1Q2023 CONSOLIDATED EARNINGS RESULTS CALL TRANSCRIPT

GRUPO AVAL ACCIONES Y VALORES S.A.

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

At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session.

I will now turn the call over to Mr. Luis Carlos Sarmiento Gutierrez, Chief Executive Officer; Mr. Luis Carlos Semper uterus. You may begin.

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Luis Carlos Sarmiento Gutierrez
President

Good morning, and thank you all for joining our first quarter 2023 conference call. This first quarter confirmed our estimation of the economy slowdown in a scenario where inflation has been resilient and only started to subside in April. And consequently, the Central Bank applied another 25 basis point increase to its repo rate. However, because inflation in GDP growth have been in line with the Central Bank's estimates, this last rate increase should be the last one. And depending on inflation for the remainder of the year, we should start to see slight rate decreases. Additionally, bank's cost of funds continued to rise but have finally shown signs of tapering off.

Although GDP it grew 3% in the quarter compared to the same quarter last year, it is the consensus of economic analysts that this will be the highest growth quarter of 2023, especially because those sectors that were pushing economic growth will not contribute much during the remainder of 2023.With what I just mentioned as background, I will provide a slightly more in-depth overview of Colombia's macro scenario with an overview of our financial performance during the quarter. So moving on to the macro environment. Although monetary policies have started to slightly for inflation in the major economies globally, the outlook for the world economy has not changed much. Even though it is expected that most central banks are close to the end of this contractionary monetary cycle, policy continues to be restrictive and economies are growing moderately. Because the outlook for some regions of the world have slightly improved in recent months and its latest forecast to review the international monetary fund expects that global growth will bottom out at 2.8% in 2023 before rising modestly to 3% in 2024.

Among better performing economies, China is showing signs of a strong rebound, while business activity in Europe remains surprisingly resilient to the energy shock caused by the war in Ukraine. The U.S. labor market continues to exhibit strong numbers, but the Fed has warned against thinking that the monetary policy is ready to be changed. Additionally, we will have to see what new banking regulations are deployed as a result of the recent bank failures and how those might affect the U.S. economy. In Colombia, high-frequency data suggests that private consumption is already cooling off due to high interest rates and persistent inflation. Sales of new houses fell around 50% in annual terms during the first 2 months of the year, while purchases of new vehicles declined 19% in April relative to the same month last year. Although the indicator for monitoring the economy, ISE advanced notably in January, with 5.9% annual growth, this trend was partially reversed in February when growth fell to 3%. The first quarter's growth of 3% when compared to the same quarter last year is expected to be the highest growing quarter in 2023, as I said before. We, therefore, expect 2023 GDP growth to be in the 1% to 1.5% area. Consumer prices registered a monthly variation of 0.78% in April and caused the first slowdown in the rising inflation trend, which started 2 years ago. As a result, annual inflation decreased to 12.82% in April from 13.34% in March. Food prices were the main driver for the inflation slowdown as production was supported by a reduction in input costs, particularly fertilizers and more benign weather.

Over the next few months, the trend in inflation should continue in part due to weaker domestic demand. However, the annual CPI figure is likely to remain relatively high due to the 16% increase in minimum wages, rent prices that will continue to adjust indexed to last year's inflation and further increases in domestic gasoline prices. In fact, recently, the Central Bank revised its forecast for annual inflation at the end of the year from 8.7% to 9.5% . We concur with with the Central Bank's view and expect inflation to reach 9.5% in 2023.

Because of inflation expectations, the Central Bank continued its tightening policy and in April raised its repo rate by 25 basis points to 13.25%. However, if inflation and growth estimates continue to fall within the Central Bank's guidelines, it is likely that the Central Bank will maintain rates for the next few months with the possibility of monetary easing before the end of 2023. In fact, we are expecting the interest rate cuts will begin in the last quarter, reaching 11% to 11.5% by year-end.

March, labor market numbers were better than expected. According to the latest figures published by DANE, the number of jobs increased to 22.8 million in March, which implies 1.1 million more jobs than the number reported last year. 46% of these jobs originated in the 13 main cities and metropolitan areas. From the supply side, 11 out of the 13 reported sectors reported an increase in their payrolls. Job creation was particularly strong in professional activities, hospitality industry and food services, and public administration and defense, which together contributed 58% of the positions added. The better payroll numbers led to a monthly drop of 0.35 percentage points in the national unemployment rate that ended first quarter '23 at 9.95%, the lowest level since 2018. Going forward, however, it is likely that as business activity decelerates, we will see weaker job numbers during the upcoming months. We expect average unemployment to deteriorate to 11.5% to 12.5% in 2023.

