, within the Colombian Central Bank's target band of 2.0% to 4.0%, and the inflation rate was 3.2% for the twelve-month period ended June 30, 2012. For 2012, the Colombian Central Bank has stated that it has become increasingly likely that the inflation rate will be below that of the previous year due to the economic slowdown, which has been mainly influenced by deteriorating external conditions. The Colombian Central Bank's preemptive approach with respect to monetary policy has resulted in a decrease in inflation expectations.

Credit volumes. Credit volumes in Colombia have grown since 2005, mainly driven by the above-mentioned factors, including lower inflation rates, decreasing interest rates and consistent economic growth. According to the Superintendency of Finance, year-over-year bank credit volume growth, based on gross loans reported by all credit institutions to the Superintendency of Finance, was 24.1% in 2007 and 18.6% in 2008. However, the sharp slowdown in economic activity due to the global economic and financial crisis resulted in a significant moderation of bank credit volume growth in 2009 to 2.5%. In 2010, the pace of bank credit volume growth picked up gradually, along with a moderate recovery of economic activity and fueled by historic low interest rates. At December 31, 2010, year-over-year bank credit volume growth was 14.6% (including credit volume growth of five financing companies that merged with commercial banks during the previous 12 months, as reported by the Superintendency of Finance), while at December 31, 2011 growth was 22.1% (including three financing companies and one cooperative bank that converted to commercial banks during the previous 12 months, as reported by the Superintendency of Finance) and 20.5% when adjusted for securitized mortgage loans data, as reported by Titularizadora Colombiana S.A. We believe that Colombia offers significant opportunities to expand our business due to the country's strong economic fundamentals and low penetration rates of domestic credit to the private sector as a percentage of GDP for banking and other financial services and products in 2010 of 43.5% as compared to 57.0% for Brazil, 86.3% for Chile and 24.3% for Peru, as reported in the 2011 World Bank Development Indicators.

In 2010, Colombia's bank loans-to-GDP ratio was 29.3%, and at December 31, 2011 that ratio was 32.5%. See "Item 4. Information on the Company—B. Business overview—Industry—Colombia—Credit volumes" in our 2011 Annual Report on Form 20-F incorporated by reference herein.

Reserve requirements. The Colombian Central Bank's reserve requirements significantly affect our results of operations. The raising or lowering of these requirements directly affects our results by increasing or decreasing the funds available for lending.

Colombian banks are required to maintain a determined level of reserves depending on the volume and mix of their deposits. These are reflected in the line item "cash and cash equivalents" on our balance sheet. During 2008, this level of cash reserves, referred to as the general minimum deposit requirement, was first increased by the Colombian Central Bank from 8.3% to 11.5% for checking and saving accounts and from 2.5% to 6.0% for time deposits. On October 24, 2008, it was decreased to 11.0% for checking and saving accounts and 4.5% for time deposits. The reserve requirements have not changed since October 2008.

In May 2007, as a cautionary measure, the Colombian Central Bank forced banks to maintain, in addition to the general minimum deposit requirement, a marginal minimum deposit requirement of approximately 13% of total deposits that exceeded the level that each bank had at May 7, 2007. This marginal minimum deposit requirement (27% for current accounts, 12.5% for saving accounts and 5% for time deposits) was a temporary measure aimed at decreasing the level of liquidity in the market and was eliminated by the Colombian Central Bank in mid-2008. Reserve requirements have remained stable since late 2008; the Colombian Central Bank, however, has the power to modify these requirements.

Tax policies. Changes in Colombian tax policies can significantly affect our results of operations. According to the Ministry of Finance, the fiscal balance of the consolidated public sector improved from a deficit of 2.9% of GDP in 2001 to a deficit of 0.1% of GDP in 2008. At the Colombian central government level, the deficit fell from 5.1% in 2001 to 2.3% of GDP in 2008. As a result, net debt at the non-financial public sector decreased from 40.5% of GDP at December 31, 2001 to 31.7% of GDP at December 31, 2008. During the same period Colombian central government debt decreased from 40.4% to 36.2% of GDP. However, given the moderate scope for countercyclical fiscal policy during the downturn of 2009, the deficit of the consolidated public sector expanded to 2.7% of GDP in 2009 and 3.2% of GDP in 2010, and the deficit of the Colombian central government expanded to 4.1% of GDP in 2009 and 3.8% of GDP in 2010.

The Colombian central government initially expected that the final fiscal deficit figures for 2011 would remain high, partly due to the relief and reconstruction efforts following the worst floods to hit the country in recent history, and that the figures would start falling in 2012. In spite of these predictions, the final figures for fiscal 2011 were far better than expected, with the consolidated public sector's deficit shrinking to 2.0% of GDP and the Colombian central Government's deficit also shrinking to 2.8% of GDP. For 2012, the Government expects a consolidated public sector's deficit of 1.2% of GDP and a Central Government's deficit of 2.4% of GDP.

In order to address weaknesses in fiscal accounts, the Colombian central government enacted several laws to strengthen the fiscal regulatory regime, along with reforms on taxes and oil and mining royalties. The improvement in the fiscal regulatory regime requires expenses to grow in line with revenues and savings from excess oil revenues, with the goal of reducing Colombian central government public debt to below 30% of GDP by 2020.

In December 2009, the Colombian central government enacted Law No. 1370, creating a tax on equity (*Impuesto al Patrimonio*), or the "Equity Tax." The Equity Tax is levied based on net worth as of January 1, 2011, subject to certain adjustments. The tax rate applicable to us and our subsidiaries is 4.8% of our and their net worth. In addition, in December 2010 the Colombian central government enacted Decree No. 4825, creating a surcharge to the Equity Tax to fund certain costs associated with the natural disasters resulting from severe rainfalls. The surcharge rate applicable to us and our subsidiaries is 1.2%. This tax and the surcharge are payable biannually in eight separate installments through 2014, resulting in an annual average rate of 1.5%. Pursuant to this tax regulation, Grupo Aval accrued a total liability of Ps 783.4 billion, and two installments of Ps 97.9 billion each were paid in 2011. For the six month-period ended June 30, 2012, Grupo Aval accrued an equity tax expense of Ps 93.9 billion.

In the future, declines in tax revenues and increasing public debt and administrative expenses may make it difficult for the Colombian central Government to balance the budget and may result in higher levels of taxation, which can significantly affect our results of operations or financial condition.

Central American economic conditions. For the year ended December 31, 2011, Central America posted an estimated combined GDP of U.S.\$47.4 billion, ranking as the eighth-largest economy in Latin America after Brazil (nominal GDP of U.S.\$2,518 billion), Mexico (nominal GDP of U.S.\$1,185 billion), Argentina (nominal GDP of U.S.\$435 billion), Venezuela (nominal GDP of U.S.\$310 billion), Colombia (nominal GDP of U.S.\$322 billion), Chile (nominal GDP of U.S.\$243 billion) and Peru (nominal GDP of U.S.\$169 billion).

Because BAC's operations are concentrated in Central America, their results are linked to the region's economic performance. According to estimates prepared by the IMF, Central America's GDP is expected to grow at an annual average rate of 4.2% between 2012 and 2014, compared to Colombia's expected average growth rate of 4.5% during the same period.

During the last several years, countries in the Central American region have increased their efforts to promote fiscal prudence and foreign investment. Countries such as Costa Rica, El Salvador, Guatemala and Nicaragua have signed agreements with the IMF under which their respective governments receive credit, subject to adopting fiscal discipline in their economic policies.

We believe that the Central America region offers a stable market that is expected to further converge toward an integrated economy as a result of the ongoing implementation of free trade agreements. DR-CAFTA gradually eliminates barriers to trade and investment among Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, the Dominican Republic and the United States. The agreement allows the Central American region to access markets in the United States and establishes common regulatory standards among these countries. DR-CAFTA covers most types of trade and commercial exchange between these countries and the United States.

Results of operations

Sources of income

Grupo Aval generates revenue through several sources. Its main source of income is the net interest income that its banking subsidiaries earn by borrowing funds from customers at certain rates and lending them to customers at higher rates.

The company also derives income from trading activities as follows: (1) interest and dividends from investments in fixed income and equity securities; (2) investment gains from fixed income, equity and derivative positions; and (3) the spread on derivative transactions entered into by the company's banking subsidiaries to hedge market risk exposure.

In addition, the company earns fee and commission income from the different banking and financial services its banking subsidiaries provide, including fiduciary activities, leasing services, payment and collection services, credit and debit cards, and insurance.

Grupo Aval also earns income from the activities of Porvenir, the largest pension and severance fund manager in Colombia, which derives its revenue mainly from customers' fee-based contributions for pension management, and Corficolombiana, our merchant bank, which generates revenues mainly from its equity and fixed income portfolios, as well as from gains on merchant banking investments, investment banking fees, and treasury operations. Porvenir and Corficolombiana are controlled by Grupo Aval's banking subsidiaries.

Results of operations for the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011

The following tables present our consolidated results of operations for the six-month period ended June 30, 2012 as compared to the six-month period ended June 30, 2011, broken down among our four banking subsidiaries, adjusted to reflect intercompany eliminations, Grupo Aval Limited's financial results and our contribution as the holding company.

For the six-month period ended June 30, 2012						
	Banco de Bogotá	Banco de Occidente	Banco Popular	Banco AV Villas	Grupo Aval, Grupo Aval Limited and eliminations	Grupo Aval consolidated
(in Ps billions)						
Total interest income	2,728.5	970.9	792.7	419.3	(14.3)	4,897.1
Total interest expense	(1,013.3)	(362.3)	(273.2)	(122.8)	(69.0)	(1,840.6)
Net interest income	1,715.3	608.5	519.5	296.5	(83.2)	3,056.5
Total (provisions) /reversals, net	(207.1)	(109.3)	(52.9)	(41.5)	(0.0)	(410.8)
Total fees and other services income, net	902.0	114.7	69.4	77.2	(2.8)	1,160.5
Total other operating income	360.9	158.7	23.7	3.6	(80.5)	466.4
Total operating income	2,771.0	772.7	559.7	335.7	(166.6)	4,272.6
Total operating expenses	(1,503.2)	(451.5)	(318.4)	(230.5)	(29.0)	(2,532.6)
Net operating income	1,267.9	321.3	241.3	105.2	(195.6)	1,740.1
Total non-operating income (expense), net	73.1	8.1	32.1	9.6	(1.6)	121.3
Income before income tax expense and non-controlling interest	1,341.0	329.3	273.4	114.8	(197.2)	1,861.4
Income tax expense	(446.7)	(103.5)	(90.9)	(32.9)	(6.0)	(680.0)
Income before non-controlling interest	894.3	225.9	182.6	81.9	(203.2)	1,181.3
Non-controlling interest	(229.5)	(0.9)	(2.6)	(0.3)	(226.7)	(459.9)
Net income attributable to shareholders	664.8	225.0	180.0	81.6	(429.9)	721.5

For the six-month period ended June 30, 2011						
	Banco de Bogotá	Banco de Occidente	Banco Popular	Banco AV Villas	Grupo Aval, Grupo Aval Limited and eliminations	Grupo Aval consolidated
(in Ps billions)						
Total interest income	2,167.7	741.7	675.4	349.1	23.7	3,957.5
Total interest expense	(660.0)	(224.8)	(178.6)	(72.9)	(64.7)	(1,201.0)
Net interest income	1,507.6	516.9	496.8	276.2	(41.1)	2,756.5
Total (provisions)/reversals, net	(72.5)	(90.1)	(33.8)	(29.9)	(0.0)	(226.4)
Total fees and other services income, net ...	861.8	100.2	73.9	74.2	(7.8)	1,102.4
Total other operating income	335.3	156.1	23.1	2.7	(82.0)	435.3
Total operating income	2,632.2	683.2	560.0	323.2	(130.8)	4,067.8
Total operating expenses	(1,438.9)	(408.8)	(302.0)	(210.1)	(43.8)	(2,403.7)
Net operating income	1,193.3	274.4	258.0	113.1	(174.6)	1,664.1
Total non-operating income (expense), net ..	34.1	8.4	32.8	(1.6)	52.1	125.9
Income before income tax expense and non-controlling interest	1,227.4	282.8	290.8	111.5	(122.5)	1,790.0
Income tax expense	(335.0)	(74.1)	(92.1)	(36.0)	(3.8)	(541.0)
Income before non-controlling interest	892.4	208.7	198.8	75.6	(126.3)	1,249.0
Non-controlling interest	(311.9)	(0.9)	(2.2)	(0.3)	(311.3)	(626.7)
Net income attributable to shareholders ..	580.4	207.7	196.5	75.3	(437.6)	622.3

	Grupo Aval	
	Change, June 2012 vs. June 2011	
	(in Ps billions)	%
Total interest income.....	939.6	23.7
Total interest expense	639.6	53.3
Net interest income	300.0	10.9
Total provisions (reversals), net.....	184.5	81.5
Total fees and other services income, net	58.1	5.3
Total other operating income	31.2	7.2
Total operating income	204.8	5.0
Total operating expenses.....	128.9	5.4
Net operating income	75.9	4.6
Total non-operating income (expense), net.....	(4.5)	(3.6)
Income before income tax expense and non-controlling interest.....	71.4	4.0
Income tax expense.....	139.0	25.7
Income before non-controlling interest.....	(67.7)	(5.4)
Non-controlling interest	(166.8)	(26.6)
Net income attributable to shareholders.....	99.2	15.9

“Grupo Aval, Grupo Aval Limited and eliminations” comprises our unconsolidated results at the holding company level and intercompany consolidation eliminations. The principal components are the following:

- interest expense, which primarily reflects the cost of the bonds we have issued both in the Colombian and in the international markets at the holding company level and our financial subsidiary, Grupo Aval Limited;
- total other operating income, which reflects the elimination of intercompany dividends;
- total operating expenses, which reflect expenses at the holding company level, net of eliminations of intercompany operating expenses; and
- non-controlling interest, net of applicable intercompany consolidation eliminations.

For further information, see “Grupo Aval HoldCo” and “Eliminations” described in “note 30—iv) Summary of significant differences and required U.S. GAAP disclosures—y) Segments disclosure” to our audited consolidated financial statements included in our 2011 Annual Report on Form 20-F incorporated by reference herein.

Grupo Aval

Overview

Our net income attributable to shareholders for the six-month period ended June 30, 2012 versus the six-month period ended June 30, 2011 increased by 15.9%, or Ps 99.2 billion, to Ps 721.5 billion primarily due to (i) a decrease in non-controlling interest of Ps 166.8 billion, or 26.6%, attributable for the most part to Grupo Aval’s increase in the ownership of Banco Popular and to Corficolombiana’s decrease in net income for the period (see “—Segment results of operations for the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011—Banco de Bogotá—Banco de Bogotá subsidiary analysis—Corficolombiana”); (ii) a rise in net interest income due to an increase in total interest income from loans and financial leases of Ps 898.2 billion, or 27.6%, attributable to a 18.0% increase in the average balance of interest earning loans and financial leases and an increase in the average yield of such assets from 10.9% to 11.8%; (iii) an increase in total fees and other services income, net of Ps 58.1 billion, or 5.3%, principally due to an increase in commissions from banking services and fees from pension fund administration; and (iv) an increase in total other operating income of Ps 31.2 billion, or 7.2%, principally due to an increase in income from non-financial sector. These effects were partially offset by: (i) an increase in total interest expense of Ps 639.6 billion, or 53.3%, associated with an increase in the average balance of interest-bearing liabilities and an increase in the average cost of funding; (ii) an increase in total net provisions of Ps 184.5 billion, or 81.5%, mainly due to the recording of a reversal of provision registered during the first six

months of 2011 in Corficolombiana that did not occur during the same period in 2012; (iii) an increase in total operating expenses of Ps 128.9 billion, or 5.4%; and (iv) an increase in income tax expense of Ps 139.0 billion or 25.7%.

The following discussion describes the principal drivers of our consolidated results of operations for the six-month periods ended June 30, 2012 and 2011. Further detail is provided in the discussions of the results of operations of each of our banking subsidiaries, LB Panama, Porvenir and Corficolombiana.

Net interest income

	Six-month period ended June 30, 2012,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Interest income:				
Interest on loans.....	3,845.3	3,046.7	798.6	26.2
Interest on investment securities.....	645.6	637.4	8.2	1.3
Interbank and overnight funds.....	98.5	65.3	33.1	50.7
Financial leases.....	307.7	208.1	99.7	47.9
Total interest income.....	4,897.1	3,957.5	939.6	23.7
Interest expense:				
Checking accounts.....	(72.9)	(33.9)	39.0	115.2
Time deposits.....	(649.0)	(380.6)	268.4	70.5
Savings deposits.....	(518.1)	(374.9)	143.2	38.2
Total interest expense on deposits.....	(1,240.0)	(789.4)	450.6	57.1
Borrowings from banks and others.....	(240.2)	(182.9)	57.3	31.3
Interbank and overnight funds (expenses).....	(100.0)	(64.2)	35.8	55.7
Long-term debt (bonds).....	(260.4)	(164.5)	95.9	58.3
Total interest expense.....	(1,840.6)	(1,201.0)	639.6	53.3
Net interest income.....	3,056.5	2,756.5	300.0	10.9

Our net interest income increased by 10.9%, or Ps 300.0 billion, to Ps 3,056.5 billion for the six-month period ended June 30, 2012. The main reasons for this increase were a Ps 898.2 billion increase in interest income from loans and financial leases and a Ps 33.1 billion increase in interbank and overnight funds, partially offset by a Ps 639.6 billion increase in total interest expense.

The Ps 898.2 billion, or 27.6%, increase in interest on loans and financial leases was achieved by a 18.0%, or Ps 10,680.6 billion, increase in the average balance of interest earning loans and financial leases and an increase in the annualized yield on loans and financial leases of 89 basis points from 10.9% to 11.8%, primarily reflecting an increasing interest-rate environment in Colombia, where the average DTF rate increased by 164 basis points between the six-month period ended June 30, 2011 and the six-month period ended June 30, 2012. The DTF rate is the 90-day time deposit benchmark interest rate in Colombia and the rate most commonly used by banks to index the majority of their domestic interest-earning assets and interest-bearing liabilities.

Grupo Aval's average balance of interest earning loans and financial leases excluding LB Panama's operations, which mainly reflect BAC Credomatic's operating results, increased by 18.9%, or Ps 9,419.1 billion, to Ps 59,214.1 billion, which is consistent with the growth of the Colombian economy and the financial services sector. LB Panama's average balance of interest earning loans and financial leases increased by 13.0% or Ps 1,261.5 billion to Ps 10,942.1 billion. The annualized yield of the loan and financial lease portfolio of our Colombian operations increased by 119 basis points from 10.5% for the six-month period ended June 30, 2011 to 11.7% for the six-month period ended June 30, 2012, while the annualized yield for LB Panama's operations decreased from 13.4% to 12.8%.

Interest income from interbank and overnight funds increased by Ps 33.1 billion to Ps 98.5 billion for the six-month period ended June 30, 2012 mainly as a result of an increase in the average yield from 4.7% to 6.8%.

Further contributing to the increase in total interest income was a Ps 8.2 billion, or 1.3%, increase in interest income from investment securities to Ps 645.6 billion for the six-month period ended June 30, 2012. Under Colombian Banking GAAP, interest income from investment securities includes accrued interest on debt instruments, valuation adjustments and gains (losses) realized on debt and equity securities that are accounted for as “available for sale,” gains (losses) on repurchase transactions (i.e., repos), gains (losses) realized on the sale of debt securities, and mark-to-market gains (losses) on the trading securities portfolio.

The income yielded by Grupo Aval’s equity securities portfolio for the six-month period ended June 30, 2012 totaled Ps 99.5 billion (equivalent to 15.4% of our total income from investment securities) versus Ps 90.6 billion for the six-month period ended June 30, 2011 (equivalent to 14.2% of our total income from investment securities). This Ps 8.8 billion increase was mainly explained by a positive net result of movements in income valuation of Corficolombiana’s investments for the six-month period ended June 30, 2012 (further explained in “—Segment results of operations for the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011—Banco de Bogotá subsidiary analysis—Corficolombiana—Net interest income”)

Our fixed income portfolio yielded Ps 546.2 billion of income for the six-month period ended June 30, 2012, and accounted for 84.6% of our earnings on investment securities for this period. These fixed income earnings were 0.1%, or Ps 0.6 billion, lower than the fixed income earnings generated during the six-month period ended June 30, 2011.

Partially offsetting the increase in total interest income was the increase in total interest expense of Ps 639.6 billion, or 53.3%, to Ps 1,840.6 billion for the six-month period ended June 30, 2012 associated with an increase in the average balance of interest bearing liabilities of Ps 9,892.0 billion to Ps 82,755.6 billion and an increase of 115 basis points in the annualized cost of funds from 3.3% for the six-month period ended June 30, 2011 to 4.4% for the six-month period ended June 30, 2012, consistent with an increasing interest-rate environment and a market with decreasing excess liquidity.

Interest paid on time deposits increased by Ps 268.4 billion, or 70.5%, to Ps 649.0 billion associated with a Ps 5,408.0 billion increase in their average balance to Ps 24,539.3 billion, which contributed with a Ps 156.1 billion increase in interest expense, and a 131 basis points increase in the average interest rate paid from 4.0% to 5.3%, which resulted in a Ps 112.3 billion increase in interest expense.

Interest paid on saving deposits increased by Ps 143.2 billion, or 38.2%, to Ps 518.1 billion associated with a Ps 959.1 billion increase in their average balance to Ps 28,309.0 billion and a 92 basis points increase in the average rate paid from 2.7% to 3.7%. Interest paid on interest-bearing checking accounts increased by Ps 39.0 billion to Ps 72.9 billion associated with a Ps 1,869.8 billion increase in their average balance to Ps 7,853.5 billion and a 72 basis points increase in their average cost from 1.1% to 1.9%. Growth in the average balance of deposits was the result of higher funding requirements for the growth of the loans and financial leases portfolio of Grupo Aval.

Within the sources of funding other than deposits, interest paid on long-term debt increased the most, by Ps 95.9 billion, to Ps 260.4 billion for the six-month period ended June 30, 2012, due to an increase of Ps 1,911.3 billion in their average balance following Banco de Bogotá and Grupo Aval Ltd.’s international debt issuances in December, 2011 and January, 2012, respectively, and the average interest rate paid for long-term debt (bonds) increasing by 105 basis points from 5.9% to 7.0%. Interest paid for borrowings from banks and others and for interbank and overnight funds (expenses) increased by Ps 57.3 billion and Ps 35.8 billion, respectively, due to an increase of 118 basis points in the average interest rate of borrowings from banks and others from 3.5% to 4.7% and of 170 basis points in the average interest rate of interbank and overnight funds (expenses) from 2.9% to 4.6%.

Our average interest-earning assets increased by 15.0% to Ps 93,479.0 billion in the six-month period ended June 30, 2012 from Ps 81,320.3 billion in the six-month period ended June 30, 2011, while our average interest-bearing liabilities increased by 13.6% to Ps 82,755.6 billion in the six-month period ended June 30, 2012 from Ps 72,863.6 billion in the six-month period ended June 30, 2011, which resulted in the ratio of average interest-earning assets to average interest-bearing liabilities increasing from 1.12 as of June 30, 2011 to 1.13 as of June 30, 2012.

The annualized average yield earned on our interest-earning assets increased from 9.7% for the six-month period ended June 30, 2011 to 10.5% for the six-month period ended June 30, 2012, mainly driven by the increase in the yield earned on our loan and financial lease portfolio. The annualized average cost of our interest-bearing

liabilities increased from 3.3% for the six-month period ended June 30, 2011 to 4.4% for the six-month period ended June 30, 2012, mainly driven by the increase in the average cost of total deposits which increased from 3.0% to 4.1%. The spread between the average yield on loans and financial leases and the average cost of total deposits decreased by 18 basis points from 7.9% for the six-month period ended June 30, 2011 to 7.8% for the six-month period ended June 30, 2012 as our liabilities repriced faster than our loans and financial leases because of the competitive landscape in Colombia.

Finally, Grupo Aval's net interest margin decreased from 6.8% for the six-month period ended June 30, 2011 to 6.5% for the six-month period ended June 30, 2012 affected by the increase in the average yield paid on interest-bearing liabilities despite the increase in the average yield earned on our interest-earning assets.

Provisions

Our total net provisions increased by 81.5%, or Ps 184.5 billion, to Ps 410.8 billion for the six-month period ended June 30, 2012. This increase was mainly attributable to higher net provisions for foreclosed assets and other assets which increased from a net recovery of Ps 137.3 billion to a net provision expense of Ps 13.6 billion mainly due to the fact that during the six-month period ended June 30, 2011, Ps 122 billion of the cautionary Ps 245 billion market risk provision established by Corficolombiana in December 2010 was reversed in the prior corresponding period (see “—Segment results of operations for the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011—Banco de Bogotá—Banco de Bogotá subsidiary analysis—Corficolombiana—Provisions”).

Our net provisions for loan and financial lease losses increased by 3.7%, or Ps 15.1 billion, to Ps 420.3 billion for the six-month period ended June 30, 2012. Our ratio of annualized net provisions for loan and financial lease losses to average loan and financial leases decreased from 1.4% for the six-month period ended June 30, 2011 to 1.2% for the six-month period ended June 30, 2012, in line with a better performance of our loan portfolio where our delinquency ratio (Loans at least 30 days past due / Total gross loans) improved from 2.5% as of June 30, 2011 to 2.3% as of June 30, 2012.

Our total loans and financial leases past due more than 30 days increased from Ps 1,606.6 billion to Ps 1,694.9 billion, reflecting a Ps 88.3 billion or 5.5% increase. This increase was the result of a Ps 102.7 billion increase in our consumer past due loans and financial leases, a Ps 19.9 billion increase in our financial leases past due and a Ps 10.3 billion increase in our microcredit past due loans and financial leases, partially offset by a decrease of Ps 29.6 billion in our commercial past due loans and of Ps 15.0 billion in our past due mortgages. Our delinquency ratio for almost all of our loan types decreased: for our commercial loans, which represent 57.5% of our total gross loans, from 1.6% as of June 30, 2011 to 1.3% as of June 30, 2012; for our consumer loans, which represent 28.6% of total gross loans, from 3.8% to 3.7%; for our financial leases, which represent 8.0% of our total gross loans, from 3.4% to 2.8%; and for our mortgages, which represent 5.5% of our total gross loans, from 4.5% to 3.8%. The delinquency ratio of our microcredit loans, 0.4% of the total gross loans increased from 5.5% to 8.6%.

Three of our four banking subsidiaries recorded improved delinquency ratios. Banco de Bogotá (from 2.3% to 1.9%), Banco de Occidente (from 2.9% to 2.6%) and Banco AV Villas (from 4.3% to 3.8%). Banco Popular showed a slight increase (from 2.30% to 2.36%). Banco AV Villas continues to show the highest delinquency ratio reflecting a higher exposure to mortgage and traditional consumer loans. While Banco AV Villas mortgage and consumer loans represent 60.0% of total loans, Banco de Occidente and Banco de Bogotá's exposure to such loans is 19.4% and 31.0%, respectively. Although Banco Popular's mortgage and consumer loans represent 53.4% of total loans, most of its consumer loans are payroll loans and thus have a low delinquency ratio.

For the six-month period ended June 30, 2012, charge-offs had decreased by 7.2%, or Ps 24.5 billion, to Ps 315.2 billion. Our ratio of annualized charge-offs to average loan ratio improved by 24 basis points from 1.1% to 0.9%. LB Panamá's charge offs decreased by Ps 16.6 billion reflecting a better performance in their loan portfolio. Banco de Bogotá excluding LB Panamá and Banco de Occidente's charge offs also decreased by Ps 4.3 billion and Ps 5.0 billion, respectively, due to a similar trend in the quality of their loan portfolio.

The higher level of our net provisions for loan and financial lease losses relative to our charge-offs resulted in the 7.7% growth of our allowance for loan and financial lease losses to Ps 2,397.7 billion at June 30, 2012. Our coverage ratio (defined as our allowance for loan and financial lease losses to loans and financial leases at least 31 days past due) increased from 138.6% at June 30, 2011 to 141.5% at June 30, 2012.

Net provisions for accrued interest and other receivables increased by Ps 5.8 billion to Ps 42.2 billion, while the recovery of charged-off assets decreased by Ps 12.8 billion to Ps 65.3 billion for the six-month period ended June 30, 2012.

Total fees and other services income, net

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Fees and other services income:				
Commissions from banking services	671.3	640.5	30.8	4.8
Branch network services	13.9	6.5	7.4	113.8
Credit card merchant fees	165.1	158.2	6.9	4.4
Checking fees.....	36.7	35.0	1.7	4.8
Warehouse services.....	83.0	82.3	0.7	0.9
Fiduciary activities.....	86.7	73.6	13.1	17.9
Pension plan administration	240.9	219.5	21.4	9.8
Other	82.1	87.5	(5.3)	(6.1)
Total fees and other services income	1,379.9	1,303.0	76.8	5.9
Fees and other services expenses	(219.4)	(200.6)	18.8	9.3
Total fees and other services income, net.....	1,160.5	1,102.4	58.1	5.3

Total fees and other services income, net increased by 5.3% to Ps 1,160.5 billion for the six-month period ended June 30, 2012 as compared to the same period in 2011. Total fees and other services income increased by Ps 76.8 billion to Ps 1,379.9 billion, while fees and other services expenses increased by Ps 18.8 billion to Ps 219.4 billion. The main drivers of the increase in fee and other services income were (i) an increase of Ps 30.8 billion, or 4.8%, to Ps 671.3 billion in fees from commissions from banking services explained by the regular growth of our business; (ii) an increase of Ps 21.4 billion, or 9.8%, to Ps 240.9 billion in fees from pension plan administration (for further detail see Porvenir results of operations discussion), and (iii) an increase in fees from fiduciary activities of Ps 13.1 billion, or 17.9%, to Ps 86.7 billion mainly as a result of better operating performance of FiduBogotá and FiduCorficolombiana, subsidiaries of Banco de Bogotá.

Other operating income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Foreign exchange gains (losses), net	(106.6)	(64.6)	(41.9)	(64.9)
Gains (losses) on derivative operations, net	173.0	116.0	56.9	49.1
Gains on sales of investments in equity securities, net	10.0	14.5	(4.6)	(31.4)
Income from non-financial sector, net	197.9	175.3	22.5	12.9
Dividend income.....	89.8	77.7	12.1	15.5
Other	102.4	116.3	(13.9)	(11.9)
Total other operating income	466.4	435.3	31.2	7.2

Total other operating income increased by 7.2%, or Ps 31.2 billion, to Ps 466.4 billion for the six-month period ended June 30, 2012. The increase was primarily due to a Ps 22.5 billion increase in income from non-financial sector associated to a better operating performance of Corficolombiana's consolidated non-financial subsidiaries, specifically Epiandes and Episol (further explained in "—Segment results of operations for the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011—Banco de Bogotá subsidiary analysis—Corficolombiana"). Also contributing to the increase in total other operating income was a Ps 15.0 billion, or 29.2% increase in net foreign exchange and derivative operations to Ps 66.4 billion for the six-month period ended June 30, 2012. In the ordinary course of business, we enter into forward contracts and other derivative transactions in foreign currency through our treasury departments almost entirely for hedging purposes and on behalf of clients. Finally, a Ps 12.1 billion increase in dividend income also contributed to the increase in total other

operating income. This increase is associated with a net increase in dividends received from CFC Limited, and CFC Gas holding SAS pertaining to an indirect investment in Promigas, offset in part by a decrease in the dividend income from Empresa de Energía de Bogotá and a direct investment in Promigas (as further explained in “—Segment results of operations for the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011—Banco de Bogotá subsidiary analysis—Corficolombiana”).

A decrease in “Other” and in gains on sales on investment securities of Ps 13.9 billion and of Ps 4.6 billion, partially offset the increases described above.

Operating expenses

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Salaries and employee benefits.....	(938.5)	(867.4)	71.1	8.2
Bonus plan payments.....	(53.6)	(51.9)	1.6	3.2
Termination payments	(10.3)	(13.1)	(2.8)	(21.7)
Administrative and other expenses	(1,243.5)	(1,197.5)	46.1	3.8
Deposit security, net	(91.4)	(78.7)	12.7	16.1
Charitable and other donation expenses	(5.0)	(10.6)	(5.6)	(52.8)
Depreciation	(143.1)	(135.6)	7.5	5.5
Goodwill amortization.....	(47.2)	(48.9)	(1.6)	(3.3)
Total operating expenses.....	(2,532.6)	(2,403.7)	128.9	5.4

Total operating expenses for the six-month period ended June 30, 2012 increased by 5.4%, or Ps 128.9 billion, to Ps 2,532.6 billion. This increase was primarily due to a Ps 71.1 billion, or 8.2%, rise in salaries and employee benefits and due to a Ps 46.1 billion, or 3.8%, increase in administrative and other expenses. The increase in salaries and employee benefits was a direct consequence of a 6.0% increase in the total number of employees from 54,138 as of June 30, 2011 to 57,404 as of June 30, 2012. On a per capita basis, salaries and employee benefits increased by 2.0%, in line with local inflation. The increase in administrative and other expenses is explained by the organic growth of our operations. During the six-month period ended June 30, 2011 Grupo Aval accrued an Equity Tax expense of Ps 109.9 billion, and during the six-month period ended June 30, 2012 a total of Ps 93.9 billion. In 2011, the Equity Tax was levied on each entity based on its adjusted net worth as of January 1, 2011. The tax rate applicable to Grupo Aval and its subsidiaries was 4.8% of each entity’s net worth as of January 31, 2011. In addition, in December 2010 the Colombian Government enacted Decree No. 4825, creating an additional surcharge to the Equity Tax in order to fund certain costs that resulted from natural disasters in Colombia. The surcharge rate applicable to Grupo Aval and its subsidiaries is an additional 1.2%, resulting in an aggregate rate of 6.0%. This tax (including the surcharge) can be paid biannually in eight separate installments during the four-year period from May 2011 to May 2014 (resulting in payments each year of 1.5% of each entity’s adjusted net worth at January 1, 2011). See “—Principal factors affecting our financial condition and results of operations—Tax policies.” On a consolidated basis, Grupo Aval accrued a liability of Ps 783.4 billion as of January 1, 2011 for the payment of the Equity Tax, and as of June 30, 2012, such liability had decreased to Ps 469.6 billion. (See “—Principal factors affecting our financial condition and results of operations—Tax policies.”). Of all Grupo Aval’s subsidiaries, only Porvenir, a subsidiary of Banco de Bogotá, recorded the full payment of its Equity Tax during 2011 on its income statement. The other subsidiaries are paying the equity tax in installments.

Because our total operating expenses before depreciation and amortization grew by 5.5%, while our operating income before net provisions increased by 9.1%, our efficiency ratio improved from 51.7% to 50.0%. The ratio of annualized operating expenses before depreciation and amortization as a percentage of average earning assets also improved from 5.5% for the six-month period ended June 30, 2011 to 5.0% for the six-month period ended June 30, 2012.

Non-operating income (expense)

Total net non-operating income (expense) for the six-month period ended June 30, 2012 was Ps 121.3 billion, which represents a Ps 4.5 billion, or 3.6%, decrease from total net non-operating income from Ps 125.9 billion for the six-month period ended June 30, 2011. This decrease was primarily due to the net effect of (i) a one-time income recorded during the first six months of 2011 caused by the difference between the conversion price of Banco de Bogotá's BOCEAS and the intrinsic value of Banco de Bogotá's shares in Grupo Aval's financial statements, which was responsible for generating Ps 43.5 billion of income which was partially offset by increase in non-operating income in Banco de Bogotá for the six-month period ended June 30, 2012 of Ps 39.0 billion associated with Corficolombiana's Ps 25.7 billion and LB Panama's Ps 8.0 billion increase in non-operating income.

Income tax expense

Income before income tax expense and non-controlling interest increased by Ps 71.4 billion, or 4.0%, from Ps 1,790.0 billion for the six-month period ended June 30, 2011 to Ps 1,861.4 billion for the six-month period ended June 30, 2012. Our income tax expense increased by 25.7% to Ps 680.0 billion for the six-month period ended June 30, 2012. Our effective tax rate increased from 30.2% for the six-month period ended June 30, 2011 to 36.5% for the six-month period ended June 30, 2012. Banco de Bogotá and Banco de Occidente explain most of the increase in the effective tax rate in Grupo Aval.

Banco de Bogotá's effective tax rate based on its consolidated results increased almost entirely due to (i) lower non-taxable income from Corficolombiana during the six-month period ended June 30, 2012, (ii) a reduction in applicable tax-exemptions in some of Corficolombiana's non-financial subsidiaries, and (iii) the reconciliation of LB Panamá's results from U.S. GAAP to Colombian Banking GAAP, which impacted the accounting of income tax expense (but not amounts actually paid) and the deferred tax calculation. see “—Results of operations for the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011—Banco de Bogotá—Banco de Bogotá subsidiary analysis—LB Panama.”

Banco de Occidente's effective tax rate increased due to a Ps 15.2 billion adjustment to a previous year's tax provisions.

Non-controlling interest

Our non-controlling interest decreased by 26.6% from Ps 626.7 billion for the six-month period ended June 30, 2011 to Ps 459.9 billion for the six-month period ended June 30, 2012. Factors such as the increase of Grupo Aval's ownership in Banco Popular during 2011 and Corficolombiana's lower net income associated with a non-recurring reversal of provisions recorded during the first six months of 2011, were responsible for decreasing the ratio of our non-controlling interest over income before non-controlling interest from 50.2% to 38.9% between the six-month period ended June 30, 2010 and the six-month period ended June 30, 2012.

Segment results of operations for the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011

Banco de Bogotá

Overview

Banco de Bogotá's net income attributable to its shareholders in the six-month period ended June 30, 2012 increased by 14.5%, or Ps 84.4 billion, to Ps 664.8 billion compared to the six-month period ended June 30, 2011. This increase is associated with an increase of Ps 207.6 billion in net interest income, an increase of Ps 40.2 billion in total net fees and other service income, an increase of Ps 25.6 billion in total other operating income, an increase of Ps 39.0 billion in total non-operating income and a decrease of Ps 82.5 billion in non-controlling interest, all offset in part by an increase of Ps 134.6 billion in total net provisions (mainly related to equity investments), a Ps 64.2 billion increase in total operating expenses, and a Ps 111.7 billion increase in income tax expense.

The following discussion describes the principal drivers of Banco de Bogotá's consolidated results of operations for the six-month period ended June 30, 2012 versus the six-month period ended June 30, 2011. Further detail is provided in the discussion of the results of operations of LB Panamá, Porvenir and Corficolombiana.

	Banco de Bogotá consolidated			
	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Total interest income	2,728.5	2,167.7	560.9	25.9
Total interest expense	(1,013.3)	(660.0)	353.2	53.5
Net interest income	1,715.3	1,507.6	207.6	13.8
Total (provisions) /reversals, net	(207.1)	(72.5)	134.6	185.6
Total fees and other services income, net	902.0	861.8	40.2	4.7
Total other operating income	360.9	335.3	25.6	7.6
Total operating income	2,771.0	2,632.2	138.8	5.3
Total operating expenses	(1,503.2)	(1,438.9)	64.2	4.5
Net operating income.....	1,267.9	1,193.3	74.6	6.3
Total non-operating income (expense), net	73.1	34.1	39.0	114.3
Income before income tax expense and non-controlling interest	1,341.0	1,227.4	113.6	9.3
Income tax expense	(446.7)	(335.0)	111.7	33.3
Income before non-controlling interest.....	894.3	892.4	1.9	0.2
Non-controlling interest.....	(229.5)	(311.9)	(82.5)	(26.4)
Net income attributable to shareholders	664.8	580.4	84.4	14.5

Net interest income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Interest income:				
Interest on loans	2,144.2	1,692.2	452.0	26.7
Interest on investment securities	429.1	374.5	54.6	14.6
Interbank and overnight funds	60.8	46.9	13.8	29.5
Financial leases	94.5	54.0	40.5	74.9
Total interest income	2,728.5	2,167.7	560.9	25.9

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Interest expense:				
Checking accounts	(58.0)	(29.0)	29.0	100.1
Time deposits.....	(428.3)	(253.3)	175.0	69.1
Savings deposits.....	(261.0)	(186.3)	74.8	40.1
Total interest expense from deposits	(747.3)	(468.5)	278.8	59.5
Borrowing from banks and others.....	(126.4)	(91.4)	35.0	38.3
Interbank and overnight funds (expenses)	(76.1)	(50.6)	25.4	50.2
Long-term debt (bonds)	(63.5)	(49.5)	14.0	28.4
Total interest expense	(1,013.3)	(660.0)	353.2	53.5
Net interest income	1,715.3	1,507.6	207.6	13.8

Banco de Bogotá's net interest income increased by 13.8% from Ps 1,507.6 billion in the six-month period ended June 30, 2011 to Ps 1,715.3 billion in the six-month period ended June 30, 2012. This increase is due to a 25.9% or Ps 560.9 billion increase in total interest income partially offset by an increase of 53.5%, or Ps 353.2 billion, in total interest expense.

Total interest income increased by 25.9%, or Ps 560.9 billion, from Ps 2,167.7 billion in the six-month period ended June 30, 2011 to Ps 2,728.5 billion in six-month period ended June 30, 2012, primarily due to an increase in interest income from loans and financial leases, which rose by Ps 492.5 billion to Ps 2,238.7 billion in the six-month period ended June 30, 2012. Interest income from investment securities increased by Ps 54.6 billion to Ps 429.1 billion, and interest income from interbank and overnight funds increased by Ps 13.8 billion to Ps 60.8 billion, both for the six-month period ended June 30, 2012.

The increase in interest income from loan and financial leases of Ps 492.5 billion was a result of an increase of Ps 5,793.4 billion, or 17.0%, in the average balance of interest earning loans and financial leases from Ps 34,028.1 billion as of June 30, 2011 to Ps 39,821.6 billion as of June 30, 2012, which resulted in an increase of Ps 326.0 billion in interest income, and the remaining Ps 166.5 billion was a result of a higher average yield on loans and financial leases, which increased from 10.3% for the six-month period ended June 30, 2011 to 11.2% for the six-month period ended June 30, 2012. Banco de Bogotá's average yield on loans and financial leases excluding LB Panamá's operation increased from 9.0% for the six-month period ended June 30, 2011 to 10.7% for the six-month period ended June 30, 2012, in line with an increasing interest-rate environment. The increase in interest income from investment securities of Ps 54.6 billion, or 14.6%, to Ps 429.1 billion was a result of a 9.0%, or Ps 1,067.4 billion, increase in the average volume of investment securities from Ps 11,818.1 billion for the six-month period ended June 30, 2011 to Ps 12,885.4 billion for the six-month period ended June 30, 2012, and of an increase in the average yield from 6.3% to 6.7%. The increase in the average volume contributed Ps 35.7 billion and the increase in yield contributed Ps 18.9 billion to the total increase in interest income from loans and financial leases.

Interest income from equity investments from Banco de Bogotá's operations increased by Ps 46.0 billion, or 72.0%, to Ps 110.0 billion mainly as a result of Corficolombiana having realized mark-to-market losses during the six-month period ended June 30, 2011 associated with its investments in Promigas, Banco de Occidente and Sociedad de Inversiones en Energía S.A., or "SIE," investments that did not generate a loss during the six-month period ended June 30, 2012 (further explained in "—Banco de Bogotá subsidiary analysis—Corficolombiana—Net interest income"). Interest income derived from the fixed income portfolio of Banco de Bogotá's operations increased by 2.8%, or Ps 8.5 billion, driven by an increase in the average balance of fixed income investment portfolio.

Total interest expense in Banco de Bogotá increased by Ps 353.2 billion, or 53.5%, from Ps 660.0 billion in the six-month period ended June 30, 2011 to Ps 1,013.3 billion in the six-month period ended June 30, 2012 as a result of a Ps 175.0 billion increase in interest paid for time deposits, a Ps 74.8 billion increase in interest paid for savings deposits and a Ps 74.5 billion increase in interest paid for other funding, which includes borrowings from banks and other, interbank and overnight funds and long term debt.

Ps 121.8 billion of such increase is explained by a Ps 5,661.9 billion, or 12.6%, increase in the average balance of total interest-bearing liabilities from Ps 45,054.2 billion for the six-month period ended June 30, 2011 to Ps 50,716.1 billion for the six-month period ended June 30, 2012. Ps 231.5 billion of the increase in total interest expense is the result of an increase of 107 basis points in the average cost of funding (associated with an increasing interest-rate environment where the average DTF rate increased by 164 basis points) from 2.9% paid during the six-month period ended June 30, 2011 to 4.0% paid during the six-month period ended June 30, 2012.

The Ps 175.0 billion increase in interest paid for time deposits resulted from a Ps 3,639.9 billion, or 28.2%, increase in the average balance of time deposits from Ps 12,894.4 billion for the six-month period ended June 30, 2011 to Ps 16,534.3 billion for the six-month period ended June 30, 2012, and from an increase of 125 basis points in the average interest rate, increasing from 3.9% paid during the six-month period ended June 30, 2011 to 5.2% paid during the six-month period ended June 30, 2012. The above mentioned increase in the average balance contributed Ps 106.3 billion of the increase in total interest expense, while the increase in the average interest rate contributed the remaining Ps 68.7 billion of such increase.

The Ps 74.8 billion increase in interest paid for savings deposits resulted from a Ps 700.6 billion, or 4.9%, increase in the average volume of savings deposits from Ps 14,254.9 billion for the six-month period ended June 30, 2011 to Ps 14,955.5 billion for the six-month period ended June 30, 2012, and from an increase of 88 basis points in the average interest rate, increasing from 2.6% paid during the six-month period ended June 30, 2011 to 3.5% paid during the six-month period ended June 30, 2012. The above mentioned increase in the average balance contributed Ps 10.2 billion of the increase in total interest expense, while the increase in the average interest rate contributed Ps 64.5 billion.

The Ps 74.5 billion increase in interest paid for interest-bearing liabilities other than deposits resulted from a Ps 35.0 billion increase in interest paid for borrowings from banks and others, a Ps 25.4 billion increase in interest paid for interbank and overnight funds, and a Ps 14.0 billion increase in interest paid for long-term debt (bonds). The main driver of such increases was higher interest rates paid since the average of interest-bearing liabilities other than deposits decreased from Ps 12,567.1 billion for the six-month period ended June 30, 2011 to Ps 12,237.9 billion for the six-month period ended June 30, 2012. The rates paid showed the following increases: in borrowings from banks and others from 2.7% to 3.7%, in interbank and overnight funds (expenses) from 2.8% to 4.5%, and in long-term debt from 4.9% to 6.1%, all for the six-month period ended June 30, 2011 to the six-month period ended June 30, 2012 and consistent with an increasing interest-rate environment.

Banco de Bogotá's net interest margin (calculated as net interest income divided by total average interest-earning assets) remained stable at 6.3% during both the six-month period ended June 30, 2011 and the six-month period ended June 30, 2012 driven by the increase in cost of funding described above and despite an increase in the average yield from total interest-earning assets from 9.0% to 10.0% and increases in the cost of funds. The spread between the yield earned on loans and financial leases and the rate paid on deposits slightly decreased from 7.38% for the six-month period ended June 30, 2011 to 7.36% for the six-month period ended June 30, 2012.

Provisions

Total net provisions increased by Ps 134.6 billion to Ps 207.1 billion in the six-month period ended June 30, 2012, driven primarily by a Ps 150.7 billion increase in net provisions for foreclosed assets and other assets. This increase was driven by a Ps 153.4 billion decrease in recovery of provisions for foreclosed assets and other assets from Ps 158.2 billion for the six-month period ended June 30, 2011 to Ps 4.8 billion for the six-month period ended June 30, 2012 mainly due to a Ps 122 billion reversal in 2011 of the cautionary Ps 245 billion market risk provision established by Corficolombiana in December 2010. (see “—Banco de Bogotá subsidiary analysis—Corficolombiana—Provisions”).

Partially offsetting the increase in total net provisions for foreclosed assets and other assets was the decrease in net provisions for loans and financial lease losses of Ps 15.5 billion from Ps 212.6 billion for the six-month period ended June 30, 2011 to Ps 197.1 billion for the six-month period ended June 30, 2012. The decrease in net provisions for loans and financial lease losses was associated with a Ps 24.1 billion reversal of provisions recorded by LB Panamá (see “—Banco de Bogotá subsidiary analysis—LB Panamá—Provisions”). Banco de Bogotá's delinquency ratio improved from 2.3% as of June 30, 2011 to 1.9% as of June 30, 2012. The improvement in the delinquency ratio is associated with a 1.3% increase in the average balance of total loans past due from Ps 803.9

billion as of June 30, 2011 to Ps 814.0 billion as of June 30, 2012 compared with a 17.0% growth in gross loans from Ps 35,691.9 billion as of June 30, 2011 to Ps 41,745.4 billion as of June 30, 2012.

Banco de Bogotá's charge-offs decreased by Ps 20.9 billion from Ps 191.8 billion for the six-month period ended June 30, 2011 to Ps 170.8 billion for the six-month period ended June 30, 2012. Its annualized ratio of charge-offs to average balance of loans and financial leases ratio decreased from 1.1% for the six-month period ended June 30, 2011 to 0.8% for the six-month period ended June 30, 2012.

Banco de Bogotá's allowance for loans and financial leases increased by Ps 80.9 billion to Ps 1,112.8 billion at June 30, 2012 increasing Banco de Bogotá's coverage ratio from 128.4% at June 30, 2011 to 136.7% at June 30, 2012.

Net provisions for accrued interest and other receivables slightly increased by Ps 0.2 billion to a net expense of Ps 21.0 billion as of June 30, 2012 from Ps 20.9 billion as of June 30, 2011.

The recovery of charged-off assets increased between the six-month period ended June 30, 2011 and the six-month period ended June 30, 2012 by Ps 0.8 billion to Ps 22.2 billion.

Total fees and other services income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Fees and other services income:				
Commissions from banking services	476.1	471.8	4.3	0.9
Branch network services	13.9	11.8	2.1	17.8
Credit card merchant fees	119.3	112.9	6.5	5.7
Checking fees	19.7	21.1	(1.3)	(6.3)
Warehouse services	55.1	52.6	2.5	4.7
Fiduciary activities	57.3	48.7	8.6	17.7
Pension plan administration.....	240.9	218.9	22.0	10.0
Other	45.3	48.4	(3.0)	(6.3)
Total fees and other services income	1,027.8	986.2	41.6	4.2
Fees and other services expenses	(125.8)	(124.4)	1.4	1.1
Total fees and other services income, net.....	902.0	861.8	40.2	4.7

Total fees and other services income, net increased by 4.7% to Ps 902.0 billion in the six-month period ended June 30, 2012, primarily as a result of higher fee income derived from pension plan administration, fiduciary activities, credit card merchant fees and commissions from banking services.

The 10.0%, or Ps 22.0 billion, increase in pension plan administration fees was mainly a result of higher fee income produced by Porvenir consisting of commissions earned on the administration of mandatory pension funds (which increased by Ps 3.0 billion to Ps 149.9 billion in the six-month period ended June 30, 2012), severance funds (which increased by Ps 2.0 billion to Ps 32.6 billion in the six-month period ended June 30, 2012), voluntary pension funds (which decreased by Ps 0.4 billion to Ps 23.1 billion in the six-month period ended June 30, 2012) and third-party liability pension funds (which increased by Ps 8.6 billion to Ps 16.1 billion in the six-month period ended June 30, 2012), as further explained in “—Banco de Bogotá subsidiary analysis—Porvenir—Total fees and other services.”

The Ps 8.6 billion, or 17.7%, increase to Ps 57.3 billion in commissions from fiduciary activities was primarily attributable to higher income derived from a Fiduciaria Bogotá and Fiduciaria Corficolombiana, both subsidiaries of Banco de Bogotá.

Credit card merchant fees and commissions from banking services increased by Ps 6.5 billion and Ps 4.3 billion respectively between the six-month period ended June 30, 2011 and June 30, 2012 in line with the organic growth of the loan portfolio and deposit funding during the same period. LB Panamá accounted for Ps 4.3 billion and Ps 1.1 billion of the increase in credit card merchant fees and commissions from banking services, respectively.

Other operating income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Foreign exchange gains (losses), net	(107.2)	(62.5)	(44.8)	(71.7)
Gains (losses) on derivative operations, net	156.9	102.9	54.1	52.6
Gains on sales of investments in equity securities, net	6.7	12.7	(6.1)	(47.7)
Income from non-financial sector, net (1)	193.4	170.8	22.7	13.3
Dividend income.....	90.0	77.0	13.0	16.9
Other	21.1	34.4	(13.3)	(38.6)
Other operating income	360.9	335.3	25.6	7.6

(1) Income from non-financial sector reflects the operating results of Corficolombiana in its consolidated investments in companies not related to the financial sector such as Epiandes, Hoteles Estelar and Organización Pajonales, among others. This result is net of the following operating and administrative expenses in the six-month period ended June 30, 2012 and 2011: Ps 528.3 billion and Ps 373.4 billion, respectively. For a description of these investments, see “Item 4. Information on the Company—Business overview—Corficolombiana—Equity investment portfolio” in our 2011 Annual Report on Form 20-F incorporated by reference herein.

Total other operating income increased by 7.6%, or Ps 25.6 billion, to Ps 360.9 billion in the six-month period ended June 30, 2012, mainly due to a Ps 22.7 billion increase in income from the non-financial sector, which reflected the net income growth of non-financial companies consolidated by Corficolombiana such as Epiandes and Episol (further explained in “—Segment results of operations for the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011—Banco de Bogotá subsidiary analysis—Corficolombiana”).

Also contributing to the increase in other operating income was a Ps 13.0 billion increase in dividend income from Ps 77.0 billion for the six-month period ended June 30, 2011 to Ps 90.0 billion for the six-month ended June 30, 2012 associated with an increase in dividends received from CFC Limited, and CFC Gas holding SAS pertaining to dividends accruing from February 2011 to May 2015 relating to a 10.58% interest in Promigas (see “Summary—Recent Developments”) offset in part by a decrease in the dividend income from Empresa de Energía de Bogotá and other direct interests in Promigas (further explained in “—Segment results of operations for the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011—Banco de Bogotá subsidiary analysis—Corficolombiana”).

Net foreign exchange and derivative operations showed a net increase of Ps 9.3 billion in the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011 contributing also to the increase in other operating income. Foreign exchange gains (losses), net and gains (losses) on derivative operations, net are related as Banco de Bogotá employs derivative operations to hedge foreign exchange risk and on behalf of its clients.

Partially offsetting the increase in other operating income was a Ps 13.3 billion decrease in “others” and a Ps 6.1 billion decrease in gains on sales of investments in equity securities, net. During the first six months of 2012, Corficolombiana recognized a gain of 5.7 billion associated with the sale of its stake in Proenergía, whereas during the first six months of 2011, it recognized a gain of Ps 12.2 billion for the sale of its stake in both Colombina and Transoriente.

Operating expenses

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Salaries and employee benefits.....	(565.0)	(523.1)	42.0	8.0
Bonus plan payments.....	(40.1)	(36.9)	3.1	8.5
Termination payments	(7.8)	(9.8)	(2.0)	(20.4)
Administrative and other expenses	(744.3)	(726.8)	17.5	2.4
Deposit security, net	(48.3)	(41.2)	7.1	17.2
Charitable and other donation expenses	(2.4)	(3.3)	(0.9)	(27.6)
Depreciation	(57.7)	(57.8)	(0.0)	(0.0)
Goodwill amortization	(37.6)	(40.0)	(2.5)	(6.2)
Total operating expenses	(1,503.2)	(1,438.9)	64.2	4.5

Total operating expenses increased by 4.5% to Ps 1,503.2 billion in the six-month period ended June 30, 2012. This increase primarily reflected an 8.0%, or Ps 42.0 billion, and a 2.4%, or Ps 17.5 billion, increase in salaries and employee benefits, and administrative and other expenses, respectively. Both increases are associated with the organic growth of the business and its personnel. Between June 30, 2011 and June 30, 2012 a total of 1,105 people entered to work in the Bank and its consolidated subsidiaries, which represents an increase of 3.4% from 32,449 to 33,554.

Banco de Bogotá's efficiency ratio improved from 49.6% for the six-month period ended June 30, 2011 to 47.3% for the six-month period ended June 30, 2012, while the ratio of annualized operating expenses before depreciation and amortization as a percentage of average interest-earning assets improved from 5.6% for the six-month period ended June 30, 2011 to 5.2% for the six-month period ended June 30, 2012.

Non-operating income (expense)

Total non-operating income (expense) increased by Ps 39.0 billion from Ps 34.1 billion in the six-month period ended June 30, 2011 to Ps 73.1 billion in the six-month period ended June 30, 2012. This increase is associated with Corficolombiana's Ps 25.7 billion and LB Panamá's Ps 8.0 billion increase in non-operating income.

Income tax expense

Income before income tax expense and non-controlling interest increased 9.3% from Ps 1,227.4 billion for the six-month period ended June 30, 2011 to Ps 1,341.0 billion for the six-month period ended June 30, 2012. Income tax expense, in turn, increased by 33.3% to Ps 446.7 billion for the six-month period ended June 30, 2012. Banco de Bogotá's effective tax rate increased from 27.3% for the six-month period ended June 30, 2011 to 33.3% for the six-month ended June 30, 2012 mainly due to an increase in the effective tax rate of its (i) Corficolombiana subsidiary, associated with a higher non-taxable income registered during the six-month period ended June 30, 2011 and lower tax exemptions in some of its consolidated entities during the six-month period ended June 30, 2012, and (ii) the reconciliation of LB Panamá's results from U.S. GAAP to Colombian Banking GAAP, which impacted the accounting of income tax expense (but not amounts actually paid) and the deferred tax calculation. see “—Results of operations for the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011—Banco de Bogotá—Banco de Bogotá subsidiary analysis—LB Panama.”

Non-controlling interest

Banco de Bogotá's non-controlling interest decreased by Ps 82.5 billion, or 26.4%, to Ps 229.5 billion in the six-month period ended June 30, 2012 compared with the six-month period ended June 30, 2011. The decrease in non-controlling interest was primarily a result of a lower net income from Corficolombiana's operation in the six-month period ended June 30, 2012 as compared to the same period in 2011 (Ps 209.2 billion as compared to Ps 373.6 billion, respectively), as further described in “Banco de Bogotá subsidiary analysis—Corficolombiana.”

Banco de Bogotá subsidiary analysis

Banco de Bogotá's results of operations are significantly affected by the results of operations of its subsidiaries, Corficolombiana, Porvenir and LB Panamá. In order to fully disclose the effect of these subsidiaries on Banco de Bogotá, the following is an analysis of the results of operations of each of Corficolombiana, Porvenir and LB Panamá in the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011.

Corficolombiana

Net income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Total interest income	255.7	208.7	47.0	22.5
Total interest expense	(168.2)	(86.1)	82.1	95.3
Net interest income	87.4	122.6	(35.1)	(28.7)
Total (provisions)/reversals, net	(5.2)	137.5	142.6	(103.8)
Total fees and other services income, net	20.6	22.1	(1.5)	(6.8)
Total other operating income	270.0	274.2	(4.1)	(1.5)
Total operating income	372.9	556.3	(183.4)	(33.0)
Total operating expenses	(71.2)	(82.2)	(11.0)	(13.4)
Net operating income	301.6	474.1	(172.4)	(36.4)
Total non-operating income (expense), net	26.6	0.9	25.7	2,902.5
Income before income tax expense and non-controlling interest	328.3	474.9	(146.7)	(30.9)
Income tax expense	(78.8)	(61.7)	17.1	27.7
Income before non-controlling interest	249.5	413.2	(163.8)	(39.6)
Non-controlling interest	(40.3)	(39.6)	0.7	1.7
Net income attributable to shareholders	209.2	373.6	(164.4)	(44.0)

Corficolombiana's net income decreased by 44.0% to Ps 209.2 billion in the six-month period ended June 30, 2012 when compared to the six-month period ended June 30, 2011. The most significant drivers of the decrease in net income were (i) an increase of Ps 142.6 billion in total net provisions for loans and other assets from a Ps 137.5 billion net reversal in the six-month period ended June 30, 2011 to a Ps 5.2 billion net provision expense in the six-month period ended June 30, 2012, since during the first six months of 2011, Ps 122 billion of the cautionary Ps 245 billion market risk provision established by Corficolombiana in December 2010 was reversed (see "Item 5. Operating and Financial Review and Prospects—A. Operating results—Segment results of operations for the year ended December 31, 2011 compared to the year ended December 31, 2010—Banco de Bogotá—Banco de Bogotá subsidiary analysis—Corficolombiana—Net interest income" in our 2011 Annual Report on Form 20-F incorporated by reference herein); (ii) the decrease of Ps 35.1 billion in net interest income from Ps 122.6 billion for the six-month period ended June 30, 2011 to Ps 87.4 billion for the six-month period ended June 30, 2012; and (iii) an increase in income tax expense of Ps 17.1 billion to Ps 78.8 billion for the six-month period ended June 30, 2012. All of the above were partially offset by a decrease in operating expenses of Ps 11.0 billion to Ps 71.2 billion and an increase in total non-operating income, net of Ps 25.7 billion to Ps 26.6 billion for the six-month period ended June 30, 2012.

Net interest income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Interest income:				
Interest on loans	9.9	6.0	3.9	65.4
Interest on investment securities	191.6	153.2	38.4	25.1
Interbank and overnight funds	21.4	25.3	(3.9)	(15.6)
Financial leases	32.9	24.2	8.6	35.6
Total interest income	255.7	208.7	47.0	22.5
Interest expense:				
Time deposits	(76.4)	(39.3)	37.1	94.6
Savings deposits	(4.1)	(1.5)	2.6	172.4
Total interest expense on deposits	(80.5)	(40.8)	39.7	97.4
Borrowing from banks and others	(28.5)	(14.6)	13.9	95.3
Interbank and overnight funds (expenses)	(54.7)	(27.7)	27.1	97.9
Long-term debt (bonds)	(4.5)	(3.1)	1.4	45.5
Total interest expense	(168.2)	(86.1)	82.1	95.3
Net interest income	87.4	122.6	(35.1)	(28.7)

Net interest income decreased by 28.7% to Ps 87.4 billion in the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011. Total interest income, which consists of income from loans, investment securities, interbank and overnight funds and financial leases, increased by 22.5% or Ps 47.0 billion to Ps 255.7 billion in the six-month period ended June 30, 2012. This increase was due to a Ps 38.4 billion increase in income on investment securities from Ps 153.2 billion in the six-month period ended June 30, 2011 to Ps 191.6 billion in the six-month period ended June 30, 2012, and due to a Ps 8.6 billion increase in interest income from financial leases from Ps 24.2 billion in the six-month period ended June 30, 2011 to Ps 32.9 billion in the six-month period ended June 30, 2012 associated with a 24.5% growth in the balance of financial leases from Ps 460.7 billion to Ps 573.5 billion. More than offsetting the increase of Ps 47.0 billion in total interest income was an increase of Ps 82.1 billion increase in total interest expense. The increase in total interest expense was attributable to an increase in total interest expense on deposits, on interbank and overnight funds and on borrowings from banks and others consistent with an increase of Ps 2,230.5 billion in the balance of total interest-bearing liabilities from Ps 5,502.0 billion to Ps 7,732.6 billion between June 30, 2011 and June 30, 2012, incurred to support the growth of the investment securities' portfolio.

Of the Ps 191.6 billion interest income on investment securities recorded in the six-month period ended June 30, 2012, Corficolombiana's equity securities portfolio generated Ps 90.1 billion, reflecting a 74.4% increase from the Ps 51.7 billion yielded in the six-month period ended June 30, 2011. Corficolombiana's debt securities portfolio generated Ps 101.5 billion in income in the six-month period ended June 30, 2012, which is similar to the income generated in the same period ended June 30, 2011.

The primary reason for the increase in interest income from equity securities was that, while in February 2011 Corficolombiana had to record an unrealized loss of Ps 122.1 billion from its investment in Promigas due to a reclassification from "medium" to "low" liquidity, this investment did not experience a change in its liquidity during the first six months of 2012 and thus did not impact the income statement through the interest income line item.

Also contributing to the increase in interest income from equity investment securities was the fact that during the six-month period ended June 30, 2011, Corficolombiana had recorded a Ps 22.2 billion mark-to-market loss on its investment in Banco de Occidente while during the six-month period ended June 30, 2012 it recorded a mark-to-market gain of Ps 6.3 billion. On February 14, 2012 Banco de Occidente was reclassified as an "available for sale" security due to a decrease in its liquidity level from "medium" to "low". On March 12, 2012, its liquidity increased back to "medium" and thus was reclassified as "trading" and recorded the gain previously described. On April 25, 2012 its liquidity decreased once more to "low" and the security was reclassified as "available for sale". As of June 30, 2012, Corficolombiana's stake in Banco de Occidente was classified as "available for sale".

Additionally, during the six-month period ended June 30, 2011 Corficolombiana recorded a mark-to-market loss of Ps 16.9 billion associated with its investment in SIE. This investment was sold in October, 2011.

Corficolombiana's investment in its private investment fund managed by Corredores Asociados generated income of Ps 83.1 billion during the six-month period ended June 30, 2012, a decrease from a Ps 144.8 billion interest income registered during the six-month period ended June 30, 2011 due to a decrease in dividend income from the fund's investments.

Finally, during the six-month period ended June 30, 2011 Corficolombiana recorded a mark-to-market gain on its investment in Proenergía of Ps 67.2 billion due to a change in its liquidity level. Corficolombiana's stake in Proenergía was sold during the first six months of 2012 and did not have an impact on interest income in this period.

Also contributing to an increase in interest income was an increase in income from loans and financial leases of Ps 12.5 billion from Ps 30.2 billion for the six-month period ended June 30, 2011 to Ps 42.8 billion for the six-month period ended June 30, 2012. This increase is consistent with an increase in the balance of financial leases granted by Corficolombiana's financial subsidiaries which increased from Ps 460.7 billion as of June 30, 2011 to Ps 573.5 billion as of June 30, 2012.

More than offsetting the Ps 47.0 billion increase in total interest income was an increase of total interest expense of Ps 82.1 billion or 95.3% from Ps 86.1 billion in the six-month period ended June 30, 2011 to Ps 168.2 billion in the six-month period ended June 30, 2012. The increase in total interest expense is attributable to an increase in interest paid for time deposits of Ps 37.1 billion, an increase in interest paid for interbank and overnight funds of Ps 27.1 billion, and an increase in interest paid for borrowing from banks and other of Ps 13.9 billion.

The increase in total interest expense reflects an increase in the volume of funding and as a result of an increasing interest-rate environment in which the average DTF increased by 164 basis points between the first six months of 2011 and the first six months of 2012. Time deposits balance increased from Ps 1,771.3 billion as of June 30, 2011 to Ps 2,888.7 billion as of June 30, 2012; interbank and overnight funds balance increased from Ps 2,545.9 billion as of June 30, 2011 to Ps 3,014.2 billion as of June 30, 2012; and borrowing from banks and other increased from Ps 830.7 billion as of June 30, 2011 to Ps 1,091.0 billion as of June 30, 2012. The increase in liabilities was incurred to support the growth of the investment portfolio.

Provisions

Corficolombiana's net provisions increased by Ps 142.6 billion from a Ps 137.5 net reversal in the six-month period ended June 30, 2011 to a Ps 5.2 billion net provision expense in the six-month period ended June 30, 2012. This increase was mainly attributable to the reversal in the six-month period ended June 30, 2011 of Ps 122 million of the cautionary Ps 245 billion market risk provision established by Corficolombiana in December 2010 (see "Item 5. Operating and Financial Review and Prospects—A. Operating results—Segment results of operations for the year ended December 31, 2010 compared to the year ended December 31, 2009—Banco de Bogotá—Banco de Bogotá subsidiary analysis—Corficolombiana—Provisions" in our 2011 Annual Report on Form 20-F incorporated by reference herein).

Total fees and other services income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Fees and other services income:				
Commissions from banking services.....	0.4	1.9	(1.4)	(76.0)
Fiduciary activities.....	16.9	16.0	0.9	5.7
Other.....	6.9	7.2	(0.2)	(3.4)
Total fees and other services income.....	24.3	25.1	(0.7)	(3.0)
Fees and other services expenses.....	(3.7)	(3.0)	0.8	25.9
Total fees and other services income, net.....	20.6	22.1	(1.5)	(6.8)

Net fee and other services income showed a slight decrease from Ps 22.1 billion for the six-month period ended June 30, 2011 to Ps 20.6 billion for the six-month period ended June 30, 2012. The Ps 1.5 billion decrease in total fees and other service income, net is attributable to a decrease of Ps 1.4 billion in commission from banking services and an increase in fees and other service expenses of Ps 0.8 billion, partially offset by an increase of Ps 0.9 billion in income fees from fiduciary activities.

Other operating income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Foreign exchange gains (losses), net	(26.6)	(26.5)	(0.1)	(0.3)
Gains on derivative operations, net.....	2.4	26.4	(24.0)	(90.9)
Gains on sales of investments in equity securities, net	5.8	12.3	(6.5)	(52.7)
Income from non-financial sector, net	189.6	170.8	18.8	11.0
Dividend income.....	88.8	74.5	14.3	19.2
Other	10.0	16.6	(6.6)	(39.9)
Total other operating income	270.0	274.2	(4.1)	(1.5)

Total other operating income showed a slight decrease of 1.5%, or Ps 4.1 billion, from Ps 274.2 billion for the six-month period ended June 30, 2011 to Ps 270.0 billion for the six-month period ended June 30, 2012. The decrease is a result of a decrease in net foreign exchange and derivative operations from a net loss of Ps 0.1 billion during the first six months of 2011 to a net loss of Ps 24.2 billion incurred in the first six months of 2012 attributable to the change in value of USD held investments in AEI Promigas Holdings Ltd., AEI Promigas Ltd. and AEI Promigas Investments Ltd. associated with the appreciation of the Colombian peso.

Also contributing to the result in total other operating income was a decrease of Ps 6.6 billion in the “other” line item and a decrease of Ps 6.5 billion in the “Gains on sales of investments in equity securities, net” line item. Offsetting these lower results was an increase of Ps 18.8 billion or 11.0% increase in income from non-financial sector, net and an increase of Ps 14.3 billion or 19.2% increase in dividend income.

The improved results in income from non-financial sector investments were associated with a better operating performance of the non-financial subsidiaries consolidated by Corficolombiana, mainly Epiandes and Episol. Finally, the increase in dividend income was the result of higher dividend income from CFC Limited and CFC Gas Holding SAS of Ps 19.7 billion and Ps 38.8 billion pertaining to dividends declared on a 10.58% interest in Promigas between February 2011 and May 2012, respectively (see note 4 to our interim consolidated financial statements). Also contributing to the growth in the income from dividends was a Ps 3.1 billion increase in the dividend income from Corficolombiana’s investment in Gas Natural from Ps 1.2 billion to Ps 4.3 billion, and a Ps 4.3 billion dividend income registered during the first six months of 2012 from Corficolombiana’s investment in Banco de Occidente. During the first six months of 2011, dividend income from Banco de Occidente was registered as interest income on investment securities rather than dividend income since at the moment of Banco de Occidente’s declaration of dividends the investment was classified as “trading”.

Offsetting this increase was that no dividend income from Promigas was recorded in the income statement of Corficolombiana during the six-month period ended June 30, 2012 as compared to the Ps 36.0 billion dividend income recorded during the six-month period ended June 30, 2011. Even though Corficolombiana received dividends from Promigas during the first six months of 2012, Colombian regulations contemplate that when an investment, such as Promigas, classified as “available for sale” does not have a positive revaluation balance in the balance sheet, the income derived from dividends should be recorded directly in the balance sheet rather than in the income statement. The reason for the negative revaluation balance associated with this investment was the decline in its share price from Ps 31.428,26 per share in March 31, 2011 to Ps 27.983,92 per share in March 31, 2012, dates on which dividends are declared.

In addition, during the six-month period ended June 30, 2012 Corficolombiana recorded dividend income of Ps 11.4 billion from its investment in Empresa de Energía de Bogotá, while during the six-month period ended June 30, 2011 it had recorded a dividend income of Ps 26.8 billion.

Operating expenses

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Salaries and employee benefits.....	(26.7)	(24.1)	2.6	10.6
Bonus plan payments.....	(2.7)	(3.0)	(0.2)	(7.6)
Termination payments	(0.1)	(1.0)	(1.0)	(94.7)
Administrative and other expenses	(35.8)	(48.8)	(13.0)	(26.6)
Deposit security, net	(3.9)	(2.8)	1.2	42.1
Charitable and other donation expenses	(0.0)	(0.2)	(0.2)	(100.0)
Depreciation	(2.0)	(1.8)	0.2	11.4
Goodwill amortization.....	0.0	(0.5)	(0.5)	(100.0)
Total operating expenses.....	(71.2)	(82.2)	(11.0)	(13.4)

Corficolombiana's total operating expenses decreased by Ps 11.0 billion or 13.4% from Ps 82.2 billion for the six-month period ended June 30, 2011 to Ps 71.2 billion for the six-month period ended June 30, 2012. This decrease was almost entirely due to a Ps 13.0 billion decrease in administrative and other expenses associated with a change in the amortization treatment of the Equity Tax. While in 2011 the Equity Tax was amortized during the first six months, in 2012 it began to be amortized during twelve months, as it has been done for Grupo Aval's banks. This decrease was partially offset by increases in salaries and employee benefits due to the organic growth of the business which resulted in the total number of employees increasing from 819 people in June 30, 2011 to 869 people in June 30, 2012.