Regarding the exchange rate, the peso continues to trade with high volatility. And during the last few weeks, it has fluctuated in the Ps. 4,400 to Ps. 4,700 per dollar range. Markets are not only concerned about the prospects of interest rate and economic growth in the U.S., which could obviously affect the peso giving Colombia's dependence on external financing, but also about local developments, particularly the ongoing reform agenda, in particular, the health and labor reforms which have been presented to Congress and the pension reform, which is now expected to be discussed during the next legislature. We expect the approval or disapproval of the reforms or the final drafts approved by Congress will have a direct impact on foreign exchange.

In any case, market consensus suggests that the country could end the year with a current account deficit of around 4.5% of GDP which is likely to prevent the peso from appreciating to its pre-pandemic levels.

Finally, on the fiscal front, the fiscal deficit for 2022 was revised down to 5.3% of GDP. It is also good news that GDP growth drove the index of net public debt to GDP to fall to 59.6% in 2022, down from 60.8% in 2021.

The new finance minister Ricardo Bonilla has restated the government's commitment to comply with the fiscal rule and to reducing the deficit of the fuel prices stabilization fund by closing the gap between the external and domestic gasoline prices, which is a much needed action to alleviate the Ecopetrol's balance sheet and the strong pressure on the fiscal accounts derived from current subsidies of gasoline prices. On the negative side, higher gasoline prices will impact inflation. This year's fiscal deficit is expected to comply with the fiscal rule and to close to around 4% of GDP.

And now some salient facts related to the digital transformation of our banks, during this first quarter.

We have now reached 70% of digital adoption of our well regarded mobile banking platforms. Our banks sold more than 600,000 digital products during the first quarter of 2023, an increase of 23.2% versus first quarter 2022.

Credit card loans related to cards sold through digital channels already represent more than 26% of the group's total credit card loan balance than 26% of the group's total credit card loan balance and additionally, 65% of the growth in the total credit card loan portfolio is associated with credit cards sold through those digital channels.

Digital transactions represented 62% of total transactions and increased by 7.3% in the first quarter of '23 versus the first quarter of 2022. In the same period, transactions conducted at our branches decreased approximately 11.1%.

Our digital wallet, Dale, continues to ramp up its client base and is now approaching 1,150,000 active clients. We have concluded development of Dale 2.0 and will launch the app in the next few weeks for friends and family testing. Dale 2.0 substantially improves its capability and user experience. We're also weeks away from migrating to a new core system for Dale which will improve scalability, accelerate rate of innovation, and ensure system of uptime.

And now turning to Aval financial result, this is a general overview.

As expected, Banco de Bogota¡, Banco de Occidente, Aval's larger banks both of which specialize in commercial lending, continue to do well in this high-rate scenario as they reprice their mostly variable rate loan portfolios despite the increase in their costs of funds. On the other hand, Banco Popular and Banco AV Villas, which specialize in payroll loans and general consumer loans, respectively will continue to struggle as our mostly fixed rate portfolios take longer to reprice and their margins continue to be squeezed, because of sharply rising costs of funds. However, lately and mostly, because the banking system in general has expanded its deposit base and lengthened its duration to comply with new Basel III liquidity requirements, we have started to see an ease in deposit rates, which should immediately benefit costs of funds.

Additionally, we have taken steps towards reducing the overall cost basis of those banks and we'll start to see the benefits of those measures once the costs to enact them are amortized throughout this year. If our views are correct, further relief will flow through our P&Ls as the Central Bank stops its rate hikes, and more so when it starts cutting rates later this year.

On the other hand, growth will be harder to come by and credit quality deterioration particularly in consumer loan portfolios is a concern. In fact, we have seen deterioration in unsecured consumer loans generated during late 2022. And even though the profile of our loan mix mitigates the impact on our banks relative to our peers, we are closely monitoring the PDLs formation. Our aim is to start increasing our total banking NIM, net of cost of risk in the following quarters. In the meantime, we will continue to rely on our pension fund administrator and on our non- financial sector investments to complement our earnings as they handsomely did during this first quarter.

I thank you for your attention. And now I'll pass on the presentation to Diego who will explain in detail our business results and provide guidance for 2023. Thank you so much.

Diego Fernando Solano Saravia
Chief Financial Officer

Thank you, Luis Carlos. Beginning on Page 6, assets grew 1.1% during the quarter and 14.5% over the year. Over the quarter, our mix increased in cash and decreased in net loans.

Moving to Page 7, we present the evolution of our loans. Gross loans grew 1.2% during the quarter and 16.6% over the year. Higher interest rates, the slowdown in economic activity and a lower macro outlook drove the soft quarterly growth. In addition, since the fourth quarter of last year, our banks have reduced their appetite for riskier consumer products. Commercial loan growth which 1.3% over the quarter and 16.6% over 12 months. Consumer loans grew 1.3% over the quarter and 15.8% year-on-year. Payroll loans are our largest consumer lending product with 55.4% of the total, followed by personal loans and credit cards with 23.2% and 12% respectively. Auto loans represent 9% for consumer book. Payroll loans grew 0.2% over the quarter adding 8.1% for 12 months, personal loans had the strongest dynamism, growing at 4.1% during the quarter and to be 34.1% year-on-year.Credit cards and automobile loans grew 2.4% and 0.3% over the quarter taking annual growth to 21.2% and 19.3% respectively.

Finally, mortgages grew 0.8% over the quarter and 20.1% year-on-year. Loan growth is expected to remain soft across products and segments in line with the Central Bank's policy and soft local and global economic outlook. On Pages 8 and 9, we present several loan portfolio quality ratios. The quality of our loan portfolios, remain relatively stable measured by stages. However, PDL metrics, particularly on a 30-day horizons, started to deteriorate consistent with a substantial increase in interest rates and a weaker macro environment. Our overall mix by stages had divergent performances across loan categories. Commercial loans improved while retail loans deteriorated. However, the weight on Stage 2 and Stage 3 loans remain well below the pandemic levels in all loan categories. Regarding delinquencies, 30-day PDLs increased to

4.86% a21 basis points deterioration over 12 months and 51 basis points over 3 months. 90-day PDLs was 3.45% an 8 basis point improvement over 12 months and 20 basis points deterioration relative to last quarter.

PDL formation increased during the quarter. Regarding 30-day PDL formation, 54% of the quarterly increase is explained by commercial loans and 46% by retail loans. The increase in 90-day PDLs is explained 70% by personal loans and 24% by credit cards.

Cost of risk net of recoveries was relatively stable at 1.7% relative to first quarter 2022 and deteriorated 26 basis points versus a quarter earlier driven by consumer lending. We expect our loan mix (underweighted in personal loans and credit cards and overweighted in payroll lending) to be protected through this credit cycle. However, even though milder than our peers, we expect pressures on cost of risk to affect our results over the following quarters. Finally, the ratio of charge-offs to average 90-day PDLs was 0.54 times.

On Page 10, we present funding and deposit evolution. Funding grew 1.2% during the quarter. This behavior for the period was determined by the adjustments in funding required by our banks to comply with a more demanding net stable funding ratio effective starting on March. In order to prepare for this transition, our banks experienced particularly high growth in time deposits. As I'll further explain when we refer to margins, this process beat it up prices temporarily distorting the relationship between the cost of funds in the system and the sovereign debt rate. Our banks are now positioning their balance sheets to benefit from a lower interest rate environment in line with our projections of the Central Bank reference rates. As a first quarter, 2023, 77% of our time deposits are due in less than one year and 24% havefloating rates. Deposits now account for 72% of our funding increasing 2.9% quarter-on-quarter and 16.8% year-on-year. Time deposits grew 17.8% during the quarter and are now the largest component of our funding. As a result, our deposits to net loans ratio increased to a 100%.

On Page 11, we present the evolution of our total and attributable equity and the capital adequacy ratio of our banks. Changes in equity during the quarter reflect dividends declared by Grupo Aval with shareholders and by our subsidiaries to minority shareholders. Our total equity decreased 1.9% over the quarter, and increased 2.1% year-on-year. Our attributable, equity decreased 1.8% over the quarter and 0.3% year-on-year. Banks normally report their lowest levels of core equity tier 1 and total solvency ratios at end of first quarter, given that dividends are normally declared during that period. In addition, this quarter was negatively impacted by a step up in risk-weighted assets associated with operational risk transition to Basel III.