Non-operating income (expense)

Total non-operating income (expense) increased by Ps 25.7 billion to Ps 26.6 billion in the six-month period ended June 30, 2012, mainly due to recoveries of previously written-off assets, reversals of provisions and gains in sales of foreclosed and fixed assets.

Income tax expense

Income tax expense increased by Ps 17.1 billion to Ps 78.8 billion for the six-month period ended June 30, 2012. Corficolombiana's effective tax rate, calculated before non-controlling interest, increased from 13.0% for the six-month period ended June 30, 2011 to 24.0% for the six-month period ended June 30, 2012, primarily due to higher non-taxable income recorded during the six-month period ended June 30, 2011 attributable to FCP and Proenergía, and due to fewer tax exemptions during the first half of 2012 affecting Episol, a consolidated subsidiary of Corficolombiana.

Porvenir

Porvenir generates income primarily from fees on its customers' pension contributions, which consist predominantly of monthly mandatory contributions. It also generates net interest income, composed almost entirely of investment income from the appreciation of Porvenir's proprietary trading portfolio, which can be divided into two components: (1) income from its stabilization reserve, which is the legally required proprietary stake (1% of assets under management) in its funds that are subject to a minimum return guarantee; and (2) direct investment portfolio income, which includes income from fixed income securities and money market instruments. As a result, Porvenir's revenue is mainly affected by the number of contributors, the salaries of contributors, any changes in applicable fee rates and the rate of return of its assets under management.

Net income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Total interest income	28.4	11.2	17.2	153.9
Total interest expense	(1.4)	(1.6)	(0.2)	(13.3)
Net interest income	27.0	9.5	17.4	182.7
Total (provisions) / reversals, net	(0.4)	(0.7)	(0.3)	(47.7)
Total fees and other services income, net	208.6	203.3	5.4	2.7
Total other operating income	4.9	3.7	1.1	30.1
Total operating income	240.1	215.8	24.3	11.3
Total operating expenses	(87.1)	(98.6)	(11.5)	(11.7)
Net operating income	153.0	117.2	35.8	30.6
Total non-operating income (expense), net	9.1	3.0	6.1	204.8
Income before income tax expense and non-controlling interest	162.1	120.2	41.9	34.9
Income tax expense	(56.3)	(44.2)	12.1	27.3
Non-controlling interest	(0.1)	(0.1)	0.0	42.8
Net income	105.7	75.9	29.8	39.3

Porvenir's net income increased by 39.3%, or Ps 29.8 billion, to Ps 105.7 billion for the six-month period ended June 30, 2012 as compared to the six-month period ended June 30, 2011. This increase was mainly due to an increase of Ps 17.4 billion in net interest income, an increase of Ps 5.4 billion in total fees and other services income, net, an increase of Ps 6.1 billion in total non-operating income (expense), net and a decrease in total operating expenses of Ps 11.5 billion, all partially offset by an increase of Ps 12.1 billion in income tax expense.

Total fees and other services income

Total net fees and other services income consist primarily of commissions earned on the administration of mandatory pension funds, severance funds, voluntary pension funds and third-party liability pension funds. Porvenir's total net fees and other services income increased by Ps 5.4 billion, or 2.7%, to Ps 208.6 billion in the six-month period ended June 30, 2012 versus the six-month period ended June 30, 2011, driven primarily by the increase in the revenues received from the administration of mandatory pension funds, which rose by Ps 3.0 billion, from Ps 146.9 billion in the six-month period ended June 30, 2011 to Ps 149.9 billion in the six-month period ended June 30, 2012, due to a 9.9% increase in the average number of contributors and a 4.8% increase in the average wage earned per contributor to Ps 1.2 million.

Also contributing to the increase in fee income was a Ps 2.0 billion increase in fees from severance fund management, which rose from Ps 30.6 billion in the six-month period ended June 30, 2011 to Ps 32.6 billion in the six-month period ended June 30, 2012. This increase was mainly due to the migration of assets from the short-term portfolio to the long-term portfolio and the rise in the assets under management in the severance fund, which increased by 5.1% in the same period of time.

Revenue associated with the management of voluntary pension funds decrease by Ps 0.4 billion from Ps 23.5 billion in the six-month period ended June 30, 2011 to Ps 23.1 billion in the six-month period ended June 30, 2012.

Third-party liability pension funds increased by Ps 8.6 billion from Ps 7.5 billion in the six-month period ended June 30, 2011 to Ps 16.1 billion in the six-month period ended June 30, 2012. This increase was mainly due to an increase in the commissions earned from the third-party liability pension funds that depend on the rate of return of the portfolios as prevailing local and global market conditions during the first six months of 2012 were more favorable than market conditions during the first six months of 2011.

Other fees associated with pension fund administration, such as non-contributor affiliate fees and transfer fees, increased by Ps 3.4 billion from Ps 10.5 billion for the six-month period ended June 30, 2011 to Ps 13.9 billion for the six-month period ended June 30, 2012. Non-contributor affiliate fees are charged on income from the managed funds. Because returns on funds were higher in 2012 than in 2011 the fees charged were higher in 2012 than in 2011.

Commissions from banking services, consisting primarily of fees charged to customers for the processing of information and the early withdrawal of pensions, decreased by Ps 7.4 billion to Ps 0.2 billion in the six-month period ended June 30, 2012. This decrease was due to a reclassification of income from Gestión y Contacto S.A., which was included as commissions from banking services for the six-month period ended June 30, 2011 and is classified as “other operating income” for the six-month period ended June 30, 2012.

Fees and other service expenses increased by Ps 4.1 billion, from Ps 24.1 billion for the six-month period ended June 30, 2011 to Ps 28.2 billion for the six-month period ended June 30, 2012 mainly due to the increase in securities custody fees caused by the entrance of new Third-party liability pension fund portfolios (Ecopetrol with over Ps 2,500 billion in assets under management) during the second six months of 2011.

Net interest income

Net interest income increased by Ps 17.4 billion to Ps 27.0 billion in the six-month period ended June 30, 2012. This increase was primarily due to an increase in the rate of return of Porvenir’s mandatory investment in its stability reserve as prevailing market conditions during 2011 were not particularly favorable in the local and global equity markets. Porvenir’s rate of return on its investment portfolio increased from 2.9% in the six-month period ended June 30, 2011 to 7.4% in the six-month period ended June 30, 2012. Also contributing to the increase on interest on investment securities was the average volume of the investment portfolio, which grew by 13.4% from Ps 657.3 billion at June 30, 2011 to Ps 745.4 billion at June 30, 2012.

Operating expenses

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Salaries and employee benefits.....	(39.4)	(38.3)	1.2	3.0
Bonus plan payments.....	(1.3)	(1.1)	0.2	21.4
Termination payments.....	(0.0)	(0.0)	(0.0)	–
Administrative and other expenses.....	(43.0)	(55.1)	(12.0)	(21.9)
Deposit security, net	–	–	–	–
Charitable and other donation expenses.....	(0.0)	(1.0)	(1.0)	(97.8)
Depreciation.....	(3.3)	(3.2)	0.2	4.8
Goodwill amortization.....	–	–	–	–
Total operating expenses.....	(87.1)	(98.6)	(11.5)	(11.7)

Porvenir’s total operating expenses in the six-month period ended June 30, 2012 decreased by 11.7%, or Ps 11.5 billion, to Ps 87.1 billion. Ps 7.9 billion of such decrease was primarily to the reclassification of Gestión y Contacto, a non-financial consolidated subsidiary of Porvenir. Since January 1, 2012, Gestión y Contacto’s net operating results are included within the total other operating income line item.

Administrative and other expenses decreased from Ps 55.1 billion for the six-month period ended June 30, 2011 to Ps 43.0 billion for the six-month period ended June 30, 2012. Ps 6.1 billion of such decrease is due to the reclassification described above, and Ps 5.9 billion of the decrease is due to the fact that 100% of the equity tax was recorded in the income statement during 2011, and thus did not impact the income statement during 2012.

Porvenir’s efficiency ratio in the six-month period ended June 30, 2012 improved in comparison to the same period in 2011, decreasing from 44.1% to 34.9% as a result of both an increase in the operating margin before provisions and a decrease in operating expenses.

Other operating income

Total other operating income for the six-month period ended June 30, 2012 increased by Ps 1.1 billion from Ps 3.7 billion in the six-month period ended June 30, 2011 to Ps 4.9 billion. This increase was primarily due to the inclusion of Ps 3.4 billion of net income generated from Gestión y Contacto, a non-financial sector subsidiary, which prior to January 1, 2012, was treated as a consolidated entity in Porvenir's results, and an increase of Ps 0.2 billion in "other" income, which was partially offset by a decrease of Ps 2.5 billion in income generated in the foreign currency and derivative operations.

Non-operating income (expense, net)

Total non-operating income (expense), net includes provisions, gains on sale of property, administrative authority fines, and labor demand penalties. Total non-operating income (expense), net in the six-month period ended June 30, 2012 increased by Ps 6.1 billion from Ps 3.0 billion in the six-month period ended June 30, 2011 to Ps 9.1 billion. This increase was mainly due to a recovery resulting from an insurance claim.

Income tax expense

Income tax expense increased by 27.3% to Ps 56.3 billion for the six-month period ended June 30, 2012. This increase was primarily due to higher income before income tax expense and non-controlling interest. Porvenir's effective tax rate, calculated before non-controlling interest, decreased from 36.8% for the six-month period ended June 30, 2011 to 34.7% for the six-month period ended June 30, 2012, primarily due to the impact of the equity tax during 2011, a non-deductible expense and recorded under the administrative and other expenses line item.

LB Panama

	Six-month period ended		Change, June 2012	
	June 30,		vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Total interest income	746.4	685.5	60.9	8.9
Total interest expense	(186.6)	(167.6)	19.0	11.3
Net interest income	559.8	517.9	41.9	8.1
Total (provisions) / reversals, net	(46.8)	(82.1)	(35.3)	(43.0)
Total fees and other services income, net	308.7	296.7	12.0	4.0
Total other operating income	40.7	37.4	3.3	8.8
Total operating income	862.4	770.0	92.4	12.0
Total operating expenses	(557.3)	(539.8)	17.4	3.2
Net operating income	305.1	230.1	74.9	32.6
Total non-operating income (expense), net	(0.9)	(8.9)	8.0	90.2
Income before income tax expense and non-controlling interest	304.2	221.3	82.9	37.5
Income tax expense	(94.3)	(60.6)	33.7	55.7
Income before non-controlling interest	209.9	160.7	49.2	30.6
Non-controlling interest	(0.0)	(0.1)	(0.1)	(58.8)
Net income attributable to shareholders	209.9	160.6	49.3	30.7

LB Panama's financial information is prepared in accordance with Colombian Banking GAAP and primarily reflects BAC Credomatic's consolidated results, which have been consolidated into LB Panama's results since December 1, 2010. As of June 30, 2012, LB Panama had Ps 1,828.0 billion of goodwill associated with the BAC Credomatic acquisition and Ps 481.8 billion of indebtedness incurred to partly finance the BAC Credomatic acquisition. Goodwill amortization and interest expense associated with the BAC Credomatic acquisition for the six-month period ended June 30, 2012 were Ps 27.0 billion and Ps 10.6 billion, respectively, compared to Ps 29.7 billion and Ps 9.6 billion, respectively, for the six-month ended June 30, 2011.

LB Panama's net income attributable to its shareholders in the six-month period ended June 30, 2012 increased by Ps 49.3 billion to Ps 209.9 billion mainly due to an increase in net interest income, a decrease in total net provisions, an increase in total fees and income from services, net, and an increase in total non-operating income. Partially offsetting these increases was an increase in total operating expenses and an increase in income tax expense.

Net interest income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Interest income:				
Interest on loans	690.4	638.9	51.5	8.1
Interest on investment securities	31.0	25.7	5.3	20.4
Interbank and overnight funds	14.8	11.7	3.1	26.2
Financial leases	10.1	9.1	1.1	11.6
Total interest income	746.4	685.5	60.9	8.9
Interest expense:				
Checking accounts	(15.4)	(15.3)	0.2	1.1
Time deposits	(90.4)	(84.9)	5.5	6.4
Savings deposits	(14.6)	(16.3)	(1.7)	(10.3)
Total interest expense from deposits	(120.4)	(116.5)	3.9	3.4
Borrowing from banks and others	(53.0)	(38.7)	14.3	36.9
Interbank and overnight funds (expenses)	(3.0)	(3.1)	(0.1)	(3.0)
Long-term debt (bonds)	(10.1)	(9.3)	0.9	9.3
Total interest expense	(186.6)	(167.6)	19.0	11.3
Net interest income	559.8	517.9	41.9	8.1

LB Panama's net interest income increased by 8.1%, or Ps 41.9 billion, from Ps 517.9 billion in the six-month period ended June 30, 2011 to Ps 559.8 billion in the six-month period ended June 30, 2012. This increase was primarily driven by a Ps 60.9 billion increase in total interest income, of which Ps 52.6 billion was attributable to an increase in interest income from loans and financial leases and which was partially offset by a 11.3%, or Ps 19.0 billion, increase in total interest expense.

Interest income from loans and financial leases increased by 8.1%, or Ps 52.6 billion, to Ps 700.6 billion for the six-month period ended June 30, 2012. LB Panama's average loans and financial lease portfolio grew by 13.0%, or Ps 1,261.5 billion, to Ps 10,942.1 billion, resulting in a Ps 80.8 billion increase in interest income from loans and financial leases. Partially offsetting this increase was the decrease in average yield from 13.4% for the six-month period ended June 30, 2011 to 12.8% for the six-month period ended June 30, 2012, which resulted in a Ps 28.2 billion decrease in interest income from loans and financial leases. The change in the average yield was the result of a change in the mix in the loan and financial lease portfolio. Commercial loans as a proportion of total gross loans increased from 30.0% as of June 30, 2011 to 33.4% as of June 30, 2012. Consumer and mortgage loans as an aggregate proportion of total gross loans decreased from 67.9% as of June 30, 2011 to 64.5% as of June 30, 2012.

Interest income from investment securities increased by Ps 5.3 billion to Ps 31.0 billion for the six-month period ended June 30, 2012. The fixed income portfolio generated Ps 29.1 billion of interest income from investment securities, accounting for 93.9% of LB Panama's earnings on investment securities for the six-month period ended June 30, 2012. This result was 13.1% higher than the Ps 25.7 billion of interest income generated by fixed income securities for the six-month period ended June 30, 2011. LB Panama's equity portfolio generated the remaining Ps 1.9 billion, or 6.1%, of income from investment securities for the six-month period ended June 30, 2012.

Interest income from interbank and overnight funds increased by Ps 3.1 billion from Ps 11.7 billion for the six-month period ended June 30, 2011 to Ps 14.8 billion for the six-month period ended June 30, 2012. The increase in interest income was mainly driven by an increase in the average rate on interbank and overnight funds from 2.1% for the six-month period ended June 30, 2011 to 3.2% for the six-month period ended June 30, 2012.

Primarily as a result of the decrease in the average yield on the loan and financial lease portfolio, the average yield earned on interest-earning assets decreased from 11.3% for the six-month period ended June 30, 2011 to 11.2% for the six-month period ended June 30, 2011.

Total interest expense increased by 11.3%, or Ps 19.0 billion, to Ps 186.6 billion for the six-month period ended June 30, 2012 as compared to the six-month period ended June 30, 2011. This increase was mainly driven by a Ps 14.3 billion increase in interest expense on borrowings from banks and others and a Ps 5.5 billion increase in interest expense on time deposits.

The increase in interest expense on borrowings from banks and others of Ps 14.3 billion was driven by an increase in the average balance of borrowings from banks and others from Ps 2,183.6 billion to Ps 2,834.3 billion and an increase in the average interest rate paid which increased from 3.5% for the six-month period ended June 30, 2011 to 3.7% for the six-month period ended June 30, 2012. The increase in the average balance of borrowings from banks and others contributed with an increase of Ps 12.2 billion in interest expense. The increase in the cost of these funds contributed with an increase of Ps 2.1 billion in interest expense.

The Ps 5.5 billion increase in interest expense on time deposits was driven by an increase in the average balance of time deposits from Ps 4,060.5 billion for the six-month period ended June 30, 2011 to Ps 4,295.3 billion for the six-month period ended June 30, 2012, which contributed with an increase of Ps 4.9 billion in interest expense, and an increase in the average interest rate paid which increased from 4.18% for the six-month period ended June 30, 2011 to 4.21% for the six-month period ended June 30, 2012 which resulted in a Ps 0.5 billion increase in interest expense.

Interest expense on checking accounts increased by Ps 0.2 billion to Ps 15.4 billion for the six-month period ended June 30, 2012. This increase was mainly driven by an increase in the average balance of checking accounts from Ps 4,173.0 billion for the six-month period to Ps 4,359.9 billion for the six-month period ended June 30, 2012, which contributed with an increase of Ps 0.7 billion in interest expense. Partially offsetting this increase was the decrease in the average interest rate paid which decreased from 0.73% for the six-month period ended June 30, 2011 to 0.71% for the six-month period ended June 30, 2012, which resulted in a Ps 0.5 billion decrease in interest expense.

Interest expense on savings deposits decreased by Ps 1.7 billion to Ps 14.6 billion for the six-month period ended June 30, 2012. This decrease was mainly driven by a decrease in the average rate paid which decreased from 1.5% for the six-month period ended June 30, 2011 to 1.2% for the six-month period ended June 30, 2012, which resulted in a Ps 3.0 decrease in interest expense. Partially offsetting this decrease was an increase in the average balance of savings deposits from Ps 2,158.6 billion for the six-month period to Ps 2,379.1 billion for the six-month period ended June 30, 2012, which contributed with an increase of Ps 1.4 billion in interest expense.

The average rate paid on interest-bearing liabilities remained basically unchanged at 2.6% for both the six-month period ended June 30, 2011 and the six-month period ended June 30, 2012.

Average total interest-earning assets for the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011 increased by 10.2% or Ps 1,240.5 billion, and net interest income between the same periods increased by 8.1%. This resulted in a decrease of the net interest margin from 8.6% for the six-month period ended June 30, 2011 to 8.4% for the six-month period ended June 30, 2012. Showing a similar tendency, the interest spread between the average rate on loans and financial leases and the average rate paid on deposits decreased from 11.1% to 10.6%. This decrease is due to the change in the mix of the loan and financial lease portfolio described above.

Provisions

Total net provisions decreased by Ps 35.3 billion to Ps 46.8 billion for the six-month period ended June 31, 2012, driven primarily by a Ps 39.0 billion decrease in net provisions for loans and financial leases to Ps 47.1 billion.

The decrease in the net provision for loan and financial lease losses was explained by adjustments made to comply with Colombian Superintendency of Finance provision standards: (i) a Ps 15.4 billion of additional provision made during the six-month period ended June 30, 2011 and (ii) a Ps 24.1 billion reversal of provisions associated an increase in the quality of the loan and financial lease portfolio for the six-month period ended June 30, 2012.

LB Panama's past due loans and financial leases decreased by 6.9% between June 30, 2011 and June 30, 2012, while total loans increased in the same period of time by 18.0%. LB Panama's delinquency ratio improved from 3.2% as of June 30, 2011 to 2.5% as of June 30, 2012. This improvement was primarily a result of lower delinquency ratio in consumer loans from 4.0% to 3.1% and a lower delinquency ratio in commercial loans from 2.7% to 1.9%.

Charge-offs decreased from Ps 74.5 billion for the six-month period ended June 30, 2011 to Ps 57.9 billion for the six-month period ended June 30, 2012 due to an improvement in the quality of LB Panama's loan and financial lease portfolio. LB Panama's charge-offs to average loans and financial leases ratio decreased from an annualized 1.5% for the six-month period ended June 30, 2011 to 1.0% for the six-month period ended June 30, 2012. Since LB Panama's net provisions for loan and financial lease losses decreased more than its charge-offs, the allowance for loan and financial lease losses decreased from Ps 199.9 billion as of June 30, 2011 to Ps 185.4 billion as of June 30, 2012. LB Panama's coverage ratio over its past due loans remained basically unchanged decreasing from 64.1% as of June 30, 2011 to 63.9% as of June 30, 2012.

Net provisions for accrued interest and other receivables decreased by Ps 1.1 billion to a net expense of Ps 0.3 billion as of June 30, 2012 from Ps 1.4 billion as of June 30, 2011.

Net provisions for foreclosed assets and other assets increased by Ps 6.2 billion to a net expense of Ps 0.8 billion as of June 30, 2012 from a net recovery of Ps 5.4 billion as of June 30, 2011 due to a combination of lesser reversals of provisions of Ps 8.5 billion and lesser provision expense of Ps 2.3 billion.

The recovery of charged-off assets increased between the six-month periods ended June 30, 2011 and the six-month period ended June 30, 2012 by Ps 1.4 billion to Ps 1.4 billion.

Total fees and other services income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Fees and other services income:				
Commissions from banking services	209.0	207.9	1.1	0.5
Branch network services	—	—	—	—
Credit card merchant fees	91.5	87.3	4.3	4.9
Checking fees	—	—	—	—
Warehouse services	—	—	—	—
Fiduciary activities	—	—	—	—
Pension plan administration	5.3	—	5.3	—
Other.....	27.6	31.7	(4.1)	(13.0)
Total fees and other services income.....	333.5	326.9	6.6	2.0
Fees and other services expenses.....	(24.9)	(30.2)	(5.3)	(17.7)
Total fees and other services income, net.....	308.7	296.7	12.0	4.0

Total net fees and other services income increased by 4.0%, or Ps 12.0 billion to Ps 308.7 billion in the six-month period ended June 30, 2012. Total fees and other services income increased by Ps 6.6 billion mainly as a result higher credit card merchant fees of Ps 4.3 billion, higher commissions from banking services of Ps 1.1 billion, and higher pension plan administration fees of Ps 0.7 billion (pension plan administration fees for the six-month period ended June 30, 2011 were recorded under the "other" commission line item and represented Ps 4.6 billion). Also contributing to the increase total net fees and other services income was a Ps 5.3 billion decrease in fees and other service expenses.

Other operating income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Foreign exchange gains (losses), net	40.6	39.0	1.6	4.0
Gains on derivative operations, net.....	(0.0)	(1.7)	1.7	98.1
Gains on sales of investments in equity securities, net	–	–	–	–
Income from non-financial sector, net	–	–	–	–
Dividend income.....	–	–	–	–
Other	0.2	0.2	0.0	0.2
Other operating income	40.7	37.4	3.3	8.8

Total other operating income, net increased by Ps 3.3 billion to Ps 40.7 billion in the six-month period ended June 30, 2012 due primarily to a Ps 3.3 billion increase associated with foreign exchange gains (losses), net. In the ordinary course of business, LB Panama enters into forward contracts and other derivative transactions in foreign currency through its treasury department almost entirely for hedging purposes and on behalf of clients.

Operating expenses

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Salaries and employee benefits.....	(234.2)	(220.4)	13.8	6.3
Bonus plan payments.....	(30.1)	(27.7)	2.4	8.6
Termination payments	(6.7)	(8.2)	(1.5)	(17.8)
Administrative and other expenses	(226.5)	(220.2)	6.3	2.9
Deposit security, net	(4.4)	(4.3)	0.2	3.8
Charitable and other donation expenses	(1.0)	(0.6)	0.4	71.4
Depreciation	(27.3)	(28.8)	(1.5)	(5.2)
Goodwill amortization	(27.0)	(29.7)	(2.7)	(9.0)
Total operating expenses	(557.3)	(539.8)	17.4	3.2

Total operating expenses increased by 3.2%, or Ps 17.4 billion, to Ps 557.3 billion in the six-month period ended June 30, 2012. The increase is mainly due to a Ps 13.8 billion increase to Ps 234.2 billion in salaries and employee benefits and to a Ps 6.3 billion increase to Ps 226.5 billion in administrative and other expenses. LB Panama's number of employees increased from 15,268 for the six-month period ended June 30, 2011 to 16,001 for the six-month period ended June 30, 2012, on a per capital basis salaries and employee benefits increases by 1.4%. LB Panama's efficiency ratio for the six-month period ended June 30, 2012 was 55.3%, which improved from the 56.5% ratio for the six-month period ended June 30, 2011.

Non-operating income (expense)

Total net non-operating income (expense) increased by Ps 8.0 billion to a net expense Ps 0.9 billion for the six-month period ended June 30, 2012. This increase is due to a Ps 4.9 billion gain from the U.S. dollar (reporting currency of BAC Credomatic operations) to Colombian Peso conversion, and to adjustments made to reconcile to Colombian Banking GAAP accounting standards.

Income tax expense

Income tax expense for LB Panama increased by Ps 33.7 billion to Ps 94.3 billion for the six-month period ended June 30, 2012. This increase was primarily due to higher income before income tax expense and non-controlling interest. LB Panama's effective tax rate, calculated before non-controlling interest, increased from 27.4% for the six-month period ended June 30, 2011 to 31.0% for the six-month period ended June 30, 2012. This increase was mainly due to differences in the reconciliation of U.S. GAAP to Colombian Banking GAAP accounting

standards impacting the income before income tax expense and non-controlling interest, and deferred taxes calculations, as described below.

During the first six-month period ended June 30, 2011, LB Panama recorded a Ps 53.4 billion provision due to the reconciliation to Colombian Banking GAAP from U.S. GAAP. This increase in the loan provision resulted in a decrease of Ps 16.5 billion in income tax expense for the six-month period ended June 30, 2011. LB Panama's income tax expense increased by Ps 10.7 billion in the six-month period ended June 30, 2012 due to an improvement in the credit quality of LB Panama's loans, which resulted in an increase in the tax expense recorded under Colombian Banking GAAP (but which did not affect the amounts paid).

Non-controlling interest

LB Panama's non-controlling interest is not material. It totaled Ps 0.04 billion for the six-month period ended June 30, 2012.

Banco de Occidente

Net income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Total interest income	970.9	741.7	229.2	30.9
Total interest expense	(362.3)	(224.8)	137.5	61.2
Net interest income	608.5	516.9	91.6	17.7
Total (provisions) / reversals, net	(109.3)	(90.1)	19.2	21.3
Total fees and other services income, net	114.7	100.2	14.5	14.5
Total other operating income	158.7	156.1	2.6	1.6
Total operating income	772.7	683.2	89.5	13.1
Total operating expenses	(451.5)	(408.8)	42.7	10.4
Net operating income	321.3	274.4	46.9	17.1
Total non-operating income (expense), net	8.1	8.4	(0.3)	(3.5)
Income before income tax expense and non-controlling interest	329.3	282.8	46.6	16.5
Income tax expense	(103.5)	(74.1)	29.4	39.6
Income before non-controlling interest	225.9	208.7	17.2	8.2
Non-controlling interest	(0.9)	(0.9)	(0.1)	(7.7)
Net income attributable to shareholders	225.0	207.7	17.3	8.3

Banco de Occidente's net income attributable to its shareholders increased by 8.3%, or Ps 17.3 billion, to Ps 225.0 billion for the six-month period ended June 30, 2012. This increase was primarily due to an increase in net interest income, an increase in total fees and other services income and an increase in total other operating income, offset in part by an increase total operating expenses, an increase in total net provisions and an increase in income tax expense.

Net interest income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Interest income:				
Interest on loans	665.0	490.9	174.1	35.5
Interest on investment securities	83.6	97.3	(13.7)	(14.1)
Interbank and overnight funds	25.4	13.8	11.6	84.5
Financial leases	196.8	139.7	57.1	40.9
Total interest income	970.9	741.7	229.2	30.9

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Interest expense:				
Checking accounts	(4.3)	(3.3)	1.0	31.3
Time deposits	(94.2)	(50.1)	44.1	87.9
Savings deposits	(136.4)	(76.4)	59.9	78.4
Total interest expense on deposits	(234.9)	(129.8)	105.1	80.9
Borrowing from banks and others	(39.0)	(34.5)	4.5	13.1
Interbank and overnight funds (expenses)	(8.4)	(5.3)	3.1	57.8
Long-term debt (bonds)	(80.0)	(55.1)	24.9	45.1
Total interest expense	(362.3)	(224.8)	137.5	61.2
Net interest income	608.5	516.9	91.6	17.7

Banco de Occidente's net interest income grew by 17.7%, or Ps 91.6 billion, from Ps 516.9 billion for the six-month period ended June 30, 2011 to Ps 608.5 billion for the six-month period ended June 30, 2012. This increase was driven primarily by a Ps 229.2 billion increase in total interest income, Ps 231.2 billion of which was attributable to an increase in interest income from loans and financial leases and which was partially offset by an increase in total interest expense of Ps 137.5 billion.

Interest income from loans and financial leases increased by 36.7%, or Ps 231.2 billion, to Ps 861.8 billion for the six-month period ended June 30, 2012. Banco de Occidente's average loans and financial lease portfolio grew by 21.0%, or Ps 2,574.4 billion, to Ps 14,813.4 billion, resulting in a Ps 150.8 billion increase in interest income from loans and financial leases. Also contributing to the increase in interest income from loans and financial leases was the increase in the average yield from 10.3% for the six-month period ended June 30, 2011 to 11.6% for the six-month period ended June 30, 2012, which resulted in a Ps 80.4 billion increase in interest income from loans and financial leases, reflecting an increasing interest-rate environment.

Interest income from investment securities decreased by Ps 13.7 billion to Ps 83.6 billion for the six-month period ended June 30, 2012. The fixed income portfolio generated all of the interest income from investment securities for the six-month period ended June 30, 2012. This result was 14.1% lower than the Ps 97.3 billion of interest income generated by the fixed income securities portfolio for the six-month period ended June 30, 2011 mainly due to a decrease in the average balance of fixed income securities.

Interest income from interbank and overnight funds increased by Ps 11.6 billion to Ps 25.4 billion for the six-month period ended June 30, 2012. The increase in the average balance of interbank and overnight funds as compared to the six-month period ended June 30, 2011, contributed with Ps 9.4 billion of the increase while the change in the average yield contributed with Ps 2.3 billion.

The average yield earned on interest-earning assets increased from 8.7% for the six-month period ended June 30, 2011 to 9.9% for the six-month period ended June 30, 2011, primarily as a result of the increases in the yield of the loan portfolio.

The 61.2%, or Ps 137.5 billion, increase in total interest expense to Ps 362.3 billion for the six-month period ended June 30, 2012 as compared to the six-month period result as of June 30, 2011 partially offset the increase in total interest income. This increase was mainly driven by a Ps 59.9 billion increase in savings deposits' interest expense, a Ps 44.1 billion increase in time deposits' interest expense and a Ps 24.9 billion increase in long-term debt's interest expense.

The increase in interest expense on saving deposits of Ps 59.9 billion was driven by an increase in the average interest rate paid which increased from 2.9% for the six-month period ended June 30, 2011 to 4.3% for the six-month period ended June 30, 2012 and an increase in the average balance of saving deposits from Ps 5,198.2 billion to Ps 6,328.3 billion. The increase of 137 basis points in the average interest rate, which contributed to an increase of Ps 35.7 billion in interest expense, generally followed the increase in the average DTF rate from 3.68% for the six-month period in June 30, 2011 to 5.32% for the six-month period ended June 30, 2012. The increase in the average balance of saving deposits contributed Ps 24.2 billion to the increase in interest expense.

The Ps 44.1 billion increase in interest expense on time deposits was driven by an increase in the average balance of time deposits from Ps 2,608.3 billion for the six-month period ended June 30, 2011 to Ps 3,664.7 billion for the six-month period ended June 30, 2012, which contributed with an increase of Ps 29.7 billion in interest expense, and an increase in the average interest rate paid which increased from 3.8% for the six-month period ended June 30, 2011 to 5.1% for the six-month period ended June 30, 2012. The 130 basis points increase in the average interest rate paid was, as in the case of savings deposits, consistent with an increasing interest-rate environment and resulted in a Ps 14.4 billion increase in interest expense.

The increase in interest expense on long-term debt of Ps 24.9 was driven by a 32.8%, or Ps 513.8 billion, increase in the average balance of long-term debt to Ps 2,080.0 billion for the six-month period ended June 30, 2012, which resulted in a Ps 19.8 billion increase in interest expense and a 65 basis points increase in the nominal interest rate paid from 7.0% for the period ended June 30, 2011 to 7.7% for the period ended June 30, 2012, and resulted in a Ps 5.1 billion increase in interest expense. The increase in the interest rate paid was consistent with an increasing interest-rate environment.

The average rate paid on interest-bearing liabilities increased from 3.8% for the six-month period ended June 30, 2011 to 5.0% for the six-month period ended June 30, 2011.

The average total interest-earning assets for the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011 increased by 13.9% or Ps 2,387.0 billion, and net interest income between the same periods increased by 17.7%, which resulted in an increase in the net interest margin from 6.0% for the six-month period ended June 30, 2011 to 6.2% for the six-month period ended June 30, 2012. The interest spread between the average rate on loans and financial leases and the average rate paid on deposits remained basically unchanged at 7.2%.

Provisions

Total net provisions increased by Ps 19.2 billion to Ps 109.3 billion for the six-month period ended June 31, 2012, driven primarily by a Ps 10.6 billion increase in net provisions for loans and financial leases to Ps 114.8 billion and a Ps 7.4 billion decrease in recovery of charged-off assets.

The increase in the net provision for loan and financial lease losses was driven by an increase in the average volume of loans and financial leases and was not due to a decrease in credit quality. Banco de Occidente's past due loans increased by 6.3% from June 30, 2011 to June 30, 2012, while total loans increased in the same period of time by 17.3%. The bank's delinquency ratio improved from 2.9% as of June 30, 2011 to 2.6% as of June 30, 2012. This improvement was primarily a result of a lower delinquency ratio in commercial loans from 1.8% to 1.5% at June 30, 2011 and 2012 and a lower delinquency ratio in financial leases from 4.1% to 3.4% at June 30, 2011 and 2012.

Charge-offs decreased from Ps 86.5 billion for the six-month period ended June 30, 2011 to Ps 81.5 billion for the six-month period ended June 30, 2012. Banco de Occidente's charge-offs to average balance of loans and financial leases ratio decreased from an annualized 1.4% for the six-month period ended June 30, 2011 to 1.1% for the six-month period ended June 30, 2012. Since Banco de Occidente's net provisions for loan and financial lease losses increased and its charge-offs decreased, the allowance for loan and financial lease losses increased from Ps 554.5 billion as of June 30, 2011 to Ps 606.9 billion as of June 30, 2012. Banco de Occidente's coverage ratio over its past due loans increased from 144.6% as of June 30, 2011 to 148.8% as of June 30, 2012.

Net provisions for accrued interest and other receivables increased by Ps 2.7 billion to a net expense of Ps 14.9 billion for the six-month period ended June 30, 2012 from Ps 12.2 billion for the same period in 2011 due to a combination of higher provision expense of Ps 3.3 billion offset by higher reversals of provisions of Ps 0.6 billion. This increase in net provision expense is mainly attributable to an increase in the balance of accrued interest and other receivables.

Net provisions for foreclosed assets and other assets decreased by Ps 1.5 billion to a net expense of Ps 1.2 billion for the six-month period ended June 30, 2012 from a net expense of Ps 2.7 billion for the same period in 2011 due to a combination of lesser provision expense of Ps 3.2 billion offset by lesser reversals of provisions of Ps 1.7 billion.

The recovery of charged-off assets decreased between the six-month period ended June 30, 2011 and the six-month period ended June 30, 2012 by Ps 7.4 billion to Ps 21.7 billion due to a decrease in the volume of charged-off loans and financial leases subject to recovery.

Total fees and other services income, net

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Fees and other services income:				
Commissions from banking services	83.8	67.5	16.3	24.2
Branch network services	—	—	—	—
Credit card merchant fees	37.1	37.9	(0.8)	(2.0)
Checking fees	11.1	11.9	(0.8)	(6.6)
Warehouse services	—	—	—	—
Fiduciary activities	22.4	19.0	3.4	18.0
Pension plan administration	—	—	—	—
Others	15.3	14.4	0.9	6.0
Total fees and other services income	169.7	150.7	19.1	12.6
Fees and other services expenses	(55.0)	(50.4)	4.6	9.1
Total fees and other services income, net	114.7	100.2	14.5	14.5

Total net fees and other services income increased by Ps 14.5 billion to Ps 114.7 billion for the six-month period ended June 30, 2012. This increase was primarily due to a Ps 16.3 billion increase in commissions from banking services to Ps 83.8 billion, mainly as a result of Banco de Occidente's organic growth and higher commissions charged on different products such as management fees, and a Ps 3.4 billion increase in fiduciary activities to Ps 22.4 billion. Partially offsetting these increases was the Ps 4.6 billion increase in fees and other services expenses to Ps 55.0 billion for the six-month period ended June 30, 2012.