On Page 12, we present our yield on loans, cost of funds spread and NIM on comparable basis. As we have mentioned on previous calls, our consolidated NIM is negatively impacted by the NIM of Corficol's non- financial companies. The nature of Corficol's main subsidiaries is infrastructure, gas transportation, and distribution, hospitality, and agri industries. These companies mainly take long-term funding to finance their operating, activities that over time, is recognized mainly under income from the non-financial sector.

In addition, our consolidated NIM on investment incorporates results of mark-to-market investments held by Porvenir under mandatory stabilization reserves and its proprietary investment. These are mainly funded with equity.

With this in mind, we have included on this call, the key indicators of financial intermediation activity from our -- banking segments only. We believe this facilitates a better understanding of our financial intermediationactivity and improves the comparability of our results with those of our peers that do not have substantial non-financial or pension fund management activities.

During the quarter, Colombia's Central Bank increased its reference rate by 100 basis points from 12% to 13% in an effort to contain inflationary pressure. An additional 25 basis points increase in April raised the intervention rate to 13.25% which could be the end of the current cycle according to market consensus.

As mentioned on our last call, an exceptional pressure on demand for time deposits in order to comply with the net stable funding ratio, requirements built up throughout the banking system. This pressure raised the spread, between time deposits, and the Colombian sovereign debt close to 450 basis points above historical level. This unprecedented level had receded to 60 basis points by the beginning of April. The impact of this overshoot in funding cost will linger for a few quarters while these time deposits expire. In this environment, the cost of funds of our Banking segment rose to 8.5%, an increase of a 155 basis points during the quarter and 573 basis points compared to first quarter 2022.

The magnitude and speed of the increase in the Central Bank intervention rate, coupled with the distortion in rates induced by the changes in net stable funding requirements, resulted in a contraction of the NIM on loans of our Banking segment to 4.5% materially below historic levels. Even though our loans substantially repriced up 108 basis points during the quarter and 461 basis points relative to first quarter 2022, this fell behind the increase in cost of funds. This environment mainly affected the margin of our retail loans given their predominant fixed rate nature. In addition, given the abnormal temporary pricing of time deposits, commercial loans suffered as well during the quarter despite their predominant floating rate nature. NIM on retail loans contracted 89 basis points while NIM on commercial loans contracted 11 basis points over the quarter.

We expect this compression to start receding during the second half of this year as a temporary distortion in time deposit pricing dilutes, and the Central Bank intervention rate cycle changes. This will allow the pricing of our low portfolios to continue catching up with cost of funds. Favoring this quarter's performance, the NIM on investments of our Banking segment was 3.3% benefiting from a downward shift of the yield curve that improved the performance of mark-to-market portfolios. Porvenir's portfolios had a strong performance under this environment.

On Page 13, we present net fees and other income on comparable basis. Gross fee income increased 9.6% quarter-on-quarter and 9% year-on-year. Net fee income increased 12.3% quarter-on-quarter and 18.6% year-on-year. Pension fees and fund management fees increased over the quarter due to higher performance based fees.

Over the year, pension fund management fees continued to be negatively impacted by higher insurance premiums associated with increased mortality rates consequence of the pandemic. Income from the non- financial sector remains strong given a positive quarter in infrastructure. On the bottom of the page, the quarterly increase in other operating income is mainly explained by seasonality of dividends received by our subsidiaries and a, higher net gains on OCI realization. These were partially offset by lower derivatives and FX gains.

Year-on-year, comparison of other income for the quarter is mainly explained by lower results of derivatives and FX gains. Upon exiting its investment in BHI, Banco de Bogotá¡, changed its structural balance sheet structure from a long to a short U.S. dollar position, given the prevailing interest rate differential between U.S. dollar and the Colombia peso, this change in structure implied a net cost of managing this exposure to derivatives.

On Page 14, we present some efficiency ratios on comparable basis. Cost to assets of 2.8% improved quarter-on-quarter incorporating some initial results of our cost containment efforts.

Our cost to income improved to 46.7% over the quarter, driven by the results from our non-financial sector and deteriorated relative to first quarter 2022 mainly due to a contraction in net interest margin. Quarterly expenses decreased 1.1% quarter-on-quarter and increased 23.7% year-on-year. Admin expenses growth has been pressed by a 49.1% year-on-year increase in operating taxes, particularly the industry and commerce tax and strong increases in deposit insurance costs associated with higher liquidity. This explained 11.9% and 3.1% admin expenses growth respectively.

In addition, further pressure on admin expenses growth came from the 16% minimum wage increase, the 13.1% 2022 inflation and 23.7% 2022 depreciation of the Colombian peso. Personal expenses increased 13.7% below the 16% increase in minimum wage in Colombia.

Finally, on Page 15, we present our net income and profitability ratios as reported. Attributable net income for the quarter was Ps. 425 billion or Ps. 17.9 pesos per share. Return on average assets and return on average equity for the quarter were 1.4% and 10.4% respectively.

Before we move into questions and answers, I will now summarize our general guidance for 2023.

- We expect loan growth to be in the 7% to 8% range with commercial loans growing in the 8% to 9% range and retail loans in the 6% to 8% range.
- We expect our cost of risk, net of recoveries to be in the 1.6% to 1.7% area.
- We expect full year NIM of our banking operations to be in the 4.5% area with NIM on loans between 5% and 5.25%.
- We expect full year consolidated NIM to be in the 3.75% area with NIM on loans in the 4.5% area.
- We expect our cost to assets to be in the 2.6% area.
- We expect our fee income ratio to be in the 20% area with an 18% for our Banking segment.
- Finally, we expect our full year reported return on average equity to be in the 10% to 10.5% range. We're now open for questions and answers.

Question and Answer

Operator

Your first question is from Juan Recalde of Scotiabank

Juan Recalde

Scotiabank Global Banking and Markets, Research Division

My question is -- my first question is related to the non-financial sector income, which was particularly strong in -- energy and gas and also the infrastructure. So my question is how sustainable are these levels? And how do you see these lines going forward?

Diego Fernando Solano Saravia
Chief Financial Officer

Well, Juan, we are maintaining our annual guidance of 70% of what we had last year. You're right, this was a particularly strong quarter, but we are not moving the overall year guidance.

Operator

Your next question is from Nicolas Riva of Bank of America..

Nicolas Riva

BofA Securities, Research Division

My first question is on your double leverage ratio for the Holdco which I see is now at 127%. For memory, I believe that the threshold for the rating agencies to make more differences between the Holdco and [indiscernible] terms of ratings would be 120%, so you would be above that level. And I wanted to ask if you're considering any actions to reduce double leverage at the holding company? And if there are any plans to buy back some of your 20, 30 bonds as they are trading in the 70s?

And then the second question, a few other Colombian banks have mentioned in the first quarter earnings call. Some pressures on net interest margins specifically coming besides higher interest rates, but also coming from the implementation of the net stable funding ratio in Colombia's banks competing for long term liabilities. If you can comment on the impact on your banks from implementation of the net stable fund duration, Colombia? Thanks very much.

Diego Fernando Solano Saravia
Chief Financial Officer

Okay. Regarding double leverage, you're right, we're targeting to get back into 120. Getting back into 120 incorporates a couple of things. One is a buildup of equity through net income. And the other part that could affect the double leverage is, we have an AT1 that has its call period coming in a couple of years. So this kind of events should help us speed up the process of getting it back into 120, but you're absolutely right. We target 120, and we believe we can get there in the short or medium term. Regarding buying back bonds, we will look into those kind of opportunities however we have to bear in mind that the liquidity of those bonds is quite slim. So if at any time we decide to try to buy back any substantial amount, we will make that information public.

And then finally to your question on the net stable funding ratio, you're absolutely on the spot. It has distorted the cost of funds in a very substantial way. There is 2 sorts of distortions. One was a short term distortion that came from building up an unusual prices, particularly of time deposits through last quarter of last year and first quarter of this year. I mentioned it on the call, it went up to around 450 basis points this portion in the price of time deposits and it also forced us to increase the percentage of time deposits in our deposit mix. Deposits are roughly 70% of our total funding and time deposits used to be around one-third of our mix of deposits and it grew up to a short of 50%. So you can imagine that overpriced time deposits that became heavier in the mix are a big explanation of what we've been looking into in our net interest margin.