Other operating income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Foreign exchange gains (losses), net	2.3	0.3	2.0	(568.2)
Gains on derivative operations, net	14.9	12.1	2.8	22.8
Gains on sales of investments in equity securities, net	-	3.7	(3.7)	(100.0)
Income from non-financial sector, net	0.9	1.1	(0.2)	(14.8)
Dividend income	59.9	62.7	(2.8)	(4.5)
Other	80.7	76.2	4.5	5.9
Total other operating income	158.7	156.1	2.6	1.6

Total other operating income increased by 1.6%, or Ps 2.6 billion, to Ps 158.7 billion for the six-month period ended June 30, 2012. This increase was primarily a result of a Ps 4.8 billion increase in net foreign exchange and derivative operations and a Ps 4.5 billion increase in "other" income (due to higher income from operating leases), partially offset by a Ps 3.7 billion decrease in net gains on sales of investments in equity securities (mainly due to a Ps 3.7 billion gain on the sale of its investment in Visa for the six-month period ended June 30, 2011) and a Ps 2.8 billion decrease in dividend income (mainly driven by a Ps 1.9 billion decrease in dividends received from Porvenir).

Operating expenses

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Salaries and employee benefits.....	(161.0)	(144.0)	17.0	11.8
Bonus plan payments.....	(9.9)	(10.7)	(0.8)	(7.7)
Termination payments	(2.1)	(1.9)	0.2	9.9
Administrative and other expenses	(193.9)	(175.4)	18.4	10.5
Deposit security, net	(19.2)	(16.5)	2.8	16.8
Charitable and other donation expenses	(1.4)	(3.1)	(1.7)	(54.9)
Depreciation	(63.3)	(56.5)	6.8	12.0
Goodwill amortization.....	(0.7)	(0.7)	0.0	6.5
Total operating expenses.....	(451.5)	(408.8)	42.7	10.4

Total operating expenses increased by 10.4%, or Ps 42.7 billion, to Ps 451.5 billion for the six-month period ended June 30, 2012 primarily due to a Ps 18.4 billion increase in administrative and other expenses, to Ps 193.9 billion, principally driven by the organic growth of the business and managing Banco de Occidente's larger loan and financial lease portfolio. Salaries and employee benefits increased by Ps 17.0 billion or 11.8% to Ps 161.0 billion, which was partially explained by the increase in headcount from 8,693 at June 30, 2011 to 10,224 at June 30, 2012. On a per capita basis, salaries and employee benefits decreased by 5.0%. Depreciation expense increased by Ps 6.8 billion to Ps 63.3 billion explained by Ps 6.7 billion increase in depreciations from operating leases. Banco de Occidente's efficiency ratio improved from 45.5% at June 30, 2011 to 43.9% at June 30, 2012. The annualized ratio of operating expenses before depreciation and amortization as a percentage of average earning assets improved from 4.1% for the six-month period ended June 30, 2011 to 4.0% for the six-month period ended June 30, 2012.

Non-operating income (expense)

Total non-operating income (expense) includes gains (losses) from the sale of foreclosed assets, property, plant and equipment and other assets and income slightly decreased to Ps 8.1 billion for the six-month period ended June 30, 2012, from a total net non-operating income of Ps 8.4 billion for the six-month period ended June 30, 2011.

Income tax expense

Income tax expense for Banco de Occidente increased by Ps 29.4 billion to Ps 103.5 billion for the six-month period ended June 30, 2012. This increase was primarily due to higher income before income tax expense and non-controlling interest and a Ps 15.2 billion adjustment to previous years' tax provisions from the merger with Leasing de Occidente. Banco de Occidente's effective tax rate, calculated before non-controlling interest, increased from 26.2% for the six-month period ended June 20, 2011 to 31.4% for the six-month period ended June 30, 2012.

Non-controlling interest

Banco de Occidente's non-controlling interest decreased by Ps 0.1 billion to Ps 0.9 billion for the six-month period ended June 30, 2012. Non-controlling interest is not a significant contributor to net income for Banco de Occidente, responsible for only 0.4% of net income before non-controlling interest for the six-month period ended June 30, 2012.

Banco Popular

Net income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Total interest income	792.7	675.4	117.3	17.4
Total interest expense	(273.2)	(178.6)	94.6	53.0
Net interest income	519.5	496.8	22.7	4.6
Total (provisions) / reversals, net	(52.9)	(33.8)	19.1	56.5
Total fees and other services income, net	69.4	73.9	(4.5)	(6.0)
Total other operating income	23.7	23.1	0.6	2.6
Total operating income	559.7	560.0	(0.3)	(0.0)
Total operating expenses	(318.4)	(302.0)	16.4	5.4
Net operating income	241.3	258.0	(16.7)	(6.5)
Total non-operating income (expense), net	32.1	32.8	(0.7)	(2.3)
Income before income tax expense and non-controlling interest	273.4	290.8	(17.4)	(6.0)
Income tax expense	(90.9)	(92.1)	(1.2)	(1.3)
Income before non-controlling interest	182.6	198.8	(16.2)	(8.1)
Non-controlling interest	(2.6)	(2.2)	0.4	16.9
Net income attributable to shareholders	180.0	196.5	(16.6)	(8.4)

Banco Popular's net income attributable to its shareholders decreased by 8.4% to Ps 180.0 billion for the six-month period ended June 30, 2012. This decrease occurred despite an increase in net interest income of Ps 22.7 billion to Ps 519.5 billion for the six-month period ended June 30, 2012 and was primarily due to an increase in total net provision expense, an increase in total operating expenses and a decrease in total fees and other services income.

Net interest income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Interest income:				
Interest on loans	686.9	579.2	107.7	18.6
Interest on investment securities	78.4	77.8	0.6	0.7
Interbank and overnight funds	9.6	3.9	5.8	148.5
Financial leases	17.7	14.4	3.3	22.7
Total interest income	792.7	675.4	117.3	17.4
Interest expense:				
Checking accounts	(9.8)	(1.3)	8.5	644.6
Time deposits	(64.1)	(35.7)	28.5	79.7
Savings deposits	(119.5)	(91.1)	28.3	31.1
Total interest expense on deposits	(193.4)	(128.1)	65.3	50.9
Borrowing from banks and others	(17.7)	(5.1)	12.6	244.1
Interbank and overnight funds (expenses)	(3.3)	(2.6)	0.7	26.7
Long-term debt (bonds)	(58.7)	(42.7)	16.0	37.6
Total interest expense	(273.2)	(178.6)	94.6	53.0
Net interest income	519.5	496.8	22.7	4.6

Banco Popular's net interest income grew by 4.6%, or Ps 22.7 billion, from Ps 496.8 billion for the six-month period ended June 30, 2011 to Ps 519.5 billion for the six-month period ended June 30, 2012. This increase was driven primarily by a Ps 117.3 billion increase in total interest income, Ps 111.0 billion of which was attributable to

an increase in interest income from loans and financial leases and which was partially offset by an increase in total interest expense of Ps 94.6 billion.

Interest income from loans and financial leases increased by 18.7%, or Ps 111.0 billion, to Ps 704.7 billion for the six-month period ended June 30, 2012. Banco Popular's average interest earning loans and financial leases portfolio grew by 17.9%, or Ps 1,582.5 billion, to Ps 10,418.7 billion, resulting in a Ps 109.1 billion increase in interest income from loans and financial leases. Also contributing to the increase in interest income from loans and financial leases was the increase in average yield from 13.4% for the six-month period ended June 30, 2011 to 13.5% for the six-month period ended June 30, 2012, resulted in a Ps 1.8 billion increase in interest income from loans and financial leases.

Interest income from investment securities remained basically unchanged increasing by 0.7% to Ps 78.4 billion for the six-month period ended June 30, 2012. The fixed income portfolio generated Ps 77.6 billion of interest income from investment securities, accounting for 99.0% of Banco Popular's earnings on investment securities for the six-month period ended June 30, 2012. This interest income was 3.1% higher than the Ps 75.3 billion of income generated by fixed income securities for the six-month period ended June 30, 2011 driven by an increase in the average annualized yield and a decrease in the average fixed income investment securities portfolio. Banco Popular's equity portfolio generated the remaining Ps 0.8 billion, or 1.0%, of income from investment securities for the six-month period ended June 30, 2012.

Interest income from interbank and overnight funds increased by Ps 5.8 billion to Ps 9.6 billion for the six-month period ended June 30, 2012 mainly driven by an increase in the average balance of interbank and overnight funds as compared to the six-month period ended June 30, 2011.

As a result, the average yield earned on interest-earning assets increased from 11.6% for the six-month period ended June 30, 2011 to 12.1% for the six-month period ended June 30, 2012.

Total interest expense increased by 53.0%, or Ps 94.6 billion, to Ps 273.2 billion for the six-month period ended June 30, 2012 versus the six-month period result as of June 30, 2011. This increase was mainly driven by a Ps 28.5 billion increase in time deposits' interest expense, a Ps 28.3 billion increase in savings deposits' interest expense and a Ps 16.0 billion increase in long-term debt's interest expense.

The Ps 28.5 billion increase in interest expense on time deposits was driven by an increase in the average interest rate paid which increased from 4.4% for the six-month period ended June 30, 2011 to 6.2% for the six-month period ended June 30, 2012 and an increase in the average balance of time deposits from Ps 1,626.3 billion to Ps 2,053.4 billion. The increase of 186 basis points in the cost of these funds, which contributed with an increase of Ps 15.1 billion in interest expense, was mainly a result of an increase of 164 basis points in the average DTF from 3.68% for the six-month period in June 30, 2011 to 5.32% for the six-month period ended June 30, 2012. The increase in the average balance of time deposits contributed with an increase of Ps 13.3 billion in interest expense.

The increase in interest expense on saving deposits of Ps 28.3 billion was driven by an increase in the average interest rate paid which increased from 3.1% for the six-month period ended June 30, 2011 to 4.0% for the six-month period ended June 30, 2012 and an increase in the average balance of saving deposits from Ps 5,871.4 billion to Ps 5,905.4 billion. The increase in the interest rate paid was, as in the case of the time deposits, consistent with an increasing interest-rate environment and resulted in a Ps 27.6 billion increase in interest expense. The increase in the average balance of saving deposits contributed with an increase of Ps 0.7 billion in interest expense.

The Ps 16.0 billion increase in interest expense on long-term debt was driven by a 19.5%, or Ps 269.7 billion, increase in the average balance of long-term debt to Ps 1,655.4 billion for the six-month period ended June 30, 2012, resulted in a Ps 9.6 billion increase in interest expense and a 94 basis points increase in the average interest rate paid from 6.2% for the period ended June 30, 2011 to 7.1% for the period ended June 30, 2012, and resulted in a Ps 6.5 billion increase in interest expense. The increase in the interest rate paid was consistent with an increasing interest-rate environment.

The average rate paid on interest-bearing liabilities increased from 3.8% for the six-month period ended June 30, 2011 to 5.2% for the six-month period ended June 30, 2012.

While average total interest-earning assets for the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011 increased by 12.3% or Ps 1,435.4 billion, the increase in net interest income

between the same periods was 4.6% affected by the increase in the cost of funding. This resulted in a tightening of the net interest margin from 8.5% for the six-month period ended June 30, 2011 to 7.9% for the six-month period ended June 30, 2012. Showing a similar tendency, the interest spread between the average rate on loans and financial leases and the average rate paid on Deposits decreased from 10.1% to 8.9%.

Provisions

Total net provisions increased by Ps 19.1 billion to Ps 52.9 billion for the six-month period ended June 31, 2012, driven primarily by a Ps 13.0 billion increase in net provisions for loans and financial leases to Ps 56.7 billion. The increase in the net provision for loan and financial lease losses is mainly due to an increase in the average volume of loans and not due to a decrease in the credit quality of the Bank, as Banco Popular's delinquency ratio slightly deteriorated from 2.30% as of June 30, 2011 to 2.36% as of June 30, 2012. This slight increase in the delinquency ratio was primarily a result of an increase in the delinquency ratio for consumer loans from 2.7% to 3.0%, which was partially offset by a decrease in the delinquency ratio of commercial loans from 1.4% to 1.3%.

Charge-offs showed a slight decrease from Ps 21.7 billion for the six-month period ended June 30, 2011 to Ps 21.5 billion for the six-month period ended June 30, 2012. Banco Popular's charge-offs to average loans and financial leases ratio decreased from an annualized 0.5% for the six-month period ended June 30, 2011 to 0.4% for the six-month period ended June 30, 2012. Since Banco Popular's net provisions for loan and financial lease losses increased and its charge-offs decreased, the allowance for loan and financial lease losses increased from Ps 378.9 billion as of June 30, 2011 to Ps 424.0 billion as of June 30, 2012. Banco Popular's coverage over its past due loans decreased to 161.5% as of June 30, 2012, from 171.6% at June 30, 2011.

Net provisions for accrued interest and other receivables increased by Ps 4.0 billion to a net expense of Ps 2.9 billion as of June 30, 2012 from a net recovery of Ps 1.2 billion as of June 30, 2011 due to a combination of lesser reversals of provisions of Ps 2.6 billion and higher provision expense of Ps 1.4 billion. This increase was mainly driven by an increase in the balance of accrued interest and other receivables.

Net provisions for foreclosed assets and other assets increased by Ps 1.5 billion to a net expense of Ps 1.1 billion as of June 30, 2012 from a net recovery of Ps 0.4 billion as of June 30, 2011 due to a combination of lesser reversals of provisions of Ps 1.6 billion and lesser provision expense of Ps 0.1 billion.

The recovery of charged-off assets decreased between the six-month period ended June 30, 2011 and the six-month period ended June 30, 2012 by Ps 0.6 billion to Ps 7.7 billion.

Total fees and other services income, net

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Fees and other services income:				
Commissions from banking services	39.6	43.0	(3.4)	(7.9)
Branch network services	-	-	-	-
Credit card merchant fees	2.7	2.5	0.3	11.7
Checking fees	1.9	2.0	(0.2)	(7.5)
Warehouse services	28.4	30.0	(1.6)	(5.3)
Fiduciary activities	7.0	5.9	1.1	18.5
Pension plan administration	-	0.5	(0.5)	(100.0)
Others	5.2	5.5	(0.3)	(5.8)
Total fees and other services income	84.9	89.5	(4.6)	(5.2)
Fees and other services expenses	(15.5)	(15.6)	(0.2)	(1.0)
Total fees and other services income, net	69.4	73.9	(4.5)	(6.0)

Total net fees and other services income decreased by 6.0%, or Ps 4.5 billion, to Ps 69.4 billion for the six-month period ended June 30, 2012. This decrease was primarily due to a Ps 3.4 billion decrease in commissions from banking services to Ps 39.6 billion due to lower commissions charged on different products such as management fees, and a Ps 1.6 billion decrease in warehouse services to Ps 28.4 billion.

Other operating income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Foreign exchange gains (losses), net	(1.0)	(1.9)	0.9	46.1
Gains on derivative operations, net.....	–	–	–	–
Gains on sales of investments in equity securities, net	(0.0)	(0.0)	0.0	1.4
Income from non-financial sector, net	3.5	3.5	0.0	0.4
Dividend income.....	15.1	15.2	(0.1)	(0.8)
Other	6.1	6.3	(0.2)	(2.8)
Total other operating income	23.7	23.1	0.6	2.6

Total other operating income increased by 2.6%, or Ps 0.6 billion, to Ps 23.7 billion for the six-month period ended June 30, 2012. This increase was primarily a result of a Ps 0.9 billion decrease in foreign exchange losses.

Operating expenses

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Salaries and employee benefits.....	(126.1)	(121.7)	4.3	3.6
Bonus plan payments.....	(2.6)	(2.6)	0.0	1.7
Termination payments	(0.1)	(0.1)	0.0	10.2
Administrative and other expenses	(162.4)	(152.5)	9.9	6.5
Deposit security, net	(14.6)	(13.0)	1.6	12.6
Charitable and other donation expenses	(0.7)	(0.7)	0.0	1.9
Depreciation	(11.9)	(11.4)	0.5	4.1
Goodwill amortization	–	–	–	–
Total operating expenses	(318.4)	(302.0)	16.4	5.4

Total operating expenses increased by 5.4% to Ps 318.4 billion for the six-month period ended June 30, 2012 versus the six-month period ended June 30, 2011. Administrative and other expenses increased by Ps 9.9 billion to Ps 162.4 billion, principally driven by the organic growth of the business and managing Banco Popular's larger loan and financial lease portfolio. Salaries and employee benefits increased by Ps 4.3 billion to Ps 126.1 billion, which was partially explained by the increase in headcount from 6,379 at June 30, 2011 to 6,660 at June 30, 2012. On a per capita basis, salaries and employee benefits decreased by 0.8%. Banco Popular's efficiency ratio worsened slightly from 48.9% at June 30, 2011 to 50.0% at June 30, 2012. The annualized ratio of operating expenses before depreciation and amortization as a percentage of average earning assets improved from 5.0% for the six-month period ended June 30, 2011 to 4.7% for the six-month period ended June 30, 2012.

Non-operating income (expense)

Total net non-operating income (expense) slightly decreased to Ps 32.1 billion for the six-month period ended June 30, 2012, from a net non-operating income of Ps 32.8 billion for the six-month period ended June 30, 2011.

Income tax expense

Income tax expense for Banco Popular decreased by Ps 1.2 billion to Ps 90.9 billion for the six-month period ended June 30, 2012. This decrease was primarily due to lower income before income tax expense and non-controlling interest. Banco Popular's effective tax rate, calculated before non-controlling interest, increased from 31.7% for the six-month period ended June 30, 2011 to 33.2% for the six-month period ended June 30, 2012 due to an increase in non-tax deductible expenses and a decrease in non-taxable income.

Non-controlling interest

Banco Popular's non-controlling interest increased by Ps 0.4 billion to Ps 2.6 billion. Non-controlling interest is not a significant contributor to net income for Banco Popular, responsible for only 1.4% of net income before non-controlling interest for the six-month period ended June 30, 2012.

Banco AV Villas

Net income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Total interest income	419.3	349.1	70.2	20.1
Total interest expense	(122.8)	(72.9)	50.0	68.6
Net interest income	296.5	276.2	20.2	7.3
Total (provisions) / reversals, net	(41.5)	(29.9)	11.6	38.6
Total fees and other services income, net	77.2	74.2	2.9	4.0
Total other operating income	3.6	2.7	0.9	33.8
Total operating income	335.7	323.2	12.5	3.9
Total operating expenses	(230.5)	(210.1)	20.4	9.7
Net operating income	105.2	113.1	(7.9)	(7.0)
Total non-operating income (expense), net	9.6	(1.6)	11.2	708.0
Income before income tax expense and non-controlling interest	114.8	111.5	3.3	2.9
Income tax expense	(32.9)	(36.0)	(3.0)	(8.4)
Income before non-controlling interest	81.9	75.6	6.3	8.3
Non-controlling interest	(0.3)	(0.3)	(0.1)	(18.6)
Net income attributable to shareholders	81.6	75.3	6.4	8.4

Banco AV Villas' net income attributable to its shareholders increased by 8.4%, or Ps 6.4 billion, to Ps 81.6 billion for the six-month period ended June 30, 2012 as compared to the six-month period ended June 30, 2011. The increase was primarily due to an increase in net interest income, in total fees and other service income, net and in non-operating income (expense) net, offset in part by an increase in total net provisions and an increase in operating expenses.

Net interest income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Interest income:				
Interest on loans	349.7	284.4	65.2	22.9
Interest on investment securities	66.2	62.7	3.5	5.6
Interbank and overnight funds	3.4	2.0	1.4	69.4
Financial leases	—	—	—	—
Total interest income	419.3	349.1	70.2	20.1
Interest expense:				
Checking accounts	(0.8)	(0.3)	0.5	191.9
Time deposits	(62.7)	(41.6)	21.1	50.7
Savings deposits	(42.9)	(22.3)	20.6	92.6
Total interest expense from deposits	(106.5)	(64.2)	42.3	65.9
Borrowing from banks and others	(4.0)	(3.0)	1.0	32.7
Interbank and overnight funds (expenses)	(12.4)	(5.7)	6.7	118.1
Long-term debt (bonds)	—	—	—	—
Total interest expense	(122.8)	(72.9)	50.0	68.6
Net interest income	296.5	276.2	20.2	7.3

Banco AV Villas' net interest income increased by 7.3%, or Ps 20.2 billion, from Ps 276.2 billion for the six-month period ended June 30, 2011 to Ps 296.5 billion for the six-month period ended June 30, 2012. This increase was primarily driven by a Ps 70.2 billion increase in total interest income, Ps 65.2 billion of which was attributable to an increase in interest income from loans and which was partially offset by an increase in total interest expense of Ps 50.0 billion.

Interest earned on loans increased by 22.9%, or Ps 65.2 billion, to Ps 349.7 billion for the six-month period ended June 30, 2012 as compared to the six-month period ended June 30, 2011. The increase in interest earned on loans was due to a 17.9%, or Ps 783.7 billion, growth in Banco AV Villas' average interest bearing loan portfolio to Ps 5,158.2 billion, which resulted in an increase of Ps 53.1 billion in interest income on loans. Also contributing to the increase in interest earned on loans was an increase in the average yield for loans from 13.0% for the six-month period ended June 30, 2011 to 13.6% for the six-month period ended June 30, 2012 which contributed with an increase of Ps 12.1 billion in interest income on loans.

Interest income from investment securities increased by 5.6%, or Ps 3.5 billion, to Ps 66.2 billion for six-month period ended June 30, 2012 as compared to the six-month period ended June 30, 2011. The fixed income portfolio generated Ps 66.1 billion, or 99.8%, of Banco AV Villas' earnings on investment securities for the six-month period ended June 30, 2012. The earnings from the fixed income portfolio for the six-month period ended June 30, 2012 increased by 5.5%, or Ps 3.5 billion, primarily due to the increase in the average balance of the fixed income portfolio, partially offset by a decrease in the average yield driven by an increasing interest-rate environment in Colombia. The equity portfolio generated the remaining Ps 0.1 billion, or 0.2% of the interest income from investment securities.

The average yield earned on interest-earning assets increased from 11.4% for the six-month period ended June 30, 2011 to 11.7% for the six-month period ended June 30, 2012, mainly driven by the increase in the average yield on loans described above.

Total interest expense increased by 68.6%, or Ps 50.0 billion, to Ps 122.8 billion for the six-month period ended June 30, 2012 as compared to the six-month period result as of June 30, 2011. This increase was mainly driven by a Ps 21.1 billion increase in time deposits' interest expense and a Ps 20.6 billion increase in savings deposits' interest expense.

The increase in interest expense on time deposits was driven by an increase in the average interest rate paid which increased from 4.1% for the six-month period ended June 30, 2011 to 5.4% for the six-month period ended June 30, 2012 and an increase in the average balance of time deposits from Ps 2,014.8 billion to Ps 2,317.6 billion. The increase of 128 basis points in the cost of these funds, which resulted in an increase of Ps 12.9 billion in interest expense, was mainly a result of an increase of 164 basis points in the average DTF from 3.68% for the six-month period in June 30, 2011 to 5.32% for the six-month period ended June 2012. The increase in the average balance of time deposits contributed Ps 8.2 billion increase in interest expense.

The increase in interest expense on saving deposits of Ps 20.6 billion was driven by a 98 basis points increase in the average interest rate paid from 1.6% for the period ended June 30, 2011 to 2.6% for the period ended June 30, 2012, and resulted in a Ps 13.6 billion increase in interest expense. Also contributing to the increase in interest expense was a 19.5%, or Ps 541.2 billion, increase in the average balance of saving deposits to Ps 3,321.9 billion for the six-month period ended June 30, 2012, which resulted in a Ps 7.0 billion increase in interest expense. The increase in the interest rate paid was, as in the case of the time deposits, consistent with an increasing interest-rate environment.

The average rate paid on interest-bearing liabilities increased from 2.7% for the six-month period ended June 30, 2011 to 3.9% for the six-month period ended June 30, 2011.

While the average total interest-earning assets for the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011 increased by 16.4% or Ps 1,008.1 billion, the increase in net interest income between the same periods was 7.3% affected by the 117 basis points increase in the cost of funding. This resulted in a tightening of the net interest margin from 9.0% for the six-month period ended June 30, 2011 to 8.3% for the six-month period ended June 30, 2012. Showing a similar tendency, the interest spread between the average rate on loans and financial leases and the average rate paid on deposits decreased from 10.3% to 9.8%.

Provisions

Total net provisions increased by 38.6% or Ps 11.6 billion from Ps 29.9 billion for the six-month period ended June 30, 2011 to Ps 41.5 billion for the six-month period ended June 30, 2012. The increase was primarily driven by an increase in net provisions for loan and financial lease losses which increased by 15.5%, or Ps 6.9 billion, from Ps 44.8 billion for the six-month period ended June 30, 2011 to Ps 51.7 billion for the six-month period ended June 30, 2012. The increase in the net provision for loan and financial lease losses was primarily due to an increase in the average volume of loans and not due to a decrease in the credit quality of the Bank. Banco AV Villas' past due loans increased by 6.2% between June 30, 2011 and June 30, 2012, while total loans increased in the same period of time by 19.3% or Ps 898.9 billion. The Bank's delinquency ratio decreased from 4.3% as of June 30, 2011 to 3.8% as of June 30, 2012. This improvement was primarily a result of a reduction in past due commercial loans, which decreased by 6.3% to Ps 28.0 billion (with a drop in their delinquency ratio from 1.5% to 1.3%) and past due mortgage loans, which decreased by 11.2% to Ps 60.8 billion (with a drop in their delinquency ratio from 10.7% to 8.2%).

Charge-offs showed a slight increase from Ps 39.7 billion for the six-month period ended June 30, 2011 to Ps 41.4 billion for the six-month period ended June 30, 2012. Banco AV Villas' charge-offs to average loans and financial leases ratio decreased from an annualized 1.8% for the six-month period ended June 30, 2011 to 1.6% for the six-month period ended June 30, 2012. Since Banco AV Villas' net provisions for loan and financial lease losses decreased, in absolute terms, more than the amount increased by its charge-offs, the allowance for loan and financial lease losses decreased from Ps 260.7 billion as of June 30, 2011 to Ps 254.0 billion as of June 30, 2012. As of June 30, 2012 Banco AV Villas had sufficient coverage over its past due loans was 120.7%, which decreased from 131.5%.

Net provisions for accrued interest and other receivables decreased by Ps 1.1 billion to a net expense of Ps 3.4 billion for the six-month period ended June 30, 2012 from Ps 4.5 billion for the same period in 2011 due to a combination of lesser provision expense of Ps 1.0 billion and higher reversals of provisions of Ps 0.1 billion.

Net provisions for foreclosed assets and other assets increased by Ps 0.1 billion to a net expense of Ps 0.1 billion for the six-month period ended June 30, 2012 due to a combination of lesser provision expense of Ps 0.7 billion and lesser reversals of provisions of Ps 0.8 billion.

The recovery of charged-off assets decreased between the six-month period ended June 30, 2011 and the six-month period ended June 30, 2012 by Ps 5.6 billion to Ps 13.7 billion due to a decrease in the volume of charged-off loans subject to recovery.

Total fees and other services income, net

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Fees and other services income:				
Commissions from banking services	73.3	72.3	1.1	1.5
Branch network services	—	—	—	—
Credit card merchant fees	6.1	5.0	1.1	22.1
Checking fees	3.9	—	3.9	
Warehouse services	—	—	—	—
Fiduciary activities	—	—	—	—
Pension plan administration	—	—	—	—
Other	21.1	19.5	1.6	8.0
Total fees and other services income	104.4	96.7	7.7	7.9
Fees and other services expenses	(27.2)	(22.5)	4.7	21.0
Total fees and other services income, net	77.2	74.2	2.9	4.0

Total fees and other services income, net increased by 4.0%, or Ps 2.9 billion, to Ps 77.2 billion for the six-month period ended June 30, 2012. This was primarily due to a Ps 3.9 billion increase in checking fees, which were previously recorded in the "other" line item, and a Ps 1.6 billion increase in "other" fees which includes fees

received from social security payments. This was partially offset by a Ps 4.7 billion increase in fees and other services expenses.

Other operating income

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Foreign exchange gains (losses), net	(0.7)	(0.9)	0.1	14.8
Gains on derivative operations, net.....	1.1	1.0	0.1	8.1
Gains on sales of investments in equity securities, net	—	—	—	—
Income from non-financial sector, net	—	—	—	—
Dividend income.....	3.3	2.6	0.7	27.6
Other	—	—	—	—
Other operating income	3.6	2.7	0.9	33.8

Total other operating income increased by 33.8% or Ps 0.9 billion to Ps 3.6 billion for the six-month period ended June 30, 2012. This increase was mainly driven by an increase in dividend income.

Operating expenses

	Six-month period ended June 30,		Change, June 2012 vs. June 2011	
	2012	2011	#	%
	(in Ps billions)			
Salaries and employee benefits.....	(76.6)	(70.0)	6.6	9.5
Bonus plan payments	(0.9)	(1.7)	(0.8)	(45.5)
Termination payments	(0.3)	(1.3)	(1.0)	(78.5)
Administrative and other expenses	(132.9)	(115.8)	17.2	14.8
Deposit security, net	(9.2)	(8.0)	1.2	14.8
Charitable and other donation expenses	(0.5)	(3.5)	(3.0)	(85.0)
Depreciation	(10.0)	(9.8)	0.2	2.4
Goodwill amortization	—	—	—	—
Total operating expenses	(230.5)	(210.1)	20.4	9.7

Total operating expenses for the six-month period ended June 30, 2012 increased by 9.7% or Ps 20.4 billion to Ps 230.5 billion. Administrative and other expenses increased by Ps 17.2 billion to Ps 132.9 billion, principally driven by the organic growth of the business and managing Banco AV Villas' larger loan portfolio. Salaries and employee benefits increased by Ps 6.6 billion, or 9.5%, to Ps 76.6 billion, which was partially explained by the growth in the number of Banco AV Villas' employees from 6,510 on June 30, 2011 to 6,849 on June 30, 2012. On a per capita basis, salary and employee benefits increased by 4.0%. Charitable and other donation expenses decreased by Ps 3.0 billion, due to an extraordinary Ps 4.0 billion donation made by Banco AV Villas for the flood victims in Colombia during 2011. Banco AV Villas' efficiency ratio worsened at June 30, 2012 as compared to June 30, 2011, increasing from 56.7% to 58.5%, associated with the contraction in net interest margin explained in the net interest income subsection. The ratio of annualized operating expenses before depreciation and amortization as a percentage of average interest-earning assets decreased from 6.5% for the six-month period ended June 30, 2011 to 6.2% for the six-month period ended June 30, 2012.

Non-operating income (expense)

Total non-operating income (expense) increased by Ps 11.2 billion to Ps 9.6 billion for the six-month period ended June 30, 2012. This increase was driven by a Ps 9.0 billion increase in non-operating income and a decrease of Ps 2.2 billion in non-operating expenses. The increase in income during the six-month period ended June 30, 2012 was mainly due to a Ps 6.6 billion increase in recoveries from provisions from other assets and a Ps 1.2 billion gain on the sale of foreclosed assets.

Income tax expense

Income tax expense decreased by Ps 3.0 billion to Ps 32.9 billion for the six-month period ended June 30, 2012. This was primarily due a Ps 3.4 billion recovery from previous years' tax provisions. The effective tax rate decreased from 32.2% for the six-month period ended June 30, 2011 to 28.7% for the six-month period ended June 30, 2012.

Non-controlling interest

Banco AV Villas' non-controlling interest, responsible for only 0.3% of its net income before non-controlling interest for the six-month period ended June 30, 2012, decreased by Ps 0.1 billion from Ps 0.3 billion for six-month period ended June 30, 2011. Banco AV Villas' non-controlling interest reflects other Grupo Aval banks' ownership in A Toda Hora S.A.

Liquidity and capital resources

The following table sets forth our internal and external sources of funding at June 30, 2012 and December 31, 2011.

	At June 30, 2012	At December 31, 2011
(in Ps billions)		
Liabilities and shareholders' equity:		
Deposits	74,578.7	71,007.6
Bankers' acceptances outstanding	87.1	123.3
Interbank borrowings and overnight funds	7,324.8	3,225.1
Borrowings from banks and others	9,629.7	11,437.8
Accounts payable.....	2,912.7	3,093.9
Accrued interest payable.....	395.0	313.0
Other liabilities	1,636.4	1,793.5
Long-term debt (bonds)	7,534.2	6,566.2
Estimated liabilities	1,011.8	855.3
Non-controlling interest.....	5,276.4	4,927.0
Total liabilities	110,386.7	103,342.7
Total shareholders' equity	8,541.7	8,159.1
Total liabilities and shareholders' equity	118,928.4	111,501.9

Capitalization ratios

The following table presents consolidated capitalization ratios for our banking subsidiaries, Grupo Aval and our principal competitors at June 30, 2012 and December 31, 2011.

Colombian Banking GAAP	At June 30, 2012								
	Grupo Aval entities					Grupo Aval consolidated	Bancolombia	Davivienda (5)	BBVA Colombia (5)
	Banco de Bogotá	Banco de Occidente	Banco Popular	Banco AV Villas	Aggregate (1)				
(in percentages)									
Tangible equity ratio (2)	10.5	13.1	13.5	12.0	11.5	9.4	11.8	-	-
Tier 1 ratio (3).....	12.1	8.8	9.1	11.8	11.1	-	11.6	-	-
Solvency ratio (4)	13.3	11.1	11.6	13.4	12.7	-	14.9	-	-

At December 31, 2011

Colombian Banking GAAP	Grupo Aval entities					Grupo Aval consolidated	Bancolombia	Davivienda	BBVA Colombia
	Banco de Bogotá	Banco de Occidente	Banco Popular	Banco AV Villas	Aggregate (1)				
	(in percentages)								
Tangible equity ratio (2)	10.0	13.5	13.6	12.3	11.4	9.2	9.9	10.3	8.3
Tier 1 ratio (3).....	12.0	8.7	9.1	12.5	11.0	–	9.0	11.4	9.5
Solvency ratio (4)	13.3	10.1	11.7	14.2	12.6	–	12.5	14.4	12.3

Source: Company calculations based on each entity's respective financial statements for the period indicated. Consolidated capitalization ratios at June 30, 2012 for Davivienda and BBVA Colombia are not publicly available.

- (1) Reflects the summation of calculated amounts for each line item for each of our banking subsidiaries.
- (2) Tangible equity ratio is calculated as total shareholders' equity plus minority interest minus goodwill, divided by total assets minus goodwill. See "Item 3. Key Information—A. Selected financial data—Non-GAAP measures reconciliation" in our 2011 Annual Report on Form 20-F incorporated by reference herein and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP measures reconciliation."
- (3) Tier 1 ratio is calculated as primary capital divided by risk-weighted assets.
- (4) Solvency ratio is calculated as technical capital divided by risk-weighted assets. For a definition of technical capital, see "Item 4. Information on the Company—B. Business overview—Supervision and regulation—Capital adequacy requirements" in our 2011 Annual Report on Form 20-F incorporated by reference herein.

Tangible solvency ratio differs from solvency ratio. Tangible solvency ratio is calculated as technical capital minus goodwill, divided by risk-weighted assets minus goodwill. The tangible solvency ratios for the following entities at June 30, 2012 were: Banco de Bogotá 9.9%, Banco de Occidente 11.0%, Banco Popular 11.6%, Banco AV Villas 13.4%, Grupo Aval (aggregate) 10.5%, Bancolombia 14.2%. The tangible solvency ratios for the following entities at December 31, 2011 were: Banco de Bogotá 9.3%, Banco de Occidente 9.9%, Banco Popular 11.7%, Banco AV Villas 14.2%, Grupo Aval (aggregate) 10.0%, Bancolombia 11.7%, Davivienda 11.3% and BBVA Colombia 10.5%.

Each of our banking subsidiaries is required by the Superintendency of Finance to maintain a solvency ratio of at least 9.0% of its total risk-weighted assets. As Grupo Aval is not regulated as a financial institution or bank holding company, it is not required to comply with capital adequacy regulations applicable to our banking subsidiaries. The following tables set forth reported and as-adjusted capital adequacy information for each of our banking subsidiaries at June 30, 2012 and December 31, 2011. The reported figures are calculated using the methodology prescribed by the Superintendency of Finance, which requires that we subtract investments in non-consolidated entities from our regulatory capital. The as-adjusted amounts have been adjusted not to subtract non-controlling interest in financial institutions, which are consolidated in other Grupo Aval subsidiaries at December 31, 2011 (principally Banco de Occidente's investment in Corficolombiana and Porvenir, consolidated into Grupo Aval through Banco de Bogotá; and Banco Popular's stake in Corficolombiana, consolidated into Grupo Aval through Banco de Bogotá). Management uses these as-adjusted amounts when reviewing the capitalization of our banking subsidiaries in part because we believe that the inclusion of such investments presents a more comprehensive picture of our capitalization.

The following tables present consolidated capitalization ratios for our banking subsidiaries and for Grupo Aval on an aggregated basis at June 30, 2012 and December 31, 2011. Grupo Aval is not subject to capital requirements other than those that apply to its subsidiaries, and, as a result, we believe that our capitalization on an aggregate basis provides a more meaningful measure than our regulatory capital adequacy.

Banco de Bogotá (Consolidated)	At June 30, 2012				At December 31, 2011			
	Reported		As-adjusted(2)		Reported		As-adjusted(2)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Ps billions, except percentages)				(Ps billions, except percentages)			
Primary capital (Tier I)	7,781.0	12.1%	7,992.7	12.4%	7,175	12.0%	7,401	12.3%
Secondary capital (Tier II).....	750.2	1.2%	753.6	1.2%	823	1.4%	826	1.4%
Primary and secondary capital (Tier I and II).....	8,531.2	13.3%	8,746.2	13.6%	7,998	13.3%	8,227	13.7%
Risk-weighted assets including regulatory value at risk(1).....	64,098.9	–	64,316.5	–	59,961	–	60,189	–

Source: Company calculations based on each bank's respective consolidated financial statements for the period indicated.

- (1) Regulatory value at risk is calculated in accordance with the Superintendency of Finance guidelines, see “Item 4. Information on the Company—B. Business overview—Supervision and regulation—Capital adequacy requirements” in our 2011 Annual Report on Form 20-F incorporated by reference herein.
- (2) Adjusted to reflect non-consolidated interests of Corficolombiana in Banco de Occidente.

Banco de Occidente (Consolidated)	At June 30, 2012				At December 31, 2011			
	Reported		As-adjusted(2)		Reported		As-adjusted(2)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Ps billions, except percentages)				(Ps billions, except percentages)			
Primary capital (Tier I)	1,664.6	8.8%	2,131.4	11.0%	1,568	8.7%	2,003	10.9%
Secondary capital (Tier II)	451.5	2.4%	734.3	3.8%	239	1.3%	565	3.1%
Primary and secondary capital (Tier I and II)	2,116.1	11.1%	2,865.7	14.7%	1,808	10.1%	2,567	14.0%
Risk-weighted assets including regulatory value at risk(1)	18,986.3	–	19,461.1	–	17,947	–	18,390	–

Source: Company calculations based on each bank’s respective consolidated financial statements for the period indicated.

- (1) Regulatory value at risk is calculated in accordance with the Superintendency of Finance guidelines, see “Item 4. Information on the Company—B. Business overview—Supervision and regulation—Capital adequacy requirements” in our 2011 Annual Report on Form 20-F incorporated by reference herein.
- (2) Adjusted to reflect non-consolidated interests in Porvenir and Corficolombiana.

Banco Popular (Consolidated)	At June 30, 2012				At December 31, 2011			
	Reported		As-adjusted(2)		Reported		As-adjusted(2)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Ps billions, except percentages)				(Ps billions, except percentages)			
Primary capital (Tier I)	1,167.8	9.1%	1,262.5	9.8%	1,095	9.1%	1,181	9.7%
Secondary capital (Tier II)	318.2	2.5%	439.3	3.4%	311	2.6%	451	3.7%
Primary and secondary capital (Tier I and II)	1,486.0	11.6%	1,701.7	13.2%	1,405	11.7%	1,632	13.5%
Risk-weighted assets including regulatory value at risk(1)	12,777.7	–	12,872.4	–	12,047	–	12,134	–

Source: Company calculations based on each bank’s respective consolidated financial statements for the period indicated.

- (1) Regulatory value at risk is calculated in accordance with the Superintendency of Finance guidelines, see “Item 4. Information on the Company—B. Business overview—Supervision and regulation—Capital adequacy requirements” in our 2011 Annual Report on Form 20-F incorporated by reference herein.
- (2) Adjusted to reflect non-consolidated interests in Corficolombiana.

Banco AV Villas (Consolidated)	At June 30, 2012		At December 31, 2011	
	Reported		Reported	
	Amount	Ratio	Amount	Ratio
Primary capital (Tier I)	755.2	11.8%	700	12.5%
Secondary capital (Tier II)	103.7	1.6%	100	1.8%
Primary and secondary capital (Tier I and II)	858.9	13.4%	800	14.2%
Risk-weighted assets including regulatory value at risk(1)	6,392.5	–	5,617	–

Source: Company calculations based on each bank’s respective consolidated financial statements for the period indicated.

- (1) Regulatory value at risk is calculated in accordance with the Superintendency of Finance guidelines, see “Item 4. Information on the Company—B. Business overview—Supervision and regulation—Capital adequacy requirements” in our 2011 Annual Report on Form 20-F incorporated by reference herein.

Grupo Aval (Aggregated)(1)	At June 30, 2012		At December 31, 2011	
	Amount	Ratio	Amount	Ratio
Primary capital (Tier I)	11,368.5	11.1%	10,537.2	11.0%
Secondary capital (Tier II)	1,623.6	1.6%	1,473.4	1.5%
Primary and secondary capital (Tier I and II)	12,992.2	12.7%	12,010.5	12.6%
Risk-weighted assets including regulatory value at risk(2).....	102,255.4	–	95,572.5	–

Source: Company calculations based on each bank's respective consolidated financial statements for the period indicated.

- (1) Grupo Aval figures reflect aggregated regulatory capital of our banking subsidiaries.
- (2) Regulatory value at risk is calculated in accordance with the Superintendency of Finance guidelines, see “Item 4. Information on the Company—B. Business overview—Supervision and regulation—Capital adequacy requirements” in our 2011 Annual Report on Form 20-F incorporated by reference herein.

New capital adequacy rules

On August 24, 2012, the Colombian government enacted Decree 1771, which amended certain capital adequacy requirements for Colombian credit institutions set forth in Decree 2555 of 2010.

Decree 1771 maintains the requirement for a credit institution's technical capital to be at least 9.0% of that institution's total risk-weighted assets. For the current applicable definition of technical capital, see “Supervision and Regulation—Capital adequacy requirements” in our 2011 Annual Report on Form 20-F incorporated by reference herein.

From August 1, 2013, Technical capital will continue to consist of the sum of basic capital (*patrimonio básico*), or primary capital (Tier I), and secondary capital (*patrimonio adicional*), or secondary capital (Tier II); however, primary capital (Tier I) will also consist of the sum of ordinary basic capital (*patrimonio básico ordinario*), or Common Equity Tier I, and a new category of additional basic capital (*patrimonio básico adicional*), or Additional Tier I.

In addition, Decree 1771 introduces a new measure of “core solvency” for Common Equity Tier 1, which reflects higher quality capital and is set at a minimum of 4.5% of risk-weighted assets.

Colombian credit institutions, including Grupo Aval's banking subsidiaries must comply with the new capital adequacy requirements set forth in Decree 1771 by August 1, 2013, and they must provide an implementation plan to the Superintendency of Finance by January 31, 2013. Grupo Aval is currently studying which measures, if any, it may be required to take in response to the regulations; however, we do not currently anticipate a material adverse effect on Grupo Aval or its banking subsidiaries as a result of the new capital adequacy requirements.

For current capital adequacy requirements, see “Item 4. Information on the Company—B. Business overview—Supervision and regulation—Capital adequacy requirements” in our 2011 Annual Report on Form 20-F incorporated by reference herein.

As a result of the amendments introduced by Decree 1771, from August 1, 2013, Common Equity Tier I (*patrimonio básico ordinario*) will consist mainly of the following:

Ordinary Basic Capital

- Outstanding and paid-in capital stock classified as Ordinary Basic Capital by the SFC subject to the conditions set forth in the regulation;
- The value of paid-in stock dividends when the relevant class of stock has been classified as part of the Ordinary Basic Capital by the SFC;
- Capital surplus;
- Legal reserves;

- Irrevocable donations;
- Net positive result of the cumulative translation adjustment account;
- Capital stock paid in prior to its issuance by the entity, provided however, that the stock remains unissued for a maximum term of four (4) months. After such time frame, it will no longer be considered ordinary basic capital;
- Shares held as a guarantee by Fogafin when the entity is in compliance with a recovery program aimed at bringing the financial entity back into compliance with capital adequacy requirements;
- Subordinated bonds held by Fogafin when they comply with certain requirements stated in the regulations;
- Any other financial instrument issued by the entity and held by Fogafin, when the subscription is intended to strengthen the financial condition of the financial entity; and
- Non-controlling interests registered in the consolidated financial statements, subject to the conditions set forth in the regulations.

Items deducted from Common Equity Tier I (*patrimonio básico ordinario*) will consist of the following:

- Any prior or current period losses;
- Investments in shares, mandatory convertible bonds, subordinated bonds that may be convertible into shares or subordinated debt instruments issued by other Colombian or foreign financial institutions (excluding subsidiaries), including cumulative translation adjustments and excluding appraisals, subject to the conditions set forth in the regulation;
- Deferred income taxes, if positive;
- Intangible assets registered after August 23, 2012;
- Reacquired stock, subject to the conditions set forth in the regulations; and
- Unamortized amount of the actuarial calculation of the pension obligations of the entity.

Additional Tier I (*patrimonio básico adicional*) will consist mainly of the following:

- Outstanding and paid-in capital stock classified as Additional Basic Capital by the SFC subject to the conditions set forth in the regulation;
- The value of paid-in stock dividends when the relevant class of stock has been classified as part of the Additional Basic Capital by the SFC; and
- Non-controlling interests registered in the consolidated financial statements, subject to the conditions set forth in the regulation.

Secondary capital (Tier II) will consist of:

- Current period profits, in the amount that the shareholders irrevocably resolve to capitalize or assign to increase the legal reserves once the fiscal year is ended, subject to approval by the SFC;
- Voluntary reserves, up to an amount no greater than ten percent (10%) of the Technical Capital of the entity;
- Non-controlling interests registered in the consolidated financial statements, subject to the conditions set forth in the regulation;
- Fifty percent (50%) of the tax reserve, as defined by law;

- Fifty percent (50%) of the reappraisal or unrealized profits derived from investments in equity and debt instruments with high or medium trading volumes, subject to conditions set forth in the regulation;
- Thirty percent (30%) of the reappraisal or unrealized profits derived from investments in equity instruments with low or non-existing trading volumes, or not listed in trading platforms, subject to an appraisal by an independent expert, according to the regulations expected to be issued by the SFC, and to conditions set forth in the regulation;
- Mandatory convertible bonds effectively subscribed and paid, subject to the conditions set forth in the regulation;
- Subordinated payment obligations that the SFC classifies as part of the Additional Capital; and
- The value of the provisions made by the financial entity, in an amount no greater than 1.25% of the risk-weighted assets.

Funding

Our banks fund most of their assets with local deposits, consistent with other Colombian banks. Other sources of funding include interbank borrowings and overnight funds, and borrowings from development banks and long-term bond issuances.

The following table summarizes the funding structure of our banks at the dates indicated.

	At June 30, 2012	At December 31, 2011
	(in Ps billions)	
Deposits	74,578.7	71,007.6
Borrowings from banks and others	9,629.7	11,437.8
Bankers' acceptance outstanding	87.1	123.3
Interbank borrowings and overnight funds	7,324.8	3,225.1
Long-term debt (bonds)	7,534.2	6,566.2
Total funding	99,154.4	92,360.0

From December 31, 2011 to June 30, 2012, interbank borrowings and overnight funds increased as a percentage of total funding by 3.9 percentage points, while borrowings from banks and others and deposits decreased by 2.7 and 1.7 percentage points, respectively.

From December 31, 2011 to June 30, 2012, total funding increased by 7.4 percentage points mainly as a result of an increase in deposits and in borrowings from banks and others. From December 31, 2011 to June 30, 2012, total deposits decreased as a percentage of total funding by 1.7 percentage points, from 76.9% to 75.2%, mainly due to an increase in interbank borrowings and overnight funds which increased from 3.5% of total funding in December 2011 to 7.4% in June 2012.

Our banks' funding base also benefits from the highest available local credit ratings for each of our banking subsidiaries and each of Porvenir and Corficolombiana, as assigned by BRC Investor Services S.A. S.C.V., an affiliate of Moody's Investors Services, Inc. Banco Popular and Banco AV Villas have also achieved the highest available local credit ratings as assigned by Value and Risk Rating S.A. S.C.V. In addition, Banco de Bogotá's 5.00% Senior Notes due 2017 were rated Baa2 by Moody's, BBB- by Fitch and BBB- by Standard and Poor's at issuance, and Grupo Aval's 5.25% Senior Notes due 2017 were rated Baa3 by Moody's and BBB- by Fitch at issuance. Any adverse change in credit ratings may increase the cost of our funding. See "Item 3. Key Information—D. Risk factors—Risks relating to our businesses and industry—Risks relating to our banking business—Downgrades in our credit rating or in the credit ratings of our banking subsidiaries would increase the cost of, or impair access to, funding" in our 2011 Annual Report on Form 20-F for the fiscal year ended December 30, 2011, incorporated by reference herein. We believe that our working capital is sufficient to meet the company's present requirements and that the current level of funding of each of our banks is adequate to support its business.

The following table presents our consolidated funding from deposits at the dates indicated.

	At June 30, 2012	At December 31, 2011
(in Ps billions)		
Interest-bearing deposits:		
Checking accounts	8,643.0	7,167.8
Time deposits	26,082.5	22,630.5
Savings deposits.....	28,316.8	27,912.0
Total	63,042.3	57,710.2
Non-interest-bearing deposits:		
Checking accounts	10,737.1	12,250.0
Other deposits	799.3	1,047.4
Total	11,536.4	13,297.4
Total deposits	74,578.7	71,007.6

Checking accounts. Our consolidated balance of checking accounts was Ps 19,380.1 billion at June 30, 2012 and Ps 19,417.8 billion at December 31, 2011, representing 19.5% and 21.0% of total funding, respectively. The decrease in total funding share of deposits was primarily due to a lower growth rate of time deposits and an increase in total funding share of interbank borrowing and overnight funds.

Time deposits. Our consolidated balance of time deposits was Ps 26,082.5 billion at June 30, 2012 and Ps 22,630.5 billion at December 31, 2011, representing 26.3% and 24.5% of total funding, respectively.

The following table presents time deposits held at June 30, 2012 and December 31, 2011, by amount and maturity for deposits.

	At June 30, 2012		
	Peso-denominated	Foreign currency- denominated	Total
(in Ps billions)			
Up to 3 months	4,542.0	3,475.0	8,016.9
From 3 to 6 months.....	2,773.3	1,232.1	4,005.4
From 6 to 12 months.....	2,140.0	1,445.3	3,585.3
More than 12 months.....	6,448.3	805.2	7,253.5
Time deposits less than U.S.\$100,000 (1)	2,366.4	855.0	3,221.4
Total	18,270.0	7,812.5	26,082.5
	At December 30, 2011		
	Peso-denominated	Foreign currency- denominated	Total
(in Ps billions)			
Up to 3 months	3,607.4	3,247.2	6,854.5
From 3 to 6 months.....	1,878.0	1,084.2	2,962.2
From 6 to 12 months.....	4,114.2	1,453.1	5,567.3
More than 12 months.....	3,404.2	610.2	4,014.4
Time deposits less than U.S.\$100,000 (1)	2,317.7	914.4	3,232.1
Total	15,321.5	7,309.0	22,630.5

(1) Equivalent to Ps 194.3 million at the representative market rate at December 31, 2011 and Ps 178.5 million at the representative market rate at June 30, 2012.

Savings deposits. Our consolidated balance of savings deposits was Ps 28,316.8 billion at June 30, 2012 and Ps 27,912.0 billion at December 31, 2011, representing 28.6% and 30.2% of total funding, respectively.

Other deposits. Our consolidated balance of other deposits, which consist of deposits from correspondent banks, cashier checks and collection services, was Ps 799.3 billion at June 30, 2012 and Ps 1,047.4 billion at December 31, 2011, representing 0.8% and 1.1%, respectively.

Interbank borrowings and overnight funds. Our consolidated balance of interbank borrowings and overnight funds was Ps 7,324.8 billion at June 30, 2012 and Ps 3,225.1 billion at December 31, 2011, representing 7.4% and 3.5% of total funding, respectively.

The following table sets forth our short-term borrowings consisting of interbank borrowings for the periods indicated.

	At June 30,		At December 31,	
	2012		2011	
	Amount	Nominal rate	Amount	Nominal rate
(in Ps billions, except percentages)				
Short-term borrowings				
Interbank borrowings and overnight funds				
End of period	7,324.8	–	3,225.1	–
Average during period	4,357.8	4.6%	4,279.6	3.4%
Maximum amount of borrowing at any month-end	7,321.6	–	5,977.3	–
Interest paid during the period	100.0	–	146.9	–

As part of their interbank transactions, our banks maintain a portfolio of government securities and private sector liquid debt instruments used to obtain overnight funds from other financial institutions or investment funds by selling such securities and simultaneously agreeing to repurchase them. Due to the short-term nature of this source of funding, these transactions are volatile and are generally composed of Colombian government securities.

Borrowings from banks and others. Borrowings from banks are provided by correspondent banks and by governmental entities to promote lending to specific sectors of the Colombian economy. This funding, which mainly has fully matched maturities and interest rates with related loans, totaled Ps 9,629.7 billion at June 30, 2012 and Ps 11,437.8 billion at December 31, 2011, representing 9.7% and 12.4% of total funding, respectively.

Bankers' acceptances outstanding. Our consolidated bankers' acceptances outstanding balance was Ps 87.1 billion at June 30, 2012 and Ps 123.3 billion at December 31, 2011, representing 0.1% and 0.1% of total funding, respectively.

Bonds. We issue bonds in the Colombian markets. Our consolidated balance of bonds outstanding was Ps 7,534.2 billion at June 30, 2012 and Ps 6,566.2 billion at December 31, 2011, representing 7.6% and 7.1% of total funding, respectively. On December 19, 2011 Banco de Bogotá issued U.S.\$600 million of its 5.00% Senior Notes due 2017 in the international markets. On February 1, 2012, Grupo Aval Limited issued U.S.\$600 million (Ps 1,070.8 billion) of its 5.25% Senior Notes due 2017 in the international markets.

The following bond issuances were placed in the applicable local market in the six-month period ended June 30, 2012:

Issuer	Issuance date	Amount	Expiration date	Interest rate
(in Ps billions, unless otherwise indicated)				
Grupo Aval Limited	2012	1,070.8	February 2017	5.25%
Banco de Occidente S.A.	2012	200.0	February 2021	ICP+4.65%
Banco Popular S.A.	2012	400.0	July 2013 to January 2017	IBR+1.80%, DTF+1.82%, ICP+3.90%
Banco de América Central	2012	20.5	May 2017	4.25%
BAC Credomatic Guatemala	2012	97.0	January 2012 to June 2013	4.65% to 8.69%

Banco de Bogotá

For the six-month period ended June 30, 2012, the proportion of total interbank borrowings and overnight funds in Banco de Bogotá's total funding increased 4.2% due to a significant decrease in borrowings from banks and others. The decrease in borrowings from banks and others was due to the payment of part of Banco de Bogotá's debt associated with BAC Credomatic's acquisition.

In June 2012, deposits decreased by 0.6 percentage points to 77.1% of total funding, compared to 77.7% in December 2011.

The following table presents the composition of Banco de Bogotá's funding at the dates indicated.

	Six-month period ended June 30,		Year ended December 31,	
	2012		2011	
	(in Ps billions)	%	(in Ps billions)	%
Checking accounts	12,812.1	21.2	12,510.6	22.4
Time deposits	17,806.3	29.5	15,450.3	27.7
Savings deposits	15,468.1	25.6	14,805.4	26.5
Other deposits	422.3	0.7	600.2	1.1
Total deposits	46,508.8	77.1	43,366.5	77.7
Interbank and overnight funds	5,218.0	8.7	2,507.2	4.5
Borrowings from banks and other	6,469.2	10.7	7,680.8	13.8
Bankers' acceptance outstanding	74.1	0.1	85.3	0.2
Long-term debt (includes convertible bonds)	2,051.2	3.4	2,174.8	3.9
Total other funding	13,812.4	22.9	12,448.0	22.3
Total funding	60,321.3	100.0	55,814.5	100.0

Banco de Occidente

For the six-month period ended June 30, 2012, the proportion of total interbank borrowings and overnight funds in Banco de Occidente's total funding increased by 4.4% to 7.8%, while the proportion of borrowings from banks and others and of total deposits decreased by 2.0% and 1.7% respectively.

The following table presents the composition of Banco de Occidente's funding at the dates indicated.

	Six-month period ended June 30,		Year ended December 31,	
	2012		2011	
	(in Ps billions)	%	(in Ps billions)	%
Checking accounts	4,412.2	22.7	4,897.7	26.8
Time deposits	4,022.6	20.7	3,002.7	16.4
Savings deposits	5,733.4	29.5	5,729.0	31.3
Other deposits	294.1	1.5	291.1	1.6
Total deposits	14,462.3	74.4	13,920.5	76.1
Interbank and overnight funds	1,518.1	7.8	628.6	3.4
Borrowings from banks and other	1,421.0	7.3	1,701.8	9.3
Bankers' acceptance outstanding	12.7	0.1	36.3	0.2
Long-term debt (bonds)	2,012.1	10.4	1,995.6	10.9
Total other funding	4,963.8	25.6	4,362.3	23.9
Total funding	19,426.1	100.0	18,282.7	100.0

Banco Popular

For the year ended December 31, 2011, Banco Popular decreased its proportion of deposits to total funding by 0.7%. This decrease was primarily due to a decrease in savings deposits by 3.5%. This was partially offset by a 2.5% increase in time deposits.

For the six-month period ended June 30, 2012, Banco Popular decreased its proportion of deposits to total funding by 0.3%. This decrease was primarily due to a decrease in savings deposits by 1.3%. This was partially offset by a 1.0% increase in checking accounts.

The following table presents the composition of Banco Popular's funding at the dates indicated.

	Six-month period ended June 30,		Year ended December 31,	
	2012		2011	
	(in Ps billions)	%	(in Ps billions)	%
Checking accounts.....	1,672.6	14.3	1,493.3	13.3
Time deposits.....	2,040.8	17.4	1,916.5	17.0
Savings deposits	5,843.4	49.9	5,751.2	51.1
Other deposits	51.2	0.4	94.3	0.8
Total deposits	9,607.9	82.0	9,255.3	82.3
Interbank and overnight funds	14.7	0.1	–	0.0
Borrowings from banks and other	543.1	4.6	539.2	4.8
Bankers' acceptance outstanding.....	0.4	0.0	1.5	0.0
Long-term debt (bonds).....	1,551.4	13.2	1,451.5	12.9
Total other funding.....	2,109.5	18.0	1,992.1	17.7
Total funding.....	11,717.5	100.0	11,247.4	100.0

Banco AV Villas

Historically, Banco AV Villas has had a small proportion of checking accounts to total funding, as it only began providing checking services when it was converted into a commercial bank in 2002.

During the year ended December 31, 2011, the proportion of total deposits in Banco AV Villas' total funding increased 9.7% due to a decrease in interbank and overnight funds.

During the six-month period ended June 30, 2012, the proportion of total deposits in Banco AV Villas' total funding decreased 6.0% due to an increase in interbank and overnight funds.

The following table presents the composition of Banco AV Villas' funding at the dates indicated.

	Six-month period ended June 30,		Year ended December 31,	
	2012		2011	
	(in Ps billions)	%	(in Ps billions)	%
Checking accounts.....	502.6	7.2	535.2	8.4
Time deposits.....	2,256.4	32.4	2,279.5	35.6
Savings deposits	3,500.5	50.2	3,286.0	51.3
Other deposits	32.2	0.5	61.8	1.0
Total deposits	6,291.6	90.3	6,162.5	96.3
Interbank and overnight funds	579.7	8.3	108.5	1.7
Borrowings from banks and other	96.4	1.4	128.9	2.0
Bankers' acceptance outstanding.....	–	–	0.2	–
Total other funding.....	676.1	9.7	237.5	3.7
Total funding.....	6,967.7	100.0	6,400.0	100.0

Subsidiary dividends

Unless noted otherwise, the following tables present the net profits of, and dividends declared by, each of our banks and Porvenir, and the amount of dividends that we would be entitled to receive from each of them during the periods indicated. Dividends are paid to us on a monthly basis.

For the six-month period ended June 30, 2012						
Banco de Bogotá (1)	Banco de Occidente	Banco Popular (1)	Banco AV Villas	Porvenir	Total	
(in Ps billions, except percentages)						
Direct Ownership interest held						
by Grupo Aval	64.4%	68.2%	93.7%	79.9%	20.0%	
Unconsolidated net profits	618	224	181	81	107	1,211
Dividends declared	260	108	90	38	103	599
Dividends that Grupo Aval is entitled to receive.....	167	73	84	30	21	375

(1) Reflects proposed dividend distribution, subject to approval by shareholders of Banco de Bogotá and Banco Popular.

For the year ended December 31, 2011						
Banco de Bogotá	Banco de Occidente	Banco Popular	Banco AV Villas	Porvenir	Total	
(in Ps billions, except percentages)						
Direct Ownership interest held						
by Grupo Aval	64.4%	68.2%	93.7%	79.9%	20.0%	–
Unconsolidated net profits	1,100	441	367	165	153	2,227
Dividends declared	495	205	177	71	152	1,099
Dividends contributed to Grupo Aval	319	140	166	57	30	711

Capital expenditures

Grupo Aval incurred Ps 141.1 billion and Ps 164.4 billion of capital expenditures in property, plant and equipment in the six-month period ended June 30, 2012 and in the six-month period ended June 30, 2011, respectively.

Research and development, patents and licenses, etc.

Other than our technology program, we do not have any significant policies or projects relating to research and development, and we own no patents or licenses. See “Item 4. Information on the Company—B. Business overview—Other corporate information—Technology” in our 2011 Annual Report on Form 20-F incorporated by reference herein.

Off-balance sheet arrangements

In the ordinary course of business, our banks have entered into various types of off-balance sheet arrangements, including lines and letters of credit and financial guarantees. Our banks utilize these instruments to meet their customers’ financing needs. The contractual amount of these instruments represents the maximum possible credit risk should the counterparty draw down the entire commitment or our bank fulfill its entire obligation under the guarantees, and the counterparty subsequently fails to perform according to the terms of the contract. Our banks may hold cash or other liquid collateral to support these commitments, and our banks generally have legal recourse to recover amounts paid but not recovered from customers under these instruments. Most of these commitments and guarantees expire undrawn. As a result, the total contractual amount of these instruments does not represent our future credit exposure or funding requirements. In addition, some of these commitments, primarily those related to consumer financing, are cancelable by our banks upon notice.

The following table presents the maximum potential amount of future payments under these instruments at the dates presented for Grupo Aval on a consolidated basis.

Grupo Aval	At June 30,	At December 31,
	(in Ps billions)	
	2012	2011
Unused credit card limits	9,820.0	9,538.8
Civil demands against our banks	672.2	646.4
Issued and confirmed letters of credit	924.3	638.1
Unused lines of credit	2,959.8	2,807.0
Bank guarantees	2,215.5	1,906.6
Approved credits not disbursed	1,839.2	2,013.5
Other	1,240.7	2,190.5
Total	19,671.8	19,740.9

Contractual obligations

The following table presents our contractual obligations at June 30, 2012.

Grupo Aval	At June 30, 2012				
	Total	Payments due by period			After 5 years(1)
		Less than 1 year	1-3 years	3-5 years	
(in Ps billions)					
Liabilities:					
Long-term debt obligations (2)	7,534.2	725.2	2,352.3	2,294.8	2,162.0
Time deposits	26,082.5	18,152.9	5,988.9	918.5	1,022.1
Long-term borrowings from banks and others	9,629.7	2,406.4	3,687.9	1,348.2	2,187.1
Repurchase agreements	7,234.5	7,234.5	–	–	–
Employee benefit plans	309.9	33.1	68.7	72.2	135.9
Total	50,790.8	28,552.1	12,097.8	4,633.8	5,507.1

(1) Includes Ps 279.6 billion of debt that will mature in 2019 and Ps 124.5 billion that will mature in 2024.

(2) See note 10 to our unaudited consolidated financial statements at for the six-month period ended June 30, 2012.

Risk management

The guiding principles of risk management at Grupo Aval and our banks have been the following:

- collective decision making for commercial lending at the board level of each of our banks;
- extensive and in-depth market knowledge, the result of our market leadership and our experienced, stable and seasoned senior management;
- clear top-down directives with respect to:
 - compliance with know-your-customer policies; and
 - commercial loan credit structures based on the clear identification of sources of repayment and on the cash-flow generating capacity of the borrower;
- use of common credit analysis tools and loan pricing tools across all our banks;
- diversification of the commercial loan portfolio with respect to industries and economic groups;
- specialization in consumer product niches;
- extensive use of continuously updated rating and scoring models to ensure the growth of high-credit quality consumer lending;

- use of our extensive market presence in the identification and implementation of best practices for operational risk management; and
- conservative policies in terms of:
 - the trading portfolio composition, with a bias towards instruments with lower volatility;
 - proprietary trading; and
 - the variable remuneration of trading personnel.

Unless otherwise indicated, risk management figures for Banco de Bogotá consolidate financial data of BAC Credomatic. BAC Credomatic has in place its own risk management controls for credit risk, market risk and operational risk.

With respect to credit risk, BAC has a centralized structure with a Regional Risk Director reporting to the CEO of BAC, who chairs the Regional Credit Committee and is responsible for setting out credit policies and procedures applicable at the local (individual country) level and defining growth strategies in accordance with country risk. While local credit-risk managers report to the country head, compliance with the credit policies is reported directly to the Regional Risk Director.

With respect to market risk, there are Regional Investment Policies and Regional Asset and Liability Management Policies which set out the guidelines for establishing country risk and issuer limits as well as limits on foreign currency positions and general guidelines for the administration of liquidity, interest rate and exchange-rate risks. The establishment and administration of the regional policies is the responsibility of the Regional Asset and Liability Committee, which is comprised of BAC Credomatic board members.

Daily compliance to these policies in all countries is carried out with the investment portfolio control management module, which documents the entire investment process. The monitoring of exposures is the responsibility of the Regional Financial Director through the local assets and liabilities committees.

Operating Risk Management at BAC Credomatic is carried out using the conceptual methodology of Basel II guidelines and the elements of COSO integral risk management. A centralized operating risk management unit ensures that there are in place policies to ensure a standardized treatment of operating risks including methodologies for the timely recognition of the principal exposures, the ownership of operational risks by functional units, accountability throughout the organization and effective procedures to collect information on operational losses. The centralized operating risk committee is also responsible for putting in place an effective business continuity plan.

Credit risk

The credit-risk management process at all our banks takes into consideration the requirements of the Superintendency of Finance, the guidelines of Grupo Aval credit-risk management and the composition of each of the banks' loan portfolio, which, in turn, is the result of the execution of each bank's strategy.

Commercial lending

57.5% of our total loan portfolio is composed of commercial loans to corporate and small- and medium-sized enterprises. However, the level of commercial loans varies in each of our banks. At June 30, 2012, the proportion of commercial loans was 63.7%, 57.2%, 43.8% and 39.6% at Banco de Bogotá, Banco de Occidente, Banco Popular and Banco AV Villas, respectively.

The credit approval process for commercial loans at each of our banks follows the policies and lending authorities established by each bank. The highest lending authority at all banks, other than the board of directors, is the national credit committee (*Comité Nacional de Crédito* at Banco de Bogotá, Banco Popular and Banco AV Villas or *Comité de Crédito Dirección General* at Banco de Occidente), which has lending limits that range between Ps 0.7 billion (U.S.\$0.4 million) at Banco Popular and Ps 6.0 billion (U.S.\$3.3 million) at Banco de Bogotá.

Following the approval of a transaction by the credit committee of any of our banks, information regarding the loan is sent to the Grupo Aval risk management committee if the loan would result in aggregate exposure to the

borrower in excess of Ps 5.0 billion. For commercial loans, the credit approval process includes the presentation to the Grupo Aval risk management committee of all potential credit exposures per client that, across all of our banks, represent an exposure in excess of Ps 20.0 billion (approximately U.S.\$10 million). This committee, which is composed of the vice presidents of credit of each of our banks and the risk management staff of Grupo Aval, meets on a weekly basis to discuss general developments in the industry and economy, risks and opportunities, and the structure of credit transactions, as well as to consult on and evaluate potential business opportunities. The committee consolidates requests for loans across all banks and evaluates our total exposure to potential borrowers. In each case, the committee evaluates the relevant bank's application of its credit analysis policy and it may make recommendations with respect to the structure of the loan (such as guarantees, interest rates, commissions and covenants). The risk management committee will then submit the transaction to the Grupo Aval advisory board.

The Grupo Aval advisory board, which is composed of the presidents of our banks and the vice presidents of Grupo Aval, meets on a bimonthly basis to discuss the adoption of policies for risk management and how to accommodate clients with large credit needs, as well as to advise the banks with respect to defaults or other credit risk issues. The advisory board also evaluates transactions submitted to it by the Grupo Aval risk management committee for compliance with applicable policies and makes recommendations to the banks with respect to such loans. The boards of the banks make the ultimate decisions with respect to such loans.

In order to facilitate the analysis of commercial loans which meet the threshold and are thus reviewed by Grupo Aval, we have developed certain tools, including a standardized "*proyecto de crédito*," a stand-alone document containing all of the information considered necessary for us to make a credit decision. We have also developed financial projection models and pricing models that assist us in analyzing potential loans and comparing the estimated return on a loan with that of a comparable risk-free instrument.

We seek to achieve a profitable, high-quality commercial loan portfolio and an efficient procedure for analyzing potential loans across our banks. To that end, we have established policies and procedures for the analysis and approval of potential commercial credit transactions that seek to focus lending on the following principles:

- borrowers whose shareholders and management are, in our opinion, of the highest integrity (taking into account not only an analysis of the borrower's credit profile but also their reputation in the business community and other factors);
- borrowers which participate in key industries;
- borrowers which are leaders or major players in the industries in which they participate;
- transaction structures, including covenants and guarantees, which provide adequate protection; and
- pricing which compensates adequately for capital invested and the market and credit risks incurred.

In addition, we make loans to public sector entities. For purposes of evaluating the extension of credit to public sector entities, our banks follow three criteria: (1) the loan must be used to finance an investment that has been approved by local authorities; (2) a source of repayment must be clearly identified, such as tax revenues; and (3) the source of repayment so identified must be pledged to secure the loan.

Consumer lending

Consumer lending represented 28.6% of the total loan portfolio at June 30, 2012; however, the participation and specialization by product varies in each of our banks. At June 30, 2012, Banco Popular consumer lending represented 52.6% of the total loan portfolio and was concentrated on payroll deduction loans (*libranzas*), a product in which it is the leader in Colombia. At Banco AV Villas and Banco de Bogotá, consumer lending represented 46.7% and 23.2% of their total loan portfolio, respectively. At Banco de Occidente, 19.4% of the total loan portfolio consisted of consumer loans, with motor vehicle financing representing 7.4% of the total loan portfolio.

The credit approval process for consumer loans at each of our banks follows the policies and lending authorities established by each bank. The highest lending authority at all banks, other than the board of directors, is the national credit committee (*Comité Nacional de Crédito* at Banco de Bogotá, Banco Popular and Banco AV Villas or *Comité de Crédito Dirección General* at Banco de Occidente), which have lending limits that range between Ps 0.7 billion (U.S.\$0.4 million) at Banco Popular and Ps 6.0 billion (U.S.\$3.3 million) at Banco de Bogotá.

For consumer banking, each bank has developed a business model designed to take into consideration the product offering. Banco Popular, for which payroll deduction loans represent 51.6%, has developed a business model which concentrates its analysis on the credit and operational risks of the payee (the employer) supported with statistical origination and behavior models. Banco AV Villas is the bank with the most diversified consumer loan portfolio. After being exclusively a mortgage lending institution until 2000, it has developed different niches in consumer lending. The fast growth of consumer lending with above average credit quality has been the result of the development of in-house statistical origination and behavior models and the development of a multiple view vintage analysis tool, which has allowed the sale of consumer loan products to the lower income population, which is a more profitable customer segment in which relatively few banks compete. Banco de Bogotá has successfully integrated Megabanco's operations into its full-service consumer loan portfolio of credit cards, personal loans, automobile loans and overdrafts. Banco de Occidente has become a leader in motor vehicle financing by maintaining an independent motor vehicle financing unit which has developed its own statistical models and its own origination and collection strategies.

Mortgage lending

Mortgage lending represented 5.5% of the total loan portfolio at June 30, 2012, with Banco AV Villas being the only one of our banks with a significant participation. At Banco AV Villas mortgage lending represents 13.3% of its loan portfolio, a percentage that has decreased consistently since 2005 when it was 44.5%. Although the year-end balance of mortgage loans at Banco AV Villas has decreased consistently over the last five years, there have been new disbursements for approximately Ps 935.4 billion during this same period. In order to ensure an adequate mortgage loan portfolio quality, Banco AV Villas has developed statistical models for the origination and follow-up on new mortgage loans, which has resulted in a very low past due to total loan ratios for recently originated loans.

Financial leases

Financial leases represented 8.0% of the total loan portfolio at June 30, 2012 and corresponded to the financial leasing transactions processed through Banco de Bogotá's, Banco de Occidente's and Banco Popular's respective leasing divisions and Leasing Corficolombiana, a subsidiary of Corficolombiana which consolidates with Banco de Bogotá. All leasing subsidiaries have independent credit approval processes and their own credit policies, which in turn are closely supervised by their parent companies.

Microcredit lending

Microcredit loans represented 0.4% of the total loan portfolio at June 30, 2012.

Credit classification and provisioning

For a discussion on our credit classification and provisioning, see "Item 11. Quantitative and Qualitative Disclosures About Risk—Risk management—Credit classification and provisioning" in our 2011 Annual Report on Form 20-F incorporated by reference herein.

Loan loss provisions

For a discussion on our loan loss provisions, see "Item 11. Quantitative and Qualitative Disclosures About Risk—Risk management—Loan loss provisions" in our 2011 Annual Report on Form 20-F incorporated by reference herein.

Liquidity risk

As a holding company, Grupo Aval's liquidity requirements are limited to dividends, debt-service payments and operational expenses. Our liquidity is derived entirely from dividends from subsidiaries, which management believes is sufficient for these purposes. Grupo Aval is not required to maintain minimum liquidity positions. Subject to the capital requirements of each of our banks, there are no limitations on our banks' ability to pay dividends to Grupo Aval.

Banks controlled by Grupo Aval are required to, and do, maintain adequate liquidity positions based on the Superintendency of Finance's liquidity parameters, as follows:

- Until 2009, banks were required to determine liquidity gap, which is the difference between the expected cash inflows from assets and the expected cash flow disbursements from liabilities, classified by time bracket, including in the calculation of both on- and off-balance sheet assets and liabilities as well as contingent assets and liabilities. Cumulative liquidity gap is defined as the sum of liquidity gap for the current and previous periods.
- Banks were generally required to have a positive three-month cumulative liquidity gap and, if this measure was negative, its absolute value was accounted for as “Liquidity Value at Risk.” No bank was allowed to have two consecutive evaluations of Liquidity Value at Risk which exceeded its “Net liquid assets” defined as net interbank loans, tradable debt securities that mature in more than three months, and available cash.
- In 2009, a short-term liquidity index (Indicador de Riesgo de Liquidez), or “IRL,” that measures 7-, 15- and 30-day liquidity was established. This index is defined as the difference between adjusted liquid assets and net liquidity requirements. Liquid assets include total debt securities adjusted by market liquidity (excluding investments classified as “held to maturity” but including mandatory investments), Central Bank deposits and available cash. Net liquidity requirements are the difference between expected contractual asset and contractual and non-contractual liability cash flows. Cash flows from past due loans are not included in this calculation.
- In 2011, the Superintendency of Finance implemented changes to liquidity reporting requiring the calculation of a new IRL ratio, or “IRL Ratio,” defined as adjusted liquid assets divided by the net liquidity requirements (in each case, as defined above), expressed as a percentage. The IRL Ratio may not fall below 100% for two consecutive weeks.
- The Superintendency of Finance additionally adjusted the components of the IRL and IRL Ratio. The adjusted liquid assets now have to be classified as “high quality” or “other,” and high quality assets must represent at least 70% of the adjusted liquid assets. In addition, non-contractual outflows (demand and savings deposits outflows) have to be calculated using the median of the fifth percentile of the series of the largest outflows since December 31, 1996.

Our banks have adequate liquidity, as shown in the following table. The three-month cumulative liquidity gap values for our banks for year-end 2011 reflect unconsolidated figures for each of our banks. The values for the six-month period ended June 30, 2012 and June 30, 2011 and year-end 2011 are calculations based on the same methodology and are presented for comparability purposes.

Six-month cumulative liquidity position	Six-month period ended June 30,		Year ended
	2012	2011	December 31, 2011
	(in Ps billions)		
Banco de Bogotá			
Total assets and contingencies	11,025	8,345	11,941
Total liabilities, equity and contingencies	10,973	9,519	9,960
Liquidity gap	51	(1,173)	1,981
Net liquid assets (NLA)	1,988	1,768	1,662
Liquidity gap plus NLA	2,040	595	3,643
Banco de Occidente			
Total assets and contingencies	6,165	5,108	5,692
Total liabilities, equity and contingencies	4,524	3,542	3,917
Liquidity gap	1,641	1,566	1,775
Net liquid assets (NLA)	1,855	1,589	1,430
Liquidity gap plus NLA	3,496	3,155	3,205
Banco Popular			
Total assets and contingencies	2,518	2,648	2,361
Total liabilities, equity and contingencies	1,656	1,684	855
Liquidity gap	861	964	1,506
Net liquid assets (NLA)	1,007	982	1,163
Liquidity gap plus NLA	1,869	1,946	2,669

Six-month cumulative liquidity position	Six-month period ended June 30,		Year ended
	2012	2011	December 31,
	2011		
(in Ps billions)			
Banco AV Villas			
Total assets and contingencies	1,182	1,211	1,354
Total liabilities, equity and contingencies	1,972	1,460	1,561
Liquidity gap	(789)	(249)	(207)
Net liquid assets (NLA)	1,041	1,080	809
Liquidity gap plus NLA	251	831	602

The following tables show the short-term liquidity index and the IRL Ratio at June 30, 2012 and 2011 and December 31, 2011 for each of our banks.

	Banco de Bogotá		Banco de Occidente		Banco Popular		Banco AV Villas	
	At June 30, 2012	At December 31, 2011	At June 30, 2012	At December 31, 2011	At June 30, 2012	At December 31, 2011	At June 30, 2012	At December 31, 2011
(in Ps billions)								
IRL – 7 days	5,843	6,345	1,814	2,709	2,297	2,740	1,506	2,026
IRL – 15 days	5,348	6,013	1,495	2,363	2,127	2,407	1,393	1,759
IRL – 30 days	4,882	5,395	969	1,677	1,910	1,781	1,337	1,639

	Banco de Bogotá		Banco de Occidente		Banco Popular		Banco AV Villas	
	At June 30, 2012	At December 31, 2011	At June 30, 2012	At December 31, 2011	At June 30, 2012	At December 31, 2011	At June 30, 2012	At December 31, 2011
(in Percentages)								
IRL Ratio – 7 days	898%	2230%	407%	682%	4571%	3525%	915%	2583%
IRL Ratio – 15 days	536%	1054%	264%	391%	1061%	684%	567%	606%
IRL Ratio – 30 days	388%	532%	167%	213%	536%	271%	478%	450%

Operational risk management

The policies with respect to operational risk at Grupo Aval and our banks are directed at complying with the norms established by the Superintendency of Finance (which, in turn, follow the Basel II Accord of 2004), and the U.S. Sarbanes-Oxley Act of 2002. These norms require that Colombian banks establish a system for the administration of operational risks, or “SARO,” which includes the identification, measurement, control and monitoring functions as well as a business continuity plan.

In order to comply with these norms, each of our banks established within its organizational structure an operational risk unit independent of the operational and control areas of each bank. The responsibilities of these units are the establishment and definition of policies and methodologies and the procedures for communicating within each organization all information related to operational risk. In addition to the staff of each operational risk unit, the banks have established the role of operational risk advisors, which are employees in key areas who, in addition to their functional responsibilities, are required to report events or situations which may result in operational losses. Additionally, each bank has an operational risk management committee composed of selected members of the board of directors, the internal auditor, external auditor and selected vice presidents, which meets on a quarterly basis to review operational risks policies and follow up on the execution of action plans.

At Grupo Aval, an operational risk management committee, composed of the heads of the operational risk units of each bank and staff of Grupo Aval risk management, was established. The principal activities of this committee, which meets on a semi-monthly basis, are as follows:

- advisory in the engagement of external consultants for the identification of gaps with international standards and the development of work plans to close the gaps;
- coordinated analysis of norms and the impact in each of Grupo Aval's banks;
- identification and application of best practices;
- identification and implementation of operational risk management tools;
- unification of criteria in the search of business continuity tools;
- economies of scale in the engagement of consultants and the acquisition of tools; and
- coordination in the preparation of requests for proposals and the evaluation of proposals.

We implement, from time to time, best practices that result from meetings of the Grupo Aval operational risk management committee.

Market risk management

For a discussion on our market risk management, see “Item 11. Quantitative and Qualitative Disclosures About Risk—Risk management—Market Risk Management” in our 2011 Annual Report on Form 20-F incorporated by reference herein.

The following tables show the VaR calculation relating to each of the risk factors described above and based on the Superintendency of Finance Methodology (Regulatory VaR) for the six-month period ended June 30, 2012 and for the year ended December 31, 2011, for a ten-day horizon for each of our banks. The averages, minimums and maximums are determined based on end of the month calculations.

Banco de Bogotá

	Six-month period ended June 30,				At
	2012				December 31,
	Period end	Average	Maximum	Minimum	2011
	(in Ps millions)				Period end
Interest rate risk VaR	509,325	485,819	511,590	467,232	441,638
Foreign exchange rate risk VaR	19,831	22,419	31,052	16,465	23,339
Variations in stock price risk VaR	362	7,492	17,865	287	15,911
Fund risk VaR	97,353	90,204	97,353	82,180	85,161
Total market risk VaR	626,871	605,934	626,871	592,900	566,049

Banco de Occidente

	Six-month period ended June 30,				At
	2012				December 31,
	Period end	Average	Maximum	Minimum	2011
	(in Ps millions)				Period end
Interest rate risk VaR	67,057	64,328	71,727	60,436	63,893
Foreign exchange rate risk VaR	569	802	1,560	548	596
Variations in stock price risk VaR	11	12	12	11	12
Fund risk VaR	0	0	0	0	–
Total market risk VaR	67,637	65,142	72,672	61,107	64,502

Banco Popular

	Six-month period ended June 30,				At
	2012				December 31,
	Period end	Average	Maximum	Minimum	2011
					Period end
					(in Ps millions)
Interest rate risk VaR	89,700	91,658	100,903	83,492	99,298
Foreign exchange rate risk VaR	1,034	1,061	1,196	814	1,128
Variations in stock price risk VaR.....	6	11	14	6	12
Fund risk VaR.....	751	726	755	681	697
Total market risk VaR	91,491	93,457	102,867	84,994	101,134

Banco AV Villas

	Six-month period ended June 30,				At
	2012				December 31,
	Period end	Average	Maximum	Minimum	2011
					Period end
					(in Ps millions)
Interest rate risk VaR	82,350	72,664	82,433	61,938	54,775
Foreign exchange rate risk VaR	80	98	107	80	119
Variations in stock price risk VaR.....	0	0	0	0	–
Fund risk VaR.....	3	2	3	2	2
Total market risk VaR	82,433	72,764	82,542	62,020	54,896

Banco Popular's regulatory VaR is greater than Banco de Occidente's despite having portfolios of similar values, which is explained by Banco Popular's average duration being greater than four years while Banco de Occidente's is less than two years.

The regulatory VaR of Banco AV Villas (almost exclusively interest rate risk) increased 50.2% between December 31, 2011 and June 30, 2012. Increases in the size and the duration of the local currency government debt securities (primarily TES) are the reason for the growth of the regulatory VaR.

Internal models for VaR calculation

In addition to Regulatory VaR, our banks use internal models to measure VaR in order to determine and control their main risks under normal operating conditions. In particular, all of our banks use internal models to oversee the interest rate risk of their investment portfolio. Banco de Bogotá, Banco de Occidente and Banco Popular use internal models to measure VaR of their entire investment portfolio on a daily basis, while Banco AV Villas uses an internal model to measure VaR only for its government debt securities position.

We use methodologies such as Parametric VaR and historical simulation. The Parametric VaR, which is based on Riskmetrics Group, Inc.'s methodology, involves the identification of specific risks, such as interest and exchange rate risks that could affect the value of assets included in the trading book. The volatility of each factor, measured as a standard deviation, and the correlation with other factors are determined by using an exponentially weighted moving average, or "EWMA," model. Once this is determined, the expected cash flow of each security included in the portfolio is determined. These cash flows are classified into categories for each risk identified and multiplied by the corresponding volatility to calculate the VaR per factor. The VaR for the various factors is then aggregated using a correlation matrix to identify the overall standard deviation of the bank's treasury book. The VaR of the bank's treasury book is determined based on the standard deviation subject to a confidence level of 99% and a one-day horizon.

The historical simulation calculates daily VaR based on the historical behavior of the one-day variations of prices in the market. This methodology does not assume any statistical distribution function for the earnings and loss of a portfolio. This simulation assumes that the market is stable during a period of time and infers the market's future behavior based on historical data.

Back testing is required by the Superintendency of Finance to establish the validity of the internal models used for VaR calculations. The Superintendency of Finance requires two sets of tests: so called “dirty tests,” which compare the value at risk estimated for the day against the result effectively obtained (profit and loss) of the same day using the previous day’s portfolio; and “clean tests,” which compare the value at risk estimated for the day against an estimated result (profit and loss) based on the previous day’s portfolio. These tests are performed on a daily basis, although the requirement for the “clean” test is on a monthly basis. The methodology and results of these tests are available for review by the Superintendency of Finance.

The following table shows the interest rate VaR calculation based on internal models for June 2012 and year-end 2011 on a ten-day horizon (using an adjustment factor applied to VaR on a one day horizon). The values presented for Banco AV Villas were calculated on Banco de Bogotá’s model. Values for all other banks are based on their internal models. The averages, minimums and maximums are determined based on daily calculations except for BAC Credomatic, which are determined based on end-of-the-quarter calculations.

Interest rate risk VaR (per internal model)

	Banco de Bogotá	Banco de Occidente	Banco Popular (1)	Banco AV Villas
	(in Ps millions)			
2012				
As of June 30	118,026	25,086	10,782	7,797
Average	97,103	26,937	10,719	–
Maximum	170,057	34,766	15,253	–
Minimum	69,235	22,638	7,954	–
2011				
As of December 31	94,009	27,202	13,637	8,862

- (1) Banco Popular’s internal VaR data reflects Banco Popular’s unconsolidated results. The regulatory VaR, however corresponds to consolidated figures. Banco Popular (unconsolidated) accounts for over 98% of the consolidated regulatory VaR at June 30, 2012. Banco Popular’s VaR results are lower than Banco de Occidente’s as a significant portion of Banco de Occidente’s portfolio is held in foreign currencies through its subsidiaries in Panama and the Bahamas, resulting in increased volatility. In comparison, an immaterial amount of Banco Popular’s portfolio is denominated in foreign currencies.

Considerations on equity price risk regulatory VaR

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

Holding periods for the majority of Corficolombiana’s equity investments exceed ten years. Its largest investments have remained in the portfolio for several years and are intended to remain as permanent investments. At December 31, 2011, the investments subject to regulatory VaR was holdings on Proenergía Internacional, and at June 30, 2012, the investments subject to regulatory VaR was holdings on Proyectos de Energía y Desarrollo S.A.S.

The following table breaks down our investments subject to regulatory VaR by time since initial investment at June 30, 2012 and December 31, 2011.

	At June 30, 2012			At December 31, 2011		
	Investment subject to Regulatory VaR	Regulatory VaR	Percentage of portfolio	Investment subject to Regulatory VaR	Regulatory VaR	Percentage of portfolio
Less than 18 months	500	74	100.0%	–	–	–
18 - 36 months	–	–	–	–	–	–
More than 36 months	–	–	–	106,499	15,655	100.0%
Total	500	74	100.0%	106,499	15,655	100.0%

Non-trading instruments

Non-trading instruments consist primarily of loans and deposits. Our banks' primary market risk exposure in their non-trading instruments is interest rate risk, which arises from the possibility of changes in market interest rates. Such changes in market interest rates affect our banks' net interest income due to timing differences on the repricing of their assets and liabilities. Our banks are also affected by gaps in maturity dates and interest rates in the different asset and liability accounts. As part of their management of interest rate risk, our banks analyze the interest rate mismatches between their interest-earning assets and their interest-bearing liabilities.

Superintendency of Finance rules require our banks to measure foreign exchange rate risk VaR not only for treasury book positions but also for all assets and liabilities denominated in foreign currencies. Our non-trading instruments are exposed to foreign exchange rate risk primarily from loans and deposits denominated in dollars. This foreign exchange rate risk is monitored under the VaR methodology described above.

Sensitivity of fair value is determined using either one of two methodologies: (1) determining the difference between the fair value and the net present value of the expected cash flows using a discount rate of 50 basis points and 100 basis points higher than that used for the original calculation; or (2) determining the sensitivity of the remaining cash flows (modified duration), multiplied by the fair value, multiplied by the increase in discount rate for each scenario (50 basis points and 100 basis points). Methodology 1 is in some cases more precise while methodology 2 is a good approximation for moderate variations in the discount rate.

Sensitivity of certain instruments is assumed to be zero because its fair value is equal to its book value as instruments with maturities of 90 days or less, or loans and borrowings from development banks.

Our sensitivity analysis methodology should be interpreted in light of the following limitations: (1) we have assumed a uniform interest rate change for assets and liabilities of varying maturities; and (2) we have assumed that the modified duration of variable rate assets and liabilities is the time remaining until the next interest reset date.

An increase in interest rates negatively affects the value of our banks' assets and positively affects the value of our banks' liabilities, as an increase in interest rates decreases the fair value of both assets and liabilities.

The following table presents our sensitivity analysis based on hypothetical changes of 50 and 100 basis point shifts in interest rates on the net present value of interest rate sensitive assets and liabilities for the periods indicated.

Grupo Aval (aggregated) (1)	June 30, 2012			December 31, 2011		
	Fair value	+50 basis points	+100 basis points	Fair value	+50 basis points	+100 basis points
(in Ps millions)						
Assets						
Held-to-maturity securities	3,508,103	(11,387)	(22,737)	2,965,733	(12,674)	(25,298)
Loans	75,212,371	(480,319)	(1,033,005)	72,638,770	(567,306)	(1,086,986)
Short-term funds	2,243,504	–	–	2,944,277	–	–
Customer's acceptances	86,934	–	–	116,625	–	–
Total interest rate sensitive assets.....	81,050,911	(491,706)	(1,055,742)	78,665,404	(579,980)	(1,112,284)
Liabilities						
Checking accounts, saving deposits and other.....	50,744,803	–	–	50,055,718	–	–
Time deposits.....	26,260,682	(99,253)	(202,591)	22,731,759	(67,833)	(140,008)
Bank acceptances outstanding	87,172	–	–	123,075	–	–
Short-term funds	7,330,393	–	–	3,244,247	–	–
Borrowings from banks	9,781,643	(45,616)	(89,929)	11,563,521	(53,775)	(105,705)
Long-term debt	7,875,893	(78,007)	(154,178)	6,799,462	(70,279)	(138,891)
Total interest rate sensitive liabilities.....	102,080,585	(222,876)	(446,698)	94,517,782	(191,887)	(384,605)
Total net change.....	(21,029,674)	(268,830)	(609,044)	(15,852,377)	(388,093)	(727,679)

(1) Grupo Aval aggregated reflects the sum of the fair values of each of our banking subsidiaries and of Grupo Aval.

Non-GAAP measures reconciliation

The tables in this section and elsewhere in this offering memorandum provide a reconciliation of non-GAAP measures to GAAP measures for the six-month periods presented in this offering memorandum. For reconciliation of non-GAAP measures to GAAP measures for annual periods, please see “Item 3. Key Information—Selected financial data—Non-GAAP measures reconciliation” in our 2011 Annual Report on Form 20-F incorporated by reference herein.

ROAA and ROAE

We believe ROAA, which is calculated as net income before non-controlling interest divided by average assets, provides a more meaningful measure of return on assets than a calculation based on net income over average assets because, although non-controlling interests affect the amount of reported net income, they do not affect the profitability of assets. We believe ROAE, which is calculated as net income divided by average shareholders’ equity, provides a meaningful measure of the return generated for our shareholders.

The following table illustrates ROAA and ROAE for our bank subsidiaries, Grupo Aval (consolidated) and our principal competitors, for the six-month period ended June 30, 2012 using the beginning and end-period data.

	<u>Six-month period ended</u> <u>June 30, 2012</u>
	(in Ps billions, except where otherwise indicated)
Banco de Bogotá:	
Average assets(1).....	71,278
Average equity(2).....	7,059
Net income.....	665
Net income divided by average assets	1.9%
Non-controlling interest.....	229
ROAA(1).....	2.5%
ROAE(2).....	18.8%
Non-controlling interest divided by income before non-controlling interest.....	25.7%
Banco de Occidente:	
Average assets(1).....	22,816
Average equity(2).....	3,054
Net income.....	225
Net income divided by average assets	2.0%
Non-controlling interest.....	1
ROAA(1).....	2.0%
ROAE(2).....	14.7%
Non-controlling interest divided by income before non-controlling interest.....	0.4%
Banco Popular:	
Average assets(1).....	14,529
Average equity(2).....	1,918
Net income.....	180
Net income divided by average assets	2.5%
Non-controlling interest.....	3
ROAA(1).....	2.5%
ROAE(2).....	18.8%
Non-controlling interest divided by income before non-controlling interest.....	1.4%

Six-month period ended
June 30, 2012

(in Ps billions, except where
otherwise indicated)

Banco AV Villas:

Average assets(1).....	7,927
Average equity(2).....	961
Net income.....	82
Net income divided by average assets	2.1%
Non-controlling interest.....	0
ROAA(1).....	2.1%
ROAE(2).....	17.0%
Non-controlling interest divided by income before non-controlling interest.....	0.3%

Grupo Aval (consolidated):

Average assets(1).....	115,215
Average equity(2).....	8,350
Net income.....	721
Net income divided by average assets	1.3%
Non-controlling interest.....	460
ROAA(1).....	2.1%
ROAE(2).....	17.3%
Non-controlling interest divided by income before non-controlling interest.....	38.9%

Bancolombia:

Average assets(1).....	86,339
Average equity(2).....	9,855
Net income.....	800
Net income divided by average assets	1.9%
Non-controlling interest.....	4
ROAA(1).....	1.9%
ROAE(2).....	16.2%
Non-controlling interest divided by income before non-controlling interest.....	0.5%

Source: Company calculations based on each bank's consolidated financial statements for the period indicated.

- (1) For methodology used to calculate ROAA, see note 2 to the table under "Summary—Our company—Financial and operating data."
- (2) For methodology used to present ROAE, see note 3 to the table under "Summary—Our company—Financial and operating data."
- (4) Non-controlling interest information is not available for Davivienda for the six-month period ending at June 30, 2012.

The following tables illustrate ROAA and ROAE using period-end data for the preceding December 31 and each month in the relevant six-month periods for assets and equity, as applicable, for Grupo Aval and its banking subsidiaries.

	Six-month period ended June 30,	
	2012	2011
	(in Ps billions, except where otherwise indicated)	
Grupo Aval (consolidated):		
Average assets(1).....	113,802.0	99,521.4
Average equity(2).....	8,309.5	4,799.2
Net income.....	721.5	622.3
Net income divided by average assets	0.6%	0.6%
Non-controlling interest.....	459.9	626.7
ROAA(1).....	2.1%	2.5%
ROAE(2).....	17.4%	25.9%
Non-controlling interest divided by income before non-controlling interest	38.9%	50.2%

(1) For methodology used to calculate ROAA, see note 2 to the table under “Summary—Our company—Financial and operating data.”

(2) For methodology used to present ROAE, see note 3 to the table under “Summary—Our company—Financial and operating data.”

	At June, 30, 2012			
	Banco de Bogotá	Banco de Occidente	Banco Popular	Banco AV Villas
	(in Ps billions)			
Average assets (1).....	69,911.6	22,480.1	14,802.6	8,011.7
Average equity (2).....	7,009.0	3,072.3	1,965.2	955.3
Net income.....	664.8	225.0	180.0	81.6
Net income divided by average assets	1.9%	2.0%	2.4%	2.0%
Non-controlling interest.....	229.5	0.9	2.6	0.3
ROAA(1).....	2.6%	2.0%	2.5%	2.0%
ROAE(2).....	19.0%	14.6%	18.3%	17.1%
Non-controlling interest divided by income before non-controlling interest	25.7%	0.4%	1.4%	0.3%

(1) For methodology used to calculate ROAA, see note 2 to the table under “Summary—Our company—Financial and operating data.”

(2) For methodology used to present ROAE, see note 3 to the table under “Summary—Our company—Financial and operating data.”

Efficiency ratio

The following table illustrates the efficiency ratio of our banking subsidiaries, Grupo Aval and our principal competitors at the dates indicated.

	At June 30, 2012(1)					
	Banco de Bogotá	Banco de Occidente	Banco Popular	Banco AV Villas	Grupo Aval consolidated	Bancolombia
	(in Ps billions)					
Total operating expenses	1,503	451	318	231	2,533	2,011
Depreciation	58	63	12	10	143	147
Goodwill amortizations	38	1	–	–	47	23
Operating expenses before depreciation and amortization	1,408	387	307	220	2,342	1,841
Total operating income	2,771	773	560	336	4,273	3,042
Provisions, net	207	109	53	41	411	508
Operating income before provisions.....	2,978	882	613	377	4,683	3,550
Efficiency ratio(2)	47.3%	43.9%	50.0%	58.5%	50.0%	51.8%

- (1) Financial information is not publicly available as of the date of this offering memorandum for our principal competitors, other than Bancolombia, for the six-month period ended June 30, 2012.
- (2) Efficiency ratio is calculated as operating expenses before depreciation and amortization divided by operating income before net provisions.

Tangible equity ratio

The following tables illustrate the tangible equity ratio of our subsidiaries, the aggregate of our subsidiaries, Grupo Aval and our principal competitors at the dates indicated.

	At June 30, 2012(1)						
	Banco de Bogotá	Banco de Occidente	Banco Popular	Banco AV Villas	Grupo Aval aggregate	Grupo Aval consolidated	Bancolombia
	(in Ps billions)						
Shareholders' equity	7,272	3,092	1,947	987	13,298	8,542	10,717
Non-controlling interest	2,648	8	54	4	2,714	5,276	82
Total assets	73,747	23,451	14,806	8,236	120,240	118,928	87,215
Shareholders' equity + Non controlling interest / Assets	13.5%	13.2%	13.5%	12.0%	13.3%	11.6%	12.4%
Goodwill.....	2,458	25	–	–	2,484	2,899	602
Shareholders' equity + Non-controlling interest – Goodwill	7,462	3,075	2,001	991	13,529	10,919	10,197
Total assets – Goodwill.....	71,289	23,426	14,806	8,236	117,756	116,029	86,613
Tangible equity ratio(2)....	10.5%	13.1%	13.5%	12.0%	11.5%	9.4%	11.8%

- (1) Financial information is not publicly available as of the date of this offering memorandum for our principal competitors, other than Bancolombia, for the six-month period ended June 30, 2012.
- (2) Tangible equity ratio is calculated as shareholders' equity plus non-controlling interest minus goodwill, divided by total assets minus goodwill.

DESCRIPTION OF THE NOTES

Grupo Aval Limited (the “Issuer”) will issue the notes described in this offering memorandum under an indenture (the “Indenture”) to be executed among the Issuer, Grupo Aval, as guarantor, and Deutsche Bank Trust Company Americas, as trustee, registrar, paying agent and transfer agent (the “Trustee”), and Deutsche Bank Luxembourg S.A., as Luxembourg paying agent and transfer agent. A copy of the Indenture will be available for inspection during normal business hours at the corporate trust office of the Trustee in New York City and any other paying agents. You should refer to the Indenture for a complete description of the terms and conditions of the notes and the Indenture, including the obligations of the Issuer and Grupo Aval and your rights.

The following is a summary of the material terms and provisions of the notes, the guarantees and the Indenture. The following summary does not purport to be a complete description of the notes, the guarantees and the Indenture and is subject to the detailed provisions of, and qualified in its entirety by reference to, the Indenture. Definitions of certain terms used in this description are set forth under “—Definitions.” As used in this “Description of the Notes” section, the “Issuer” means Grupo Aval Limited, and “Grupo Aval” means Grupo Aval Acciones y Valores S.A. (parent company only), and not any of their respective subsidiaries.

The notes are not treated under the banking laws and regulations of the Cayman Islands and Colombia as bank deposits, and the holders are not required to open accounts with the Issuer or Grupo Aval. Holders will not have recourse to deposit insurance or any other protections afforded to depositors in financial institutions under the laws of Cayman Islands, Colombia or any other jurisdiction.

General

The notes:

- will be direct, senior and unsecured obligations of the Issuer;
- will be unconditionally guaranteed on a senior unsecured basis by Grupo Aval;
- will initially be limited to an aggregate principal amount of U.S.\$1,000,000,000;
- will mature on September 26, 2022;
- will not be subject to redemption prior to maturity, except as described under “—Optional redemption”;
- will be issued in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof; and
- will be represented by registered notes in global form and may be exchanged for notes in certificated form only in limited circumstances.

Interest on the notes:

- will accrue on their outstanding principal amount at the rate of 4.75% per year;
- will accrue from the date of issuance or from the most recent interest payment date;
- will be payable in cash semi-annually in arrears on March 26 and September 26 of each year, commencing on March 26, 2013;
- will be payable to the holders of record on the March 11 and September 11 immediately preceding the related interest payment dates (whether or not such record date is a business day); and
- will be computed on the basis of a 360-day year comprised of twelve 30-day months.

The Issuer may from time to time, without notice or consent of the holders of the notes, create and issue an unlimited principal amount of additional notes having the same terms and conditions (except for issue date, issue price and, if applicable, the first interest payment date) as, and forming a single series with, the notes initially issued

in this offering; *provided* that if the additional notes are not fungible with the notes for U.S. federal income tax purposes, the additional notes will have separate CUSIP and ISIN numbers. The notes and the Indenture will not contain a covenant limiting the amount of additional indebtedness that we or our subsidiaries may incur.

Ranking of the notes

The notes will constitute direct, senior and unsecured obligations of the Issuer. The obligations of the Issuer under the notes will rank at all times equal in right of payment to all the future unsecured and unsubordinated obligations of the Issuer (other than obligations preferred by statute or operation of law).

Guarantees

Grupo Aval will irrevocably and unconditionally guarantee, on a senior and unsecured basis, the Issuer's payment obligations under the notes and the Indenture. The obligations of Grupo Aval under the guarantees will rank at all times:

- equal in right of payment to other existing and future senior unsecured and unsubordinated indebtedness of Grupo Aval (other than certain obligations granted preferential treatment under Colombian laws, such as tax claims);
- effectively subordinated to any future secured indebtedness of Grupo Aval to the extent of such security; and
- structurally subordinated to all indebtedness and other liabilities (including trade payables) of subsidiaries of Grupo Aval. Structural subordination refers to the claims of Grupo Aval (as a shareholder of its subsidiaries) to the assets of those subsidiaries being subordinate to the claims of the creditors of those subsidiaries. Accordingly, in the event of the insolvency of one or more of its subsidiaries, Grupo Aval would not have access to the assets of these subsidiaries to pay claims on Grupo Aval (such as the Guarantee) until such time as all of the claims of the subsidiaries' creditors had been satisfied.

At June 30, 2012, the Issuer had direct, senior and *pari passu* indebtedness to the notes offered hereby of U.S.\$600 million, and Grupo Aval had total unconsolidated indebtedness of U.S.\$ 1,122.8 million. Grupo Aval does not have any secured unconsolidated indebtedness however Grupo Aval guarantees U.S.\$600 million of the issuer's existing indebtedness. See "Risk Factors—Risks relating to the offering, the guarantees and the notes—Grupo Aval's ability to make payment in respect of the notes and the guarantees will depend on the dividend distributions that it receives from its subsidiaries and affiliates, and holders of the notes will be effectively subordinated to the claims of creditors of Grupo Aval's subsidiaries and affiliates."

Optional redemption

The notes will not be redeemable prior to maturity, except as described below.

Make-whole redemption

The notes will be redeemable, at the option of the Issuer or Grupo Aval, in whole or, subject to the next sentence, in part, at any time at a redemption price equal to the greater of (1) 100% of the outstanding principal amount of the notes to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal of and premium, if any, and interest on the notes to be redeemed discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Rate plus 50 basis points, in each case plus accrued and unpaid interest to the redemption date and any Additional Amounts (as defined below). Notwithstanding the preceding sentence, any redemption in part may not result in less than U.S.\$250.0 million aggregate principal amount of notes being outstanding after such redemption.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the notes that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes.

“Comparable Treasury Price” means, with respect to the redemption date, (1) the average of the Reference Treasury Dealer Quotations for the redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Independent Investment Banker obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such quotations.

“Independent Investment Banker” means one of the Reference Treasury Dealers reasonably designated by the Issuer.

“Reference Treasury Dealer” means Goldman, Sachs & Co. and J.P. Morgan Securities LLC or their respective affiliates which are primary United States government securities dealers in New York City (each, a “Primary Treasury Dealer”) and not less than three other leading Primary Treasury Dealers in New York City reasonably designated by the Issuer; *provided* that, if any of the former cease to be a Primary Treasury Dealer, the Issuer will substitute therefor another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and a redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at or about 3:30 p.m. (New York City time), on the third business day preceding such redemption date.

“Treasury Rate” means, with respect to a redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the redemption date.

Tax redemption

The notes will be redeemable, at the option of the Issuer or Grupo Aval, in whole but not in part, at 100% of the outstanding principal amount of the notes, plus accrued and unpaid interest to the redemption date and any Additional Amounts (as defined under “—Additional Amounts”) payable with respect thereto, only if:

- (1) the Issuer or Grupo Aval would be obligated to pay any Additional Amounts as a result of any change in, or amendment to, the laws or regulations of any Taxing Jurisdiction (as defined under “—Additional Amounts”), or any change in, or a pronouncement by competent authorities of any Taxing Jurisdiction with respect to, the official application or official interpretation of such laws or regulations, which change, amendment or pronouncement occurs after the date of the Indenture (or, in the case of any Taxes (as defined under “—Additional Amounts”) imposed by the jurisdiction of a paying agent, after the date of appointment of such paying agent) or, in the case that the Issuer or Grupo Aval, as applicable, merges with or into, or conveys, transfers or leases all or substantially all of its assets to, another Person and any Taxes are imposed or levied by or on behalf of the Taxing Jurisdiction (other than the original Taxing Jurisdiction of the Issuer or Grupo Aval, as applicable) in which such successor entity is incorporated, after the date of such merger, conveyance, transfer or lease; and
- (2) the Issuer or Grupo Aval, in its reasonable judgment, determines that such obligation cannot be avoided by the Issuer or Grupo Aval taking reasonable measures available to it; provided that, for this purpose, reasonable measures will not include any change in the Issuer’s or Grupo Aval’s jurisdiction of organization or locations of principal executive office, or the incurrence of material out-of-pocket expenses by the Issuer or Grupo Aval. (For the avoidance of doubt, reasonable measures will include a change in the jurisdiction of a paying agent; provided, however, that such change will not require the Issuer or Grupo Aval to incur material additional costs or legal or regulatory burdens.)

No notice of redemption will be given earlier than 60 days prior to the earliest date on which the Issuer or Grupo Aval would be obligated to pay such Additional Amounts if a payment in respect of the notes were then due.

Prior to the publication or mailing of any notice of redemption of the notes, the Issuer or Grupo Aval must deliver to the Trustee an Officers’ Certificate confirming that it is entitled to exercise such right of redemption. The

Issuer or Grupo Aval will also deliver an opinion of legal counsel of recognized standing stating that it would be obligated to pay such Additional Amounts due to the changes in tax laws or regulations or changes in, or pronouncements with respect to, the official application or official interpretation of such laws or regulations. The Trustee will accept this certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set forth in clauses (1) and (2) above, in which event it will be conclusive and binding on the holders.

Redemption procedures

The Issuer or Grupo Aval will mail, or cause to be mailed, a notice of redemption to each holder (which, in the case of global notes, will be DTC) by first-class mail, postage prepaid, at least 30 days and not more than 60 days prior to the redemption date, to the address of each holder as it appears on the register maintained by the registrar. A notice of redemption will be irrevocable.

In addition, so long as the notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF market and the rules of the exchange so require, a notice of redemption will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxembourger Wort*) or on the website of the Luxembourg Stock Exchange (*www.bourse.lu*).

Unless the Issuer or Grupo Aval defaults in the payment of the redemption price, interest will cease to accrue on the notes on and after the redemption date.

Open market purchases

The Issuer, Grupo Aval or their affiliates may at any time purchase notes in the open market or otherwise at any price. Any such purchased notes may not be reissued or resold except in accordance with applicable securities and other laws.

Payments

The Issuer and Grupo Aval will make all payments on the notes and the guarantees exclusively in U.S. dollars or such other currency of the United States as at the time of payment will be legal tender for the payment of public and private debts.

The Issuer will make payments of principal of and premium, if any, and interest on the notes to the paying agents. The Trustee will initially act as a paying agent with respect to the notes. So long as the notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF market, the Issuer will also maintain a paying agent in Luxembourg.

The Issuer will pay interest on the outstanding principal amount of the notes to the Persons in whose name the notes are registered on the relevant record date (which, in the case of global notes, will be DTC) and will pay principal of and premium, if any, on the notes to the Persons in whose name the notes are registered at the close of business on the fifteenth day before the due date for payment (which, in the case of global notes, will be DTC). Payments of principal, premium, if any, and interest in respect of each note will be made by the paying agents by wire transfer to a U.S. dollar account maintained by the payee with a bank in New York City. The Issuer will make payments of principal and premium, if any, upon surrender of the relevant notes at the specified office of the Trustee or any of the paying agents.

Under the terms of the Indenture, payment by the Issuer of any amount payable under the notes to the paying agents in accordance with the Indenture will satisfy the obligation of the Issuer to make such payment; *provided* that the liability of any paying agent will not exceed any amounts paid to it by the Issuer, or held by it, on behalf of the holders under the Indenture. The Issuer has agreed in the Indenture to indemnify the holders in the event that there is subsequent failure by the Trustee or any paying agent to pay in full any amount due in respect of the notes in accordance with the Indenture as will result in the receipt by the holders of such amounts as would have been received by them had no such failure occurred.

All payments will be subject in all cases to any applicable tax or other laws and regulations, but without prejudice to the provisions of “—Additional Amounts.” No fees or expenses will be charged to the holders in respect of such payments.

Subject to applicable law, the Trustee and the other paying agents, if any, will pay to the Issuer or Grupo Aval upon request any monies held by them for the payment of principal, premium, if any, or interest that remains unclaimed for two years, and, thereafter, holders entitled to such monies must look to the Issuer or Grupo Aval for payment as general creditors. After the return of such monies by the Trustee or the other paying agents to the Issuer or Grupo Aval, neither the Trustee nor the other paying agents, if any, will be liable to the holders in respect of such monies.

Form, denomination and title

The notes will be issued in fully registered form without coupons attached in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

Notes sold in reliance on Regulation S will be represented by a permanent global note in fully registered form without coupons deposited with a custodian for and registered in the name of a nominee of DTC. Notes sold in reliance on Rule 144A will be represented by a permanent global note in fully registered form without coupons deposited with a custodian for and registered in the name of a nominee of DTC. Beneficial interests in the global notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream. Except in certain limited circumstances, definitive registered notes will not be issued in exchange for beneficial interests in the global notes. See “—Form of the notes—Global notes.”

Title to the notes will pass by registration in the register. The holder of any note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, writing on, or theft or loss of, the definitive note issued in respect of it) and no Person will be liable for so treating the holder.

Transfer of notes

Notes may be transferred in whole or in part in an authorized denomination upon the surrender of the note to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the registrar or any transfer agent. Transfer of beneficial interests in the global notes will be effected only through records maintained by DTC and its participants. See “—Form of the notes.” Notes will be subject to certain restrictions on transfer as more fully set out in the Indenture and as described under “Transfer Restrictions.”

The Trustee will initially act as the registrar and as a transfer agent with respect to the notes. So long as the notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF market and the rules of such exchange so require, the Issuer will also maintain a transfer agent in Luxembourg.

Transfers will be effected without charge by or on behalf of the Issuer, the registrar or the transfer agents, but upon payment, or the giving of such indemnity and/or security as the registrar or the relevant transfer agent may require, in respect of any tax or other governmental charges which may be imposed in relation to it.

No holder may require the transfer or exchange of any note selected for redemption. No holder may require the transfer of a note to be registered during the period of 15 days ending on the due date for any payment of principal or premium, if any, or interest on that note.

Additional Amounts

All payments by the Issuer or Grupo Aval in respect of the notes or the guarantees will be made free and clear of and without any withholding or deduction for or on account of any present or future Taxes (as defined below), unless the withholding or deduction of such Taxes is required by law or the official interpretation thereof, or by the administration thereof. If the Issuer or Grupo Aval is required by any law of any Taxing Jurisdiction (as defined below) to withhold or deduct any Taxes from or in respect of any sum payable under the notes or the guarantees, the Issuer or Grupo Aval, as the case may be, will (a) pay such additional amounts (“Additional Amounts”) as may be necessary in order that the net amounts receivable by holders of any notes after such withholding or deduction equals the respective amounts which would have been receivable by such holders in the absence of such withholding or deduction, (b) make such withholding or deduction, and (c) pay the full amount withheld or deducted to the relevant tax or other authority in accordance with applicable law, except that no such Additional Amounts will be payable in respect of any note:

- (i) to the extent that such Taxes are imposed or levied by reason of such holder (or the beneficial owner) having some connection with the Taxing Jurisdiction other than the mere holding (or beneficial ownership) of such note or receiving principal or interest payments on the note (including but not limited to citizenship, nationality, residence, domicile, or existence of a business, permanent establishment, a dependent agent, a place of business or a place of management present or deemed present in the Taxing Jurisdiction);
- (ii) to the extent that any Tax is imposed other than by deduction or withholding from payments of principal or of premium, if any, or interest on the notes;
- (iii) in the event that the holder (or beneficial owner) fails to comply with any certification, identification or other reporting requirement concerning nationality, residence, identity or connection with the Taxing Jurisdiction if (1) compliance is required by applicable law, regulation, administrative practice or treaty as a precondition to exemption from all or part of the Taxes, and (2) the Issuer or Grupo Aval, as the case may be, has given the holders (or beneficial owners) at least 30 days prior notice that they will be required to comply with such requirement;
- (iv) in the event that the holder fails to surrender (where surrender is required) the note for payment within 30 days after the Issuer or Grupo Aval, as the case may be, has made available a payment of principal or interest, *provided* that the Issuer or Grupo Aval, as the case may be, will pay Additional Amounts to which a holder would have been entitled had the note been surrendered on the last day of such 30-day period;
- (v) to the extent that such Taxes are imposed by reason of an estate, inheritance, gift, personal property, value added, use or sales tax or any similar taxes, assessments or other governmental charges;
- (vi) where such withholding or deduction of Taxes is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive on the taxation of savings implementing the conclusions of the European Council of Economic and Finance Ministers (ECOFIN) meeting of 26 and 27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (vii) by or on behalf of a holder who would have been able to avoid such withholding or deduction of Taxes by presenting the relevant note to another paying agent in a member state of the European Union; or
- (viii) any combination of items (i) through (vii) above.

In addition, no Additional Amounts will be paid to a holder that is a fiduciary or a partnership or not the sole beneficial owner of such payment to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such partnership or such beneficial owner would not have been entitled to receive the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder.

“Taxes” means all taxes, withholdings, duties, assessments or governmental charges of whatever nature (including any penalties, interest and other liabilities relating thereto) imposed or levied by or on behalf of the Cayman Islands, Colombia or the jurisdiction of incorporation or organization of the Issuer, Grupo Aval or any successor to either thereof, or the jurisdictions of any paying agents or, in each case, any political subdivision thereof or any authority or agency therein or thereof having power to tax (each, a “Taxing Jurisdiction”).

The Issuer or Grupo Aval, as the case may be, will provide the Trustee with the official acknowledgment of the relevant taxing authority (or, if such acknowledgment is not available, other reasonable documentation) evidencing any payment of any Taxes in respect of which the Issuer or Grupo Aval, as the case may be, has paid any Additional Amounts. Copies of such documentation will be made available to the holders of the notes or the paying agents, as applicable, upon request therefor.

The Issuer or Grupo Aval, as the case may be, will also pay any present or future stamp, issue, registration, court or documentary taxes or any excise or property taxes, charges or similar levies (including any penalties,

interest and other liabilities relating thereto) which arise in any jurisdiction from the execution, delivery, registration or the making of payments in respect of the notes and the related guarantees, excluding any such taxes, charges or similar levies imposed by any jurisdiction that is not a Taxing Jurisdiction other than those resulting from, or required to be paid in connection with, the enforcement of the notes and the related guarantees following the occurrence of any Default or Event of Default.

All references in this offering memorandum to principal of and premium, if any, and interest on the notes will include any Additional Amounts payable by the Issuer or Grupo Aval, as the case may be, in respect of such principal, premium, if any, and interest.

Covenants

The Indenture contains the following covenants:

Limitation on disposition of Share Capital of Significant Subsidiaries

Grupo Aval and its Subsidiaries will not sell, issue or cause to be issued, or otherwise transfer or dispose of Share Capital, or securities convertible into or, options warrants, or rights to acquire Share Capital, of any Significant Subsidiary or of any Subsidiary that owns Share Capital, or securities convertible into or, options warrants, or rights to acquire Share Capital, of any Significant Subsidiary, with any of the following exceptions:

- (1) any issuance, sale or other transfer or disposition for fair market value (as determined in good faith by the board of directors of Grupo Aval) of the Share Capital of any subsidiary, provided that Grupo Aval does not, as a result of such transaction and after the conversion of any shares or securities convertible into Share Capital, cease to own directly or indirectly at least 50.1% of the total voting power of shares of Share Capital of each of Banco de Bogotá and Banco de Occidente;
- (2) sales or other transfers or dispositions made in compliance with an order of a court or regulatory authority of competent jurisdiction;
- (3) any issuance or sale by a Significant Subsidiary of additional shares of its Share Capital, securities convertible into shares of its Share Capital, or options, warrants, or rights to subscribe for or purchase shares of its Share Capital, to its shareholders at any price, so long as immediately after the sale, Grupo Aval owns, directly or indirectly, at least as great a percentage of voting power of shares of Share Capital of the Significant Subsidiary as Grupo Aval owned before the sale of additional securities; and
- (4) any issuance or sale of shares of Share Capital, or securities convertible into or options, warrants, or rights to subscribe for or purchase shares of Share Capital, of a Significant Subsidiary or any Subsidiary which owns shares of Share Capital, or securities convertible into or options, warrants, or rights to acquire Share Capital, of any Significant Subsidiary, to Grupo Aval or a Wholly-Owned Subsidiary.

For the avoidance of doubt, the grant of a security interest in, or other incurrence of a Lien on, Share Capital will not be considered a sale, transfer or other disposition of Share Capital; however, any transfer of Share Capital of a Significant Subsidiary pursuant to or in connection with the enforcement of such security interest or Lien on such Share Capital, including to the Person secured by such security interest or Lien, will constitute a transfer of such Share Capital.

Mergers, consolidations and transfers of assets

Grupo Aval will not consolidate with or merge into, or sell, lease, convey or transfer, in one transaction or a series of transactions, all or substantially all of Grupo Aval's properties and assets to any Person, unless:

- (1) the surviving entity, if other than Grupo Aval, is organized and existing under the laws of an Eligible Jurisdiction and assumes under a supplemental indenture all of the Obligations under the notes, the guarantees and the Indenture;

- (2) immediately prior to such transaction and immediately after giving effect to such transaction, no Default or Event of Default will have occurred and be continuing; and
- (3) Grupo Aval or the surviving entity will have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, in form and substance satisfactory to the Trustee, stating that such consolidation, merger, sale, assignment, conveyance, transfer, lease or other disposition, and if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with the requirements of the Indenture and that all conditions precedent in the Indenture relating to such transaction have been satisfied and that the Indenture and the notes constitute legal, valid and binding obligations of the continuing person, enforceable in accordance with their terms.

The Trustee will be entitled to rely exclusively on, and will accept, such Officers' Certificate and Opinion of Counsel as sufficient evidence of the satisfaction of the conditions precedent set forth in this covenant, in which event it will be conclusive and binding on the holders.

Maintenance of office or agent for service of process

The Issuer and Grupo Aval will maintain an office or agent for service of process in the Borough of Manhattan, The City of New York, where notices to and demands upon the Issuer and Grupo Aval in respect of the notes, the guarantees and the Indenture may be served. Initially, this agent will be CT Corporation System, and the Issuer and Grupo Aval will agree not to change the designation of such agent without prior notice to the Trustee and designation of a replacement agent in the Borough of Manhattan, The City of New York.

Provision of financial statements and reports

At all times when Grupo Aval is required to file any financial statements or reports with the SEC, Grupo Aval will use its best efforts to file all required statements or reports in a timely manner in accordance with the rules and regulations of the SEC. In addition, at any time when Grupo Aval is not subject to or is not current in its reporting obligations under Section 13 or Section 15(d) of the Exchange Act, Grupo Aval will make available, upon request, to the Trustee, any holder or any prospective purchaser of the notes, who so requests in writing, (1) in English (or accompanied by an English translation thereof) as soon as available and in any case within 45 days after the end of each first and third fiscal quarters, its unaudited unconsolidated balance sheet and statement of income, in each case, prepared in accordance with Colombian GAAP and as reported to the Superintendency of Finance, and (2) in English (or accompanied by an English translation thereof) as soon as available and in any case within 120 days after the end of each second quarter and fiscal year, its audited consolidated and unconsolidated balance sheet, statement of income, statement of changes in stockholders' equity and statement of cash flow, at and for the six-month periods then ended, prepared in accordance with Colombian GAAP and accompanied by a report thereon by an independent public accountant of recognized international standing, together with an English translation of the management report (*informe de gestión*) sent to its shareholders.

For as long as the notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, Grupo Aval will furnish to any holder of notes issued under Rule 144A, or to any prospective purchaser designated by such holder of notes, upon request of such holder of notes, financial and other information described in paragraph (d)(4) of Rule 144A with respect to Grupo Aval to the extent required in order to permit such holder of notes to comply with Rule 144A with respect to any resale of its note, unless during that time Grupo Aval is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, or is exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act and no such information about Grupo Aval is otherwise required pursuant to Rule 144A.

Delivery of such reports, information and documents to the Trustee will be for informational purposes only, and the Trustee's receipt of such reports, information and documents will not constitute constructive notice of any information contained therein or determinable from information contained therein, including Grupo Aval's compliance with any of the covenants contained in the Indenture (as to which the Trustee will be entitled to conclusively rely upon an Officers' Certificate).

Additional limitations relating to the Issuer

The Indenture will contain the following additional covenants applicable to the Issuer:

- the Issuer will not engage in any business, or conduct any operations, other than to finance the operations of Grupo Aval and its direct and indirect Subsidiaries and activities that, in the good faith judgment of the Issuer's board of directors, are reasonably ancillary thereto (including, without limitation, on-lending of funds, including intercompany loans, making equity investments in such Subsidiaries, repurchases of Indebtedness permitted to be issued by the Indenture and entering into transactions involving Hedging Obligations relating to such Indebtedness);
- the Issuer will not incur any Indebtedness other than (1) the notes and (2) any other senior unsecured indebtedness guaranteed by Grupo Aval that (i) ranks equally with the notes or (ii) is subordinated to the notes;
- the Issuer will not make any investments, other than Permitted Investments; and
- the Issuer will not incur any Liens on any of its assets, except for any Liens imposed by operation of law.

Grupo Aval, as the sole shareholder of the Issuer, and the Issuer will also agree in the Indenture that, for so long as any of the notes is outstanding, neither Grupo Aval nor the Issuer will take any corporate action with respect to:

- the consolidation or merger of the Issuer with or into any other Person, except that the Issuer may merge with (x) a Wholly-Owned Subsidiary of Grupo Aval that is in compliance with the preceding paragraph or (y) Grupo Aval. (For the avoidance of doubt, in the event that the Issuer consolidates or merges with Grupo Aval, Grupo Aval will not be required to comply with the covenants in the preceding paragraph);
- the voluntary liquidation, wind-up or dissolution of the Issuer while the Issuer is the issuer of the notes, unless Grupo Aval fully and unconditionally assumes all of the obligations of the Issuer, including the notes;
- the transfer or disposition by Grupo Aval of the Issuer to any Person other than a Wholly-Owned Subsidiary of Grupo Aval, except as permitted under “—Covenants—Mergers, consolidations and transfers of assets”; or
- a change in the jurisdiction of organization of the Issuer, except in an Eligible Jurisdiction and provided that the Issuer continues to be a Wholly-Owned Subsidiary of Grupo Aval.

Further actions

The Issuer and Grupo Aval will, at its own cost and expense, satisfy any condition or take any action (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, license, order, recording or registration) at any time required, as may be necessary or as the Trustee may reasonably request, in accordance with applicable laws and/or regulations, to be taken, fulfilled or done in order to (i) enable the Issuer or Grupo Aval to lawfully enter into, exercise its rights and perform and comply with its obligations under the Indenture, the notes and the guarantees, as the case may be; (ii) ensure that its obligations under the Indenture, the notes and the guarantees are legally binding and enforceable; (iii) make the Indenture, the notes and the guarantees admissible in evidence in the courts of the State of New York, Colombia and the Cayman Islands; (iv) preserve the enforceability of, and maintain the Trustee's rights under, the Indenture; and (v) respond to any reasonable requests received from the Trustee to facilitate the Trustee's exercise of its rights and performance of its obligations under the Indenture, the notes and the guarantees, including exercising and enforcing its rights under and carrying out the terms, provisions and purposes of the Indenture, the notes and the guarantees.

Events of Default

Each of the following is an “Event of Default” with respect to the notes:

- (1) failure by the Issuer or Grupo Aval to pay interest on any of the notes or guarantees when it becomes due and payable and the continuance of any such failure for thirty (30) days;

- (2) failure by the Issuer or Grupo Aval to pay the principal on any of the notes or guarantees when it becomes due and payable, whether at stated maturity or otherwise;
- (3) failure by the Issuer or Grupo Aval to comply with any of its covenants or agreements in the Indenture, the notes or guarantees (other than those referred to in clauses (1) and (2) above), and the continuance of any such failure for sixty (60) days after the notice specified below;
- (4) the Issuer, Grupo Aval or any Significant Subsidiary defaults with respect to any of its Indebtedness (whether such Indebtedness now exists or is created after the date of the Indenture), which default (a) is caused by failure to pay principal of or premium, if any, or interest on such Indebtedness when originally due, after giving effect to any grace period provided in such Indebtedness on the date of such default (“Payment Default”), (b) in the case of the Issuer or Grupo Aval, results in the acceleration of such Indebtedness prior to its Stated Maturity, or (c) in the case of any Significant Subsidiary, results in the acceleration of such Indebtedness prior to its Stated Maturity, *provided* that, in the case of this clause (c), such accelerated Indebtedness is not paid, or such default waived, within 60 days after the date of such acceleration, and *provided, further*, that, in the case of clauses (a), (b) and (c), the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, totals U.S.\$50 million or more in the aggregate (or the equivalent thereof at the time of determination);
- (5) the Issuer, Grupo Aval or any Significant Subsidiary pursuant to or within the meaning of any Bankruptcy Law:
 - (a) commences a voluntary case;
 - (b) consents to the entry of an order for relief against it in an involuntary case;
 - (c) consents to the appointment of a Custodian of it or for all or substantially all of its assets;
 - (d) makes a general assignment for the benefit of its creditors;
 - (e) in the case of any Significant Subsidiary, is subject to any other Intervention Measure or Preventive Measure; or
 - (f) in the case of the Issuer or Grupo Aval, institutes any other proceeding seeking to adjudicate the Issuer or Grupo Aval bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of any Indebtedness under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee or other similar official for the Issuer or Grupo Aval or for any substantial part of the property of the Issuer or Grupo Aval or the Issuer or Grupo Aval takes any corporate action to authorize any of the actions set forth above in this clause (f);
- (6) Any Person pursuant to or within the meaning of any Bankruptcy Law institutes any proceeding against the Issuer, Grupo Aval or any Significant Subsidiary seeking to adjudicate in any court of competent jurisdiction the Issuer, Grupo Aval or such Significant Subsidiary bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of any Indebtedness under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee or other similar official for the Issuer, Grupo Aval or such Significant Subsidiary or for any substantial part of the property of the Issuer, Grupo Aval or such Significant Subsidiary and, in the case of any of the foregoing actions, such proceeding or action is not dismissed or discharged and remains in effect for 60 days; *provided, however* that none of the foregoing actions constitutes an Event of Default (unless and for so long as such proceeding or action is being contested in good faith by the Issuer, Grupo Aval or such Significant Subsidiary, as the case may be); or

- (7) a court of competent jurisdiction or relevant entity enters an order or decree under any Bankruptcy Law that:
- (a) is for relief against the Issuer, Grupo Aval or any Significant Subsidiary as debtor in an involuntary case;
 - (b) appoints a Custodian of the Issuer, Grupo Aval or any Significant Subsidiary or a Custodian for all or substantially all of the assets of the Issuer, Grupo Aval or any Significant Subsidiary; or
 - (c) orders the liquidation of the Issuer, Grupo Aval or any Significant Subsidiary, and the order or decree remains unstayed and in effect for 60 days.

If an Event of Default (other than an Event of Default described in clauses (5), (6) and (7) above under “— Events of Default”) has occurred and is continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the notes, by written notice to the Issuer (and to the Trustee if notice is given by the holders), may declare the principal amount of and interest on all the notes to be due and payable immediately. If an Event of Default described in clauses (5), (6) and (7) above under “— Events of Default” has occurred, the principal of and interest on all the notes will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any holder. The notes owned by the Issuer, Grupo Aval or any of their affiliates will be deemed not to be outstanding for, among other purposes, declaring the acceleration of the maturity of the notes.

If the Issuer or Grupo Aval fails to make payment of principal of or interest or Additional Amounts, if any, on the notes or guarantees (and, in the case of payment of interest or Additional Amounts, such failure to pay continues for 30 days), each holder will have the right to demand and collect under the Indenture and the Issuer and Grupo Aval will pay to the holders the applicable amount of such due and payable principal, accrued interest and Additional Amounts, if any, on the notes. It should be noted that, to the extent that the SFC has adopted an Intervention Measure in connection with the Issuer or Grupo Aval, under the Bankruptcy Law, the holders would not be able to commence proceedings to collect amounts owed outside the intervention proceeding.

The Trustee will not be charged with knowledge of any Default or Event of Default or knowledge of any cure of any Default or Event of Default unless either (i) an authorized officer of the Trustee with direct responsibility for the Indenture has actual knowledge of such Default or Event of Default or (ii) written notice of such Default or Event of Default has been given to the Trustee by the Issuer, Grupo Aval or any holder.

The Issuer or Grupo Aval will deliver to the Trustee, within 10 business days after obtaining actual knowledge thereof, written notice of any Default or Event of Default that has occurred and is still continuing, its status and what action the Issuer and Grupo Aval are taking or proposing to take in respect thereof. The Indenture will provide that the Trustee may withhold notice to the holders of any Default or Event of Default (except in payment of principal of, or interest or premium (and Additional Amounts), if any, on the notes) if the Trustee in good faith determines that it is in the interest of the holders.

If the Issuer and Grupo Aval cure all Defaults or such Defaults have been waived (except the nonpayment of principal of and accrued interest or premium and Additional Amounts on the notes) and certain other conditions are met, such declaration may be rescinded and annulled by the holders of not less than a majority in aggregate principal amount of the notes.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default will occur or be continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders, unless such holders offer to the Trustee security and/or indemnity. Subject to such provision for indemnification, the holders of a majority in principal amount of the outstanding notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee with respect to the notes; *provided* that the Trustee will have the right to decline to follow any such direction if the Trustee determines that the action so directed conflicts with any law or the provisions of the Indenture or if the Trustee determines that such action would be prejudicial to holders not taking part in such direction.

No holder will have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture, or for the appointment of a receiver or trustee, or for any other remedy thereunder, unless:

- such holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the notes;
- the holders of not less than 25% in principal amount of the outstanding notes will have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as trustee thereunder;
- such holder or holders have offered to the Trustee an indemnity or security reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request;
- the Trustee for 60 days after its receipt of such notice, request and offer of indemnity or security has failed to institute any such proceeding; and
- no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the holders of a majority in principal amount of the outstanding notes, it being understood and intended that no one or more of such holders will have any right in any manner whatsoever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the rights of any other of such holders, or to obtain or to seek to obtain priority or preference over any other of such holders or to enforce any right under the Indenture, except in the manner therein provided and for the equal and ratable benefit of all such holders.

Notwithstanding any other provision of the Indenture, the holder of any note will have the right, which is absolute and unconditional, to receive payment of the principal of and premium, if any and interest on such note and to institute suit for the enforcement of any such payment, and such rights will not be impaired without the consent of such holder.

Book-entry and other indirect holders should consult their bank or brokers for information on how to give notice or direction to or make a request of the Trustee and how to declare or cancel an acceleration of the maturity.

Defeasance

The Issuer or Grupo Aval may at any time terminate all of its obligations with respect to the notes and the guarantees (“defeasance”), except for certain obligations, including those regarding any trust established for a defeasance and obligations to register the transfer or exchange of the notes, to replace mutilated, destroyed, lost or stolen notes and to maintain agencies in respect of notes. The Issuer or Grupo Aval may at any time terminate its obligations under certain covenants set forth in the Indenture, and any omission to comply with such obligations will not constitute a Default or an Event of Default with respect to the notes issued under the Indenture (“covenant defeasance”). In order to exercise either defeasance or covenant defeasance, the Issuer or Grupo Aval must irrevocably deposit in trust, for the benefit of the holders of the notes, with the Trustee money or U.S. government obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of an internationally recognized firm of independent public accountants expressed in a written certificate delivered to the Trustee, without consideration of any reinvestment, to pay the principal of and premium, if any, and interest on the notes to redemption or maturity and comply with certain other conditions, including the delivery of an opinion of counsel as to certain tax matters.

Amendment, supplement and waiver

Subject to certain exceptions, the Indenture, the notes and the guarantees may be amended or supplemented with the written consent of the holders of at least a majority in principal amount of the notes then outstanding, and any Default or Event of Default and its consequences may be waived with the consent of the holders of at least a majority in principal amount of the notes then outstanding. However, without the consent of each holder of an outstanding note affected thereby, no amendment may:

- (1) reduce the rate of or extend the time for payment of interest on any note;
- (2) reduce the principal of or change the Stated Maturity of any note;
- (3) reduce the amount payable upon the redemption of any note or change the time at which any note may be redeemed;

- (4) change the currency for payment of principal of or premium, if any, or interest on any note;
- (5) impair the right to institute suit for the enforcement of any payment on or with respect to any note;
- (6) waive a Default or Event of Default in the payment of principal of and premium, if any, and interest on the notes;
- (7) amend or modify any provisions of the guarantees in a manner that could materially and adversely affect the holders;
- (8) reduce the principal amount of notes whose holders must consent to any amendment, supplement or waiver; or
- (9) make any change in the amendment or waiver provisions which require each holder's consent.

The Trustee and the holders of the notes will receive prior notice as described under “—Notices” of any proposed amendment to the Indenture or the notes or the guarantees described in this paragraph.

The consent of the holders of the notes is not necessary to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

The Issuer, Grupo Aval and the Trustee may, without notice to or the consent or vote of any holder of the notes, amend or supplement the Indenture or the notes or the guarantees for the following purposes:

- (1) to cure any ambiguity, defect or inconsistency (including, without limitation, any inconsistency between the text of the Indenture or the notes or the guarantees and the description of the Indenture and the notes and the guarantees contained in this “Description of the Notes” section of this offering memorandum);
- (2) to comply with the covenant described under “—Covenants—Mergers, consolidations and transfers of assets”;
- (3) to add guarantees or collateral with respect to the notes;
- (4) to add to the covenants of the Issuer or Grupo Aval for the benefit of holders of the notes;
- (5) to surrender any right conferred by the Indenture upon the Issuer or Grupo Aval;
- (6) to evidence and provide for the acceptance of an appointment by a successor Trustee;
- (7) to provide for the issuance of additional notes; or
- (8) to make any other change that does not materially and adversely affect the rights of any holder of the notes.

After an amendment described in the preceding paragraphs becomes effective, the Issuer or Grupo Aval is required to mail to the holders a notice briefly describing such amendment; however, the failure to give such notice to all holders of the notes, or any defect therein, will not impair or affect the validity of the amendment.

Any notes owned by the Issuer, Grupo Aval or any of their affiliates will be disregarded for purposes of determining whether holders of the requisite principal amount of outstanding notes have given any request, demand, authorization, direction, consent or waiver under the Indenture.

Notices

For so long as notes in global form are outstanding, notices to be given to holders will be given to DTC, in accordance with its applicable policies as in effect from time to time. If notes are issued in individual definitive form, notices to be given to holders will be deemed to have been given upon the mailing by first class mail, postage prepaid, of such notices to holders of the notes at their registered addresses as they appear in the Trustee's records.

In addition, so long as the notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF market and the rules of such exchange so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxembourger Wort*) or on the website of the Luxembourg Stock Exchange (*www.bourse.lu*). Any such notice will be deemed to have been delivered on the date of first publication.

No personal liability of directors, officers, employees and shareholders

No director, officer, employee or shareholder of the Issuer or Grupo Aval will have any liability for any obligations of the Issuer or Grupo Aval under the notes, the guarantees or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or the creation of such obligations. Each holder by accepting a note waives and releases all such liability. Such waiver and release are part of the consideration for issuance of the notes. The waiver may not be effective to waive liabilities under the U.S. Federal securities laws.

Trustee

Deutsche Bank Trust Company Americas is the Trustee under the Indenture.

The Indenture contains provisions for the indemnification of the Trustee and for its relief from responsibility. The obligations of the Trustee to any holder are subject to such immunities and rights as are set forth in the Indenture.

Except during the continuance of an Event of Default, the Trustee need perform only those duties that are specifically set forth in the Indenture and no others, and no implied covenants or obligations will be read into the Indenture against the Trustee. In case an Event of Default has occurred and is continuing, the Trustee will exercise such of those rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. No provision of the Indenture will require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties thereunder, or in the exercise of its rights or powers, unless it receives indemnity and/or security satisfactory to it against any loss, liability or expense.

The Issuer, Grupo Aval and their affiliates may from time to time enter into normal banking and trustee relationships with the Trustee and its affiliates.

The Trustee may hold notes in its own name.

Registrar, transfer agent and paying agents

The Trustee will initially act as registrar for the notes. The Trustee will also act as transfer agent and paying agent for the notes. The Issuer has the right at any time to change or terminate the appointment of the registrar, any paying agents or any transfer agents and to appoint a successor registrar or additional or successor paying agents or transfer agents in respect of the notes. Registration of transfers of the notes will be effected without charge, but upon payment (with the giving of such indemnity as the Issuer and the Trustee may require) in respect of any tax or other governmental charges that may be imposed in relation to it. The Issuer will not be required to register or cause to be registered the transfer of notes after all the notes have been called for redemption.

For so long as the notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF market, the Issuer will maintain a paying agent and transfer agent in Luxembourg. The Issuer has initially appointed Deutsche Bank Luxembourg S.A., as Luxembourg paying agent and transfer agent. To the extent that the Luxembourg paying agent is obliged to withhold or deduct tax on payments of interest or similar income, the Issuer will, to the extent permitted by law, ensure that it maintains an additional paying agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive on the taxation of savings implementing the conclusions of the European Council of Economic and Finance Ministers (ECOFIN) meeting of 26 and 27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive.

Deutsche Bank Luxembourg S.A. has also been appointed as listing agent.

Governing law, submission to jurisdiction and claims

The Indenture, the notes and the guarantees will be governed by, and construed in accordance with, the laws of the State of New York.

Each of the parties to the Indenture will submit to the jurisdiction of the U.S. federal and New York state courts located in the Borough of Manhattan, New York City for purposes of all legal actions and proceedings instituted in connection with the Indenture, the notes and the guarantees. Each of the Issuer and Grupo Aval has appointed C T Corporation System, 111 Eighth Avenue, New York, New York 10011, as its authorized agent upon which process may be served in any such action.

Under the laws of the State of New York, claims against the Issuer and Grupo Aval for the payment of principal of and premium, if any, and interest on the notes must be made within six years from the due date for payment thereof.

Waiver of immunities

To the extent that the Issuer or Grupo Aval may claim for itself or its assets immunity from a suit, execution, attachment, whether in aid of execution, before judgment or otherwise, or other legal process in connection with the Indenture or notes or the guarantees and to the extent that in any jurisdiction there may be immunity attributable to the Issuer or Grupo Aval or their assets, whether or not claimed, the Issuer and Grupo Aval will for the benefit of the holders irrevocably waive and agree not to claim such immunity to full extent permitted by law.

Currency indemnity

U.S. dollars are the sole currency of account and payment for all sums payable by the Issuer or Grupo Aval under or in connection with the Indenture and the notes and the guarantees, including damages. Any amount received or recovered in a currency other than U.S. dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer or otherwise) by any holder of a note in respect of any sum expressed to be due to it from the Issuer and Grupo Aval will only constitute a discharge of the Issuer and Grupo Aval to the extent of the U.S. dollar amount that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient under any note, the Issuer and Grupo Aval will indemnify such holder against any loss sustained by it as a result. In any event, the Issuer and Grupo Aval will indemnify the recipient against the cost of making any such purchase.

For the purposes of the preceding paragraph, it will be sufficient for the holder of a note to certify in a satisfactory manner (indicating the sources of information used) that it would have suffered a loss had an actual purchase of dollars been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of dollars on such date had not been practicable, on the first date on which it would have been practicable, it being required that the need for a change of date be certified in the manner mentioned above). These indemnities constitute a separate and independent obligation from the other obligations of the Issuer and Grupo Aval, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any holder of a note and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any note.

Definitions

The following is a summary of certain defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all such terms.

“amend” means to amend, supplement, restate, amend and restate or otherwise modify; and “amendment” will have a correlative meaning.

“asset” means any asset or property.

“Bankruptcy Law” means the provisions of (1) Colombian law or regulation regulating the liquidation and insolvency of Colombian companies and financial entities, including without limitation, Law 1116 of 2006, as

amended, the Financial Statute and Decree 2555 of 2010, as amended, concerning bankruptcy of financial institutions, and any other Colombian law or regulation regulating the insolvency of companies or financial entities from time to time, (2) the Cayman Islands' Companies Law (2010 Revision, as amended) or any similar Cayman Islands law for the relief of debtors or the administration or liquidation of debtors' estates for the benefit of their creditors and (3) the equivalent laws of any other applicable jurisdiction.

“business day” means a day other than a Saturday, Sunday or other day on which banking institutions in New York or Colombia are authorized or required by law to close.

“Colombian Banking GAAP” means, collectively, the regulations of the SFC for financial institutions (Resolution 3600 of 1988 and External Circular 100 of 1995) and, on issues not addressed by these regulations, generally accepted accounting principles in Colombia, as in effect from time to time.

“Colombian GAAP” means generally accepted accounting principles in Colombia, as in effect from time to time.

“Custodian” means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

“Default” means any event, act or condition that is, or after notice or passage of time or both would be, an Event of Default.

“Eligible Jurisdiction” means Colombia, the United States, Bermuda, the British Virgin Islands, the Cayman Islands, Panama, any country member of the Organisation for Economic Co-operation and Development, any country member of the G-20, or any member state of the European Union, and any political subdivision of any of the foregoing.

“Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended.

“Financial Statute” means Decree 663 of 1993, as amended, of the Republic of Colombia.

“guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (b) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided* that the term “guarantee” will not include endorsements for collection or deposit in the ordinary course of business. The term “guarantee” used as a verb has a corresponding meaning.

“Hedging Obligations” means, with respect to any Person, the obligations of such Person pursuant to any interest rate swap agreement, foreign currency exchange agreement, interest rate collar agreement, option, forward or futures contract or other similar agreement or arrangement designed to protect such Person against changes in interest rates or foreign exchange rates.

“holder” means the Person in whose name a note is registered in the register.

“Indebtedness” means, with respect to any Person, any obligation for the payment or repayment of money borrowed or otherwise evidenced by debentures, notes, bonds, or similar instruments or any other obligation (including all trade payables and other accounts payable and including payments relating to bank deposits) that would appear or be treated as indebtedness upon a balance sheet if such Person prepared it in accordance with Colombian Banking GAAP or Colombian GAAP, as applicable pursuant to the covenant described under “—Covenants—Provision of financial statements and reports.”

“Intervention Measures” means the measures described in Article 114 of the Financial Statute that allow the SFC to take possession of a financial institution.

“Issue Date” means the date on which the notes are originally issued.

“Lien” means any mortgage, pledge, security interest, conditional sale or other title retention agreement or other similar lien.

“Obligation” means any principal, interest, penalties, fees, indemnification, reimbursements, costs, expenses, damages and other liabilities payable under any Indebtedness.

“Officer” means (1) with respect to the Issuer, any of its directors or officers or any authorized signatory appointed by its board of directors; and (2) with respect to Grupo Aval, any of the following: the Chairman of the board of directors, the Chief Executive Officer, the Chief Financial Officer, the President, any Vice President, the Treasurer or the Secretary.

“Officers’ Certificate” means a certificate signed by two Officers.

“Opinion of Counsel” means an opinion from legal counsel, who may be an employee of or counsel for the Issuer or Grupo Aval, as applicable, and who is reasonably acceptable to the Trustee, *provided* that an opinion of a nationally or internationally recognized legal counsel selected by Grupo Aval will be deemed reasonable.

“Permitted Investments” means, with respect to the Issuer, (i) investments in cash and short-term, high-quality investments that are recorded as cash equivalents on Grupo Aval’s consolidated balance sheet in accordance with Colombian Banking GAAP, (ii) investments in fixed income securities rated (on a non-local foreign currency basis or equivalent) at the time of acquisition thereof at least “A2” or the equivalent thereof by Moody’s Investor Service, Inc., “A” or the equivalent thereof by Standard & Poor’s Ratings Services or “A” or the equivalent thereof by Fitch Ratings Limited, or carrying an equivalent rating by an internationally recognized rating agency, if all three of the named rating agencies cease publishing ratings of investments, (iii) on-lending to Grupo Aval or any direct or indirect Subsidiary of Grupo Aval, including intercompany loans, and (iv) making equity investments in any direct or indirect Subsidiary of Grupo Aval.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

“Preventive Measures” means the measures described in Article 113 of the Financial Statute that the SFC can take with respect to a financial institution prior to and in order to avoid having to take an Intervention Measure.

“SEC” means the U.S. Securities and Exchange Commission, or any successor thereto.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“SFC” means the Colombian Financial Superintendency (*Superintendencia Financiera de Colombia*).

“Share Capital” means, with respect to any Person, any and all shares of capital stock, securities convertible into, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated, whether voting or non-voting), such Person’s equity including any preferred stock, but excluding any debt securities convertible into or exchangeable for such equity.

“Significant Subsidiary” means any Subsidiary, including each of the consolidated subsidiaries of such Subsidiary, that is scheduled as a consolidated subsidiary in note 1(c) (or its equivalent) of Grupo Aval’s audited financial statements as of and for the year ended December 31 of the most recently completed fiscal year for which audited consolidated financial statements are available and meets any of the following conditions:

- (i) Grupo Aval’s and its other Subsidiaries’ investments in and advances to such Subsidiary, including each of the consolidated subsidiaries of such Subsidiary, exceed 20% of the total assets of Grupo Aval and its Subsidiaries consolidated as of the end of the most recently completed fiscal year; or
- (ii) Grupo Aval’s and its other Subsidiaries’ proportionate share of the total assets (after intercompany eliminations) of such Subsidiary, including each of the consolidated subsidiaries of such Subsidiary, exceeds 20% of the total assets of Grupo Aval and its Subsidiaries consolidated as of the end of the most recently completed fiscal year; or

- (iii) Grupo Aval's and its other Subsidiaries' equity in the income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle of such Subsidiary, including each of the consolidated subsidiaries of such Subsidiary, exclusive of amounts attributable to any non-controlling interests exceeds 20% of such income of Grupo Aval and its Subsidiaries consolidated for the most recently completed fiscal year

(it being understood that the foregoing definition will be interpreted in accordance with Rule 1-02 under Regulation S-X promulgated by the SEC). Each Subsidiary of a Significant Subsidiary will itself be deemed to be a Significant Subsidiary unless such Subsidiary, including each of the consolidated subsidiaries of such Subsidiary, does not meet any of the above conditions, in which case neither such Subsidiary nor any of the consolidated subsidiaries of such Subsidiary will be deemed to be a Significant Subsidiary. At December 31, 2011 (the most recent fiscal year-end for which consolidated financial statements are available), Banco de Bogotá and Banco de Occidente were the Significant Subsidiaries of Grupo Aval. Notwithstanding the foregoing provisions of this definition, the Issuer will also be a Significant Subsidiary for purposes of the notes and the Indenture.

“Stated Maturity” means, with respect to any security, the date specified in such security as the fixed date on which any principal of such security is due and payable, including pursuant to any mandatory redemption or purchase provision (but excluding any provision providing for the purchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

“Subsidiary” means any Person of which more than 50% of the total voting power of shares of Share Capital or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by (a) Grupo Aval, (b) Grupo Aval and one or more Subsidiaries or (c) one or more Subsidiaries.

“Wholly-Owned Subsidiary” means a Subsidiary of which at least 95% of the Share Capital (other than directors' qualifying shares) is directly or indirectly owned by Grupo Aval or another Wholly-Owned Subsidiary.

Form of the notes

Notes sold in reliance on Regulation S will be represented by a global note in fully registered form without interest coupons (the “Regulation S Global Note”) and will be registered in the name of a nominee of The Depository Trust Company (“DTC”) and deposited with a custodian for DTC. Notes sold pursuant to Rule 144A will be represented by a global note in fully registered form without interest coupons (the “Rule 144A Global Note”) and, together with the Regulation S Global Note, the “global notes”) and will be deposited with a custodian for DTC and registered in the name of a nominee of DTC.

The notes are being offered and sold in this initial offering in the United States solely to “qualified institutional buyers” under Rule 144A under the Securities Act and in offshore transactions to persons other than U.S. persons, as defined in Regulation S under the Securities Act, in reliance on Regulation S. Following this offering, the notes may be sold:

- to qualified institutional buyers under Rule 144A;
- to non-U.S. persons outside the United States pursuant to Regulation S; and
- under other exemptions from, or in transactions not subject to, the registration requirements of the Securities Act, as described under “Transfer Restrictions.”

Prior to the 40th day after the date of original issuance of the notes, any resale or transfer of beneficial interests in the Regulation S Global Note to U.S. persons will not be permitted unless such resale or transfer is made pursuant to Rule 144A or Regulation S.

Exchanges between the global notes

Transfers by an owner of a beneficial interest in a Regulation S Global Note to a transferee, who takes delivery of that interest through a note offered and sold in the United States to qualified institutional buyers pursuant to Rule 144A Global Note, will be made only in accordance with applicable procedures and upon receipt by the Trustee of a

written certification from the transferee of the beneficial interest in the form provided in the Indenture to the effect that the transfer is being made to a qualified institutional buyer within the meaning of Rule 144A in a transaction in compliance with the requirements of Rule 144A. Transfers by an owner of a beneficial interest in a Rule 144A Global Note to a transferee who takes delivery of the interest through a Regulation S Global Note will be made only upon receipt by the Trustee of a certification from the transferor that the transfer is being made outside the United States to a non-U.S. person in accordance with Regulation S.

Any beneficial interest in one of the global notes that is transferred to a person who takes delivery in the form of an interest in another global note will, upon transfer, cease to be an interest in that global note and become an interest in the other global note and, accordingly, will then be subject to any transfer restrictions and other procedures applicable to beneficial interests in the other global note.

Global notes

Upon receipt of the Regulation S Global Note and the Rule 144A Global Note, DTC will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such global note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the initial purchasers. Ownership of beneficial interests in a global note will be limited to persons who have accounts with DTC (“DTC Participants”) or persons who hold interests through DTC Participants. Ownership of beneficial interests in the global notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of persons other than DTC Participants).

So long as DTC, or its nominee, is the registered owner or holder of a global note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the notes represented by such global note for all purposes under the Indenture and the notes. Except as described in “Certificated notes”, owners of beneficial interests in a global note will not be entitled to have any portions of such global note registered in their names, will not receive or be entitled to receive physical delivery of notes in certificated form and will not be considered the owners or holders of the global note (or any notes represented thereby) under the Indenture or the notes. In addition, no beneficial owner of an interest in a global note will be able to transfer that interest except in accordance with DTC’s applicable procedures (in addition to those under the Indenture referred to herein and, if applicable, those of Euroclear Bank S.A./N.V., as operator of Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream”).

Investors may hold interests in the Regulation S Global Note through Euroclear or Clearstream, if they are participants in such systems. Euroclear and Clearstream will hold interests in the Regulation S Global Note on behalf of their account holders through customers’ securities accounts in their respective names on the books of their respective depositaries, which, in turn, will hold such interests in the Regulation S Global Note in customers’ securities accounts in the depositaries’ names on the books of DTC. Investors may hold their interests in the Rule 144A Global Note directly through DTC, if they are DTC Participants, or indirectly through organizations which are DTC Participants, including Euroclear and Clearstream.

Payments of the principal of and interest on global notes will be made to DTC or its nominee as the registered owner thereof. None of the Issuer, Grupo Aval or any initial purchaser, or Corficolombiana will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. The Issuer and Grupo Aval anticipate that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a global note representing any notes held by its nominee, will immediately credit DTC Participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global note as shown on the records of DTC or its nominee. The Issuer and Grupo Aval also expect that payments by DTC Participants to owners of beneficial interests in such global note held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants.

Transfers between DTC Participants will be effected in accordance with DTC’s procedures, and will be settled in same-day funds. The laws of some jurisdictions require that certain persons take physical delivery of securities in certificated form. Consequently, the ability to transfer beneficial interests in a global note to such persons may be

limited. Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in a global note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificated note in respect of such interest. Transfers between accountholders in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions available to the notes described above, crossmarket transfers between DTC Participants, on the one hand, and directly or indirectly through Euroclear or Clearstream account holders, on the other hand, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the Regulation S Global Note in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Euroclear and Clearstream account holders may not deliver instructions directly to the depositories for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream account holder purchasing an interest in a global note from a DTC Participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date and such credit of any transactions in interests in a global note settled during such processing day will be reported to the relevant Euroclear or Clearstream accountholder on such day. Cash received in Euroclear or Clearstream as a result of sales of interests in a global note by or through a Euroclear or Clearstream account holder to a DTC Participant will be received for value and the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

DTC has advised that it will take any action permitted to be taken by a holder of notes (including the presentation of notes for exchange as described below) only at the direction of one or more DTC Participants to whose account or accounts with DTC interests in the global notes are credited and only in respect of such portion of the aggregate principal amount of the notes as to which such DTC Participant or DTC Participants has or have given such direction. However, in the limited circumstances described above, DTC will exchange the global notes for certificated notes (in the case of notes represented by the Rule 144A Global Note, bearing a restrictive legend), which will be distributed to its participants. Holders of indirect interests in the global notes through DTC Participants have no direct rights to enforce such interests while the notes are in global form.

The giving of notices and other communications by DTC to DTC Participants, by DTC Participants to persons who hold accounts with them and by such persons to holders of beneficial interests in a global note will be governed by arrangements between them, subject to any statutory or regulatory requirements as may exist from time to time.

DTC has advised as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the Uniform Commercial Code and a “Clearing Agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for DTC Participants and to facilitate the clearance and settlement of securities transactions between DTC Participants through electronic book-entry changes in accounts of DTC Participants, thereby eliminating the need for physical movement of certificates. DTC Participants include security brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (“indirect participants”).

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the Regulation S Global Note and in the Rule 144A Global Note among participants and accountholders of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, Grupo Aval or any initial purchaser, or Corficolombiana will have any responsibility for the performance of DTC, Euroclear or

Clearstream or their respective participants, indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

Certificated notes

If (1) DTC or any successor to DTC is at any time unwilling or unable to continue as a depository for a global note and a successor depository is not appointed by the Issuer within 90 days, (2) any of the notes has become immediately due and payable in accordance with “—Events of Default” or (3) if the Issuer, at its sole discretion, determines that the global notes will be exchangeable for certificated notes and the Issuer notifies the Trustee thereof, the Issuer will issue certificated notes in registered form in exchange for the Regulation S Global Note and the Rule 144A Global Note, as the case may be. Upon receipt of such notice from DTC or a paying agent, as the case may be, the Issuer will use its best efforts to make arrangements with DTC for the exchange of interests in the global notes for certificated notes and cause the requested certificated notes to be executed and delivered to the registrar in sufficient quantities and authenticated by the registrar for delivery to holders. Persons exchanging interests in a global note for certificated notes will be required to provide the registrar with (a) written instruction and other information required by the Issuer and the registrar to complete, execute and deliver such certificated notes and (b) certification that such interest is being transferred in compliance with the Securities Act, including, if any, an exemption from the registration requirements thereof. In all cases, certificated notes delivered in exchange for any global note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by DTC.

Certificated notes will not be eligible for clearing and settlement through the DTC, Euroclear or Clearstream.

TAX CONSIDERATIONS

Certain U.S. federal income taxation considerations

This disclosure is limited to the U.S. federal tax issues addressed herein. Additional issues may exist that are not addressed in this disclosure and that could affect the U.S. federal tax treatment of the notes. This tax disclosure was written in connection with the promotion or marketing of the notes by us, and it cannot be used by any holder for the purpose of avoiding penalties that may be asserted against the holder under the Internal Revenue Code of 1986, as amended (the “Code”). Prospective investors should seek their own advice based on their particular circumstances from an independent tax adviser.

The following are the material U.S. federal income tax consequences to a “U.S. Holder” (as defined below) of owning and disposing of notes purchased in this offering at the “issue price,” which we assume will be the price indicated on the cover of this offering memorandum, and held as capital assets for U.S. federal income tax purposes.

You are a U.S. Holder if for U.S. federal income tax purposes you are a beneficial owner of a note that is:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

This discussion does not describe all of the tax consequences that may be relevant to you in light of your particular circumstances, including alternative minimum tax consequences and differing tax consequences that may apply to you if you are, for instance:

- a financial institution;
- an insurance company;
- a regulated investment company;
- a dealer or trader in securities;
- holding notes as part of a “straddle” or integrated transaction;
- a U.S. Holder (as defined above) whose functional currency is not the U.S. dollar;
- a partnership for U.S. federal income tax purposes; or
- a tax-exempt entity.

If you are a partnership for U.S. federal income tax purposes, the U.S. federal income tax treatment of one of your partners will generally depend on the status of the partner and your activities.

This summary is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, changes to any of which subsequent to the date of this offering memorandum may affect the tax consequences described herein. This summary does not address any aspect of state, local, or non-U.S. taxation, any taxes other than income taxes, or the potential application of the Medicare contribution tax. If you are considering the purchase of notes, you should consult your tax adviser with regard to the application of the U.S. federal tax laws to your particular situation, as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

Payments of Interest

Stated interest on a note will be taxable to you as ordinary interest income at the time it accrues or is received, in accordance with your method of accounting for U.S. federal income tax purposes. It is expected, and therefore

this discussion assumes, that the notes will be issued without original issue discount for U.S. federal income tax purposes.

The amount of interest taxable as ordinary income will include amounts withheld in respect of any Colombian taxes. Interest income earned with respect to a note will generally constitute foreign-source passive category income for U.S. federal income tax purposes, which may be relevant to you in calculating your foreign tax credit limitation. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. Subject to applicable limitations, some of which may vary depending on your particular circumstances, Colombian income taxes withheld from interest income on a note will be creditable against your U.S. federal income tax liability. The rules governing foreign tax credits are complex, and you should consult your tax adviser regarding the availability of foreign tax credits in your particular circumstances.

Any Additional Amounts paid pursuant to the obligations described under “Description of the Notes – Additional Amounts” would be treated as ordinary interest income.

Sale or Other Taxable Disposition of the Notes

Upon the sale or other taxable disposition of a note, you will recognize taxable gain or loss equal to the difference between the amount realized on the sale or other taxable disposition and your adjusted tax basis in the note. Your adjusted tax basis in the note will generally be the cost of your note. Gain or loss, if any, will generally be U.S.-source income or loss for purposes of computing your foreign tax credit limitation. For these purposes, the amount realized does not include any amount attributable to accrued interest, which is treated as described under “Payments of Interest” above.

Gain or loss realized on the sale or other taxable disposition of a note will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale or other taxable disposition the note has been held for more than one year. Long-term capital gain recognized by non-corporate taxpayers is subject to reduced U.S. federal income tax rates. The deductibility of capital losses is subject to limitations.

Information with Respect to Foreign Financial Assets

Under legislation enacted in 2010, individuals that own “specified foreign financial assets,” including debt of foreign issuers, with an aggregate value in excess of \$50,000 are generally required to file an information report with respect to such assets with their tax returns. “Specified foreign financial assets” include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-United States persons, (ii) financial instruments and contracts held for investment that have non-United States issuers or counterparties, and (iii) interests in foreign entities. The notes may be subject to these rules. Holders that are individuals are urged to consult their tax advisers regarding the application of this legislation to their ownership of the notes.

Backup Withholding and Information Reporting

Information returns may be filed with the IRS in connection with payments on the notes and the proceeds from a sale or other disposition of the notes unless you are an exempt recipient. You may be subject to backup withholding on these payments in respect of your notes unless you provide your taxpayer identification number and otherwise comply with applicable requirements of the backup withholding rules or you provide proof of an applicable exemption. Amounts withheld under the backup withholding rules are not additional taxes and may be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that the required information is timely furnished to the IRS.

Non-United States Holders

You are a Non-United States Holder if for U.S. federal income tax purposes you are a beneficial owner of a note issued in this offering that is a nonresident alien individual, a foreign corporation or a foreign estate or trust. If you are a Non-United States Holder engaged in a trade or business in the United States and the payments on a note are effectively connected to your United States trade or business, you should consult your tax adviser with respect to U.S. tax consequences of the ownership and disposition of notes including the possible imposition of a 30% branch profits tax. Individual Non-United States Holders who are present in the United States for 183 days or more in any

taxable year in which they dispose of the notes should also consult their tax advisers as to the U.S. federal income tax consequences of the disposition of the notes.

Certain Colombian taxation considerations

The following summary contains a description of the principal Colombian income tax considerations in connection with (1) the purchase, ownership and sale of the notes by Non-Colombian Resident Holders; and (2) the payments made by Grupo Aval to the Non-Colombian Resident Holders under the guarantees, but does not purport to be a comprehensive description of all Colombian tax considerations that may be relevant to a decision to purchase the notes. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than those of Colombia.

This summary is based on the tax laws of Colombia as in effect on the date of this offering memorandum, as well as regulations, rulings and decisions in Colombia available on or before such date and now in effect. All of the foregoing is subject to change, which change could affect the continued validity of this summary.

Prospective purchasers of the notes should consult their own tax advisors as to Colombian tax consequences of the purchase, ownership and sale of the notes, including, in particular, the application of the considerations discussed below to their particular situations, as well as the application of state, local, foreign or other tax laws.

As used in this offering memorandum, a “Non-Colombian Resident Holder” means an individual who is not a resident of Colombia for Colombian tax purposes or a company or other entity not domiciled in Colombia and not organized under the laws of Colombia.

Purchase, ownership and sale of the notes by Non-Colombian Resident Holders

The Issuer’s payments of principal or premium, if any, or interest on the notes to Non-Colombian Resident Holders will not be subject to Colombian income tax, and such holders will not be required to file any tax returns in Colombia solely by reason of their investment in the notes, as such payments do not constitute Colombian source income.

The notes are not considered as assets possessed in Colombia and, therefore, the income resulting from the sale of the notes by Non-Colombian Resident Holders is not subject to Colombian income tax.

Payments made by Grupo Aval to the Non-Colombian Resident Holders under the Guarantees

Payments, if any, made by Grupo Aval to the Non-Colombian Resident Holders under the guarantees, will not be subject to Colombian income tax, as these payments would be regarded as payments made under an indebtedness of a non-Colombian entity, and thus do not constitute Colombian source income.

Cayman Islands Tax Considerations

The following is a general summary of Cayman Islands taxation in relation to the notes.

Under Existing Cayman Islands Laws:

(i) Payments of interest and principal on the notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal or a dividend or capital to any holder of the notes nor will gains derived from the disposal of the notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

(ii) No stamp duty is payable in respect of the issue of the notes. An instrument of transfer in respect of a note is stampable if executed in or brought into the Cayman Islands. Grupo Aval Limited has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has applied for and expects to obtain an undertaking from the Governor in Cabinet of the Cayman Islands in the following form:

**“The Tax Concessions Law
2011 Revision
Undertaking as to Tax Concessions”**

In accordance with the provision of Section 6 of The Tax Concessions Law (2011 Revision), the Governor in Cabinet undertakes with:

Grupo Aval Limited “the Company”

(a) that no law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

(i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or part, of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (2011 Revision).

These concessions shall be for a period of 20 years from the date of issue of the certificate.

PLAN OF DISTRIBUTION

Goldman, Sachs & Co. and J.P. Morgan Securities LLC are acting as initial purchasers and joint lead book-running managers. Corporación Financiera Colombiana S.A., a subsidiary of Grupo Aval, is acting as a book-running manager. Subject to the terms and conditions contained in a purchase agreement among Grupo Aval Limited, Grupo Aval and the initial purchasers, Grupo Aval Limited has agreed to sell to the initial purchasers, and each of the initial purchasers has, severally and not jointly, agreed to purchase from us, the principal amount of the notes that appears opposite its name in the table below.

Initial Purchasers	Principal Amount of Notes
Goldman, Sachs & Co.	U.S.\$ 500,000,000
J.P. Morgan Securities LLC	500,000,000
Total	U.S.\$1,000,000,000

Grupo Aval Limited has appointed Corporación Financiera Colombiana S.A. as a book-running manager in connection with the offering of the notes outside of the United States. Corporación Financiera Colombiana S.A. is not a registered broker-dealer with the SEC and is not acting as an initial purchaser in this offering.

The purchase agreement provides that the obligation of the initial purchasers to purchase the notes is subject to certain conditions precedent and that the initial purchasers will purchase all of the notes if any of the notes are purchased. The offering of the notes by the initial purchasers is subject to receipt and acceptance and subject to the initial purchasers' right to reject any order in whole or in part.

We have agreed to indemnify the several initial purchasers against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the initial purchasers may be required to make in respect of any of these liabilities.

The notes have not been, and will not be, registered under the Securities Act. The initial purchasers have agreed that they will offer or sell the notes only (1) to qualified institutional buyers in the United States in reliance on Rule 144A under the Securities Act and (2) outside the United States pursuant to Regulation S under the Securities Act. See "Transfer Restrictions."

In addition, until 40 days following the commencement of this offering, an offer or sale of notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act.

New issue of securities

The notes are a new issue of securities with no established trading market. Application will be made to list the notes on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market. However, we cannot assure you that the application will be approved. The initial purchasers may make a market in the notes after completion of the offering, but will not be obligated to do so, and may discontinue any market-making activities at any time without notice. Neither we nor the initial purchasers can provide any assurance as to the liquidity of the trading market for the notes or that an active public market for the notes will develop. If an active public trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected.

No sales of similar securities

We have agreed that we will not, for a period of 30 days after the date of this offering memorandum, without the prior written consent of Goldman, Sachs & Co. and J.P. Morgan Securities LLC, offer, sell, contract to sell or otherwise dispose of any debt securities substantially similar to the notes offered hereby, except for the notes sold to the initial purchasers pursuant to the purchase agreement.

Stabilization transactions

In connection with the offering of the notes, the initial purchasers may engage in over-allotment and stabilizing transactions but are not required to do so. Over-allotment involves sales in excess of the offering size, which creates

a short position for the initial purchaser. Stabilizing transactions involve bids to purchase the notes in the open market for the purpose of pegging, fixing or maintaining the price of the notes. Stabilizing transactions may cause the price of the notes to be higher than it would otherwise be in the absence of those transactions. If the initial purchasers engage in stabilizing covering transactions, they may discontinue them at any time.

The initial purchasers also may impose a penalty bid. This occurs when a particular initial purchaser repays to the initial purchasers a portion of the underwriting discount received by it because the initial purchasers or its affiliates have repurchased notes sold by or for the account of such Initial Purchaser in stabilizing or short covering transactions

Sales outside the United States

Neither we nor the initial purchasers are making an offer to sell, or seeking offers to buy, the notes in any jurisdiction where the offer and sale is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the notes or possess or distribute this offering memorandum, and you must obtain any consent, approval or permission required for your purchase, offer or sale of the notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we nor the initial purchasers will have any responsibility therefor.

Colombia

The notes will not be registered in Colombia on the National Registry of Securities and Issuers (*Registro Nacional de Valores y Emisores*) maintained by the Superintendency of Finance; and, accordingly, the notes may not be publicly offered or sold to persons in Colombia.

European Economic Area

In relation to each member state of the European Economic Area (each, a “Member State”) which has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”), no offer of the notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of notes to the public in that Relevant Member State at any time:

- to any legal entity which is a “qualified investor” as defined in the Prospectus Directive;
- to fewer than 150 natural or legal persons per Relevant Member State (other than “qualified investors” as defined in the Prospectus Directive); or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive.

Each person in a Relevant Member State who initially acquires any notes as a “financial intermediary,” as that term is used in Article 3(2) of the Prospectus Directive, will be deemed to have represented, acknowledged and agreed that (x) the notes acquired by it in the offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than “qualified investors” as defined in the Prospectus Directive, or in circumstances in which the prior consent of the subscribers has been given to the offer or resale, or (y) where notes have been acquired by it on behalf of persons in any Relevant Member State other than “qualified investors” as defined in the Prospectus Directive, the offer of those notes to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of the foregoing, “offer of notes to the public,” in relation to any notes in any Relevant Member State, means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive), and includes any relevant implementing measure in the Relevant Member State; and “2010 PD Amending Directive” means Directive 2010/73/EC.

United Kingdom

Each initial purchaser has advised us that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the United Kingdom Financial Services and Markets Act of 2000 (“FSMA”) received by it in connection with the issue or sale of such notes in circumstances in which Section 21(1) of the FSMA does not, or would not, apply to us; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any notes in, from or otherwise involving the United Kingdom.

Hong Kong

This offering memorandum has not been approved by or registered with the Securities and Futures Commission of Hong Kong or the Registrar of Companies of Hong Kong. No person may offer or sell in Hong Kong, by means of any document, any notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No person may issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the notes which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Japan

The notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan, as amended, or the “FIEL,” and, accordingly, the notes may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act (Chapter 289), or the “SFA,” (ii) to a relevant person, or any person pursuant to Section 275(1 A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. Where the notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, then shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the notes under Section 275 except: (i) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (ii) where no consideration is given for the transfer; or (iii) by operation of law.

Cayman Islands

None of the notes may be offered, sold or delivered, directly or indirectly, or offered or sold to any person for re-offering or resale, directly or indirectly, to members of the public in the Cayman Islands.

Certain relationships

The initial purchasers, Corporación Financiera Colombiana S.A. and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the initial purchasers, Corporación Financiera Colombiana S.A. and their respective affiliates have provided, and may in the future provide, a variety of these services to the issuer and to persons and entities with relationships with the issuer, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the initial purchasers, Corporación Financiera Colombiana S.A. and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the issuer (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the issuer. The initial purchasers, Corporación Financiera Colombiana S.A. and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

J.P. Morgan Securities LLC served as a joint-lead arranger on the Senior Bridge Loan Facility. The November 30, 2011 amendment extended the maturity of the facility to December 23, 2011. J.P. Morgan Securities LLC was also one of the joint book-running managers for the Banco de Bogotá Debt Offering and a joint-lead arranger for the Banco de Bogotá Term Loan, which, in each case, closed on December 19, 2011. See “Item 4.—Business—BAC Credomatic” in our 2011 Annual Report on Form 20-F incorporated by reference herein. Goldman, Sachs & Co. and J.P. Morgan Securities LLC were joint book-running managers for our offering of 5.25% Senior Notes due 2017 that closed on February 1, 2012.

In addition, Corporación Financiera Colombiana S.A., which is acting as a book-running manager in this offering, is a subsidiary of Grupo Aval.

Settlement

Delivery of the notes is expected on or about September 26, 2012, which will be the fifth business day following the date of pricing of the notes. Purchasers who wish to trade notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the notes who wish to trade the notes on the pricing date or the next succeeding business day should consult their own advisor.

TRANSFER RESTRICTIONS

The notes have not been registered and will not be registered under the Securities Act, any U.S. state securities laws or the laws of any other jurisdiction. In addition, the notes will not be registered under the Colombian National Registry of Securities and Issuers, as such, the notes may not be offered or sold to persons in Colombia. The notes have not been registered in the Cayman Islands and may not be offered or sold in the Cayman Islands except in compliance with the securities laws thereof.

The notes may not be offered or sold except pursuant to transactions exempt from, or not subject to, registration under the Securities Act and the securities laws of any other jurisdiction. Accordingly, the notes are being offered and sold only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A under the Securities Act; and
- outside of the United States, to certain persons, other than U.S. persons, in offshore transactions in reliance on Regulation S under the Securities Act.

Purchasers' Representations and Restrictions on Resale and Transfer

Each purchaser of notes (other than the initial purchasers in connection with the initial issuance and sale of notes) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

(1) it is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made pursuant to Rule 144A or (b) a non-U.S. person that is outside the United States;

(2) it acknowledges that the notes have not been registered under the Securities Act or with any securities regulatory authority of any U.S. state or any other jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(3) it understands and agrees that notes initially offered in the United States to qualified institutional buyers will be represented by a global note and that notes offered outside the United States pursuant to Regulation S will also be represented by a global note;

(4) it will not resell or otherwise transfer any of such notes except (a) to the Issuer, (b) within the United States to a qualified institutional buyer in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States in compliance with Rule 903 or 904 under the Securities Act, (d) pursuant to another exemption from registration under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act;

(5) it agrees that it will give to each person to whom it transfers the notes notice of any restrictions on transfer of such notes;

(6) it acknowledges that prior to any proposed transfer of notes (other than pursuant to an effective registration statement or in respect of notes sold or transferred either pursuant to (a) Rule 144A or (b) Regulation S) the holder of such notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture;

(7) it acknowledges that the trustee, registrar or transfer agent for the notes will not be required to accept for registration the transfer of any notes acquired by it, except upon presentation of evidence satisfactory to the Issuer that the restrictions set forth herein have been complied with;

(8) it acknowledges that the Issuer, the initial purchasers and other persons will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that if any of the acknowledgments, representations and agreements deemed to have been made by its purchase of the notes are no longer accurate, it will promptly notify the Issuer and the initial purchasers; and

(9) if it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each account.

Legends

The following is the form of restrictive legend which will appear on the face of the Rule 144A global note, and which will be used to notify transferees of the foregoing restrictions on transfer:

“This note has not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any U.S. state securities laws. The holder hereof, by purchasing this note, agrees for the benefit of the issuer that this note or any interest or participation herein may be offered, resold, pledged or otherwise transferred only (1) to the issuer, (2) so long as this note is eligible for resale pursuant to Rule 144A under the Securities Act (“Rule 144A”), to a person who the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A) in accordance with Rule 144A, (3) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act, (4) pursuant to an exemption from registration under the Securities Act (if available) or (5) pursuant to an effective registration statement under the Securities Act, and in each of such cases in accordance with any applicable securities laws of any state of the United States or other applicable jurisdiction. The holder hereof, by purchasing this note, represents and agrees that it shall notify any purchaser of this note from it of the resale restrictions referred to above.

This legend may be removed solely at the discretion and at the direction of the issuer.”

The following is the form of restrictive legend which will appear on the face of the Regulation S global note and which will be used to notify transferees of the foregoing restrictions on transfer:

“This note has not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any U.S. state securities laws. The holder hereof, by purchasing this note, agrees that neither this note nor any interest or participation herein may be offered, resold, pledged or otherwise transferred in the absence of such registration unless such transaction is exempt from, or not subject to, such registration and in accordance with any applicable securities laws of any other applicable jurisdiction.

This legend may be removed solely at the discretion and at the direction of the issuer.”

The resale restriction periods may be extended, in the Bank’s discretion, in the event of one or more issuances of additional notes, as described under “Description of the Notes.” The above legends (including the restrictions on resale specified thereon) may be removed solely in the Bank’s discretion and at the Bank’s direction.

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interest in global notes and certificated notes, see “Description of the Notes.

LISTING AND GENERAL INFORMATION

1. Except as disclosed herein, there are no litigation or arbitration proceedings against or affecting Grupo Aval or any of its assets and Grupo Aval is not aware of any pending or threatened proceedings, which are or might reasonably be expected to be material in the context of the issuance of the notes.

2. Except as disclosed herein, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of Grupo Aval since June 30, 2012 (the end of the most recent fiscal year for which audited annual consolidated financial statements have been prepared) that is material in the context of the issuance of the notes.

3. For so long as any notes remain outstanding, copies of the indenture under which the notes will be issued may be inspected during normal business hours at the offices of each of the Luxembourg paying agent, the Luxembourg transfer agent, the Luxembourg listing agent and Grupo Aval's principal office, at the addresses listed on the inside back cover page of this offering memorandum.

4. For so long as any notes remain outstanding, copies of the following documents (together, where necessary, with English translations thereof) may be obtained during normal business hours at the offices of each of the Luxembourg paying agent, the Luxembourg transfer agent, the Luxembourg listing agent and Grupo Aval's principal office, at the addresses listed on the inside back cover page of this offering memorandum:

- the latest published audited year-end financial statements of Grupo Aval; and
- the by-laws of Grupo Aval.

5. The global notes representing the notes have been accepted into the systems used by DTC. The CUSIP and ISIN numbers, as applicable, for the notes are as follows:

Rule 144A notes CUSIP: 40053F AB4

Rule 144A notes ISIN: US40053FAB40

Regulation S notes CUSIP: G42045 AB3

Regulation S notes ISIN: USG42045AB32

6. The purchase agreement, the indenture and the notes are governed by the laws of the State of New York.

7. KPMG Ltda., an independent auditor, has agreed to the inclusion of its report in this offering memorandum.

VALIDITY OF THE NOTES

The validity of the notes and the guarantees will be passed upon for the Issuer and the guarantor by Davis Polk & Wardwell LLP, U.S. counsel to the Issuer and Grupo Aval, and by Martínez Neira Abogados S.A., Colombian counsel to the Issuer and Grupo Aval.

Maples and Calder will pass upon certain matters of Cayman Islands law relating to the notes and the guarantees for the Issuer and Grupo Aval.

The validity of the notes and the guarantees will be passed upon for the initial purchasers by Simpson Thacher & Bartlett LLP, U.S. counsel to the initial purchasers, and by Gomez-Pinzón Zuleta Abogados S.A., Colombian counsel to the initial purchasers.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The consolidated financial statements of Grupo Aval Acciones y Valores and subsidiaries as of December 31, 2011 and 2010, and for each of the years in the three-year period ended December 31, 2011 have been audited by KPMG Ltda., independent registered public accounting firm, as stated in their report appearing in Grupo Aval Acciones y Valores, S.A.'s annual report for the fiscal year ended December 31, 2011 on Form 20-F incorporated by reference in this offering memorandum.

INDEX TO FINANCIAL STATEMENTS

	Page
Unaudited consolidated financial statements of Aval Acciones y Valores S.A. and its subsidiaries as of June 30, 2012 and December 31, 2011 and for the six-month periods ended June 30, 2012 and 2011	
Unaudited consolidated balance sheets as of June 30, 2012 and December 31, 2011	F-2
Unaudited consolidated statements of income for the six-month periods ended on June 30, 2012 and 2011	F-3
Unaudited consolidated statements of shareholders' equity for the six-month periods ended on June 30, 2012 and 2011	F-4
Unaudited consolidated statements of cash flows for the six-month periods ended on June 30, 2012 and 2011	F-5
Notes to the unaudited consolidated financial statements of Grupo Aval Acciones y Valores and its subsidiaries	F-6

PRINCIPAL EXECUTIVE OFFICES OF

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