Then the second piece of your question or you didn't ask, but the second effect of the net stable funding is what will be a permanent shift in the curve. And it has to do with how we're able to continue adjusting our mix of funding to try to reduce excess time deposits in the mix. However, there's been a shift in the percentage of time deposits. The last piece is -- this adds up to the steepest increase in Central Bank rate that we've seen in many years, decade might be the right approximation. So it compounded increasing the cost of fund and that's what you've been seeing in the system. So trying to look forward has a couple of implications.

The first one, the distortion of these outrageously expensive time deposits is already fading away. So there's a distortion of around 50 basis points. At this point 50 basis points to 100 basis points depending on the which you look at. But this should continue receding to something that is more in line with Central Bank rate. And then the other piece is being able to catch up the -- or to reprice up our loan portfolio to work cost of fund has repriced stripping out this, I would say, temporary effect of more stringent net stable funding ratio.

Operator

Your next question is from Daniel Mora from Credicorp Capital.

Daniel Mora
CrediCorp Capital, Research Division

I have 3 questions, if I may. The first one is regarding asset quality indicators. I will let to know for you, what do you expect to be -- when do you expect to be the pick in asset quality deterioration given the increase in NPLs that we have been observing in recent quarters? And also if do you feel that this cycle of deterioration will have an impact also in 2024 and if you feel comfortable with the current coverage ratio, that will be my first question.

The first one is regarding margins. Can you provide further color of what will be the performance of each bank of Aval in the coming quarters? We have the performance of Villas and Popular but also of Banco de Occidente, we're going to different performances in the coming quarters. And the third one is regarding profitability. What do you expect to be the long term target profitability and what are the key indicators to reach to that figure in terms of margins, cost of risk, loan growth? Thank you so much.

Diego Fernando Solano Saravia
Chief Financial Officer

Okay. That's a -- that's several questions. So regarding quality, when should we pick, we are expecting this to happen either during this current quarter, second quarter or into next quarter. That is consistent with our expectation of GDP growth of 1% to 1.5%. So regarding the part B of your question, will this affect 2024? It is very much related to what happens with GDP growth in the remainder of this year. To put in context why we think that these quarters could be those where we're picking is, a lot of what we're seeing going sour has to do with vintages that were given out particularly of personal loans. August through roughly October last year, so a lot of that has already entered the cycle of 30 days and passing to 90 days in this process. So that's the reason why we believe this to be a short lived cycle if the economy behaves as expected.

Then regarding current coverage, once we move it into IFRS in 2015, we don't really think about coverage as a target. It's rather the way mechanically you have to provision for different stages of loans. And then inside stages, you also have different probabilities or expected losses. So the coverage mainly reflects the profile of the loans that you have in each one of the banks. So banks that have shorter maturities and less expected loss end up with lower coverages. Then moving into margin of banks, we do not have that guidance handy. I can give you more of a conceptual view of what we expect. When you look into the banks that are more retail oriented, more present in retail products that are fixed rate, those are taking a much stronger hit of the cost of funds cycle.

So you're on the spot. Those are a Popular and Villas. That conflicts with what happens with the more commercial lending banks such as Banco de Bogota, Banco de Occidente. Those banks will recover much faster because they've heard that -- at time with what I mentioned regarding the very high time deposits that we had to pay to adjustment to the net stable funding ratio. But they have a substantial floating rate portfolio that benefits from higher rates. So those are like the 2 different buckets of banks that we have. Then you also asked for a profitability in long term. We're basically expecting to go back to 15%. Going back to 15% takes basically 2 things into account. #1, to see margins approaching not necessarily meeting pre-cycle levels. What we're looking into is around the 200 basis points distortion at this point and we expect to see that recovering in the following quarters. The other indicator that also plays there is as you are asking your first question to see the quality of the portfolio basically going back to more normal levels around next year.

Operator

There are no further questions at this time. I will now turn the call over to Mr. Sarmiento for closing remarks.

Luis Carlos Sarmiento Gutierrez

President

Thank you so much, Sheryl. Thank you all for attending the call. We have an interesting year in front of us. We'll be very watchful of all the reforms that are being passed. In Congress, that will probably take -- will have a direct effect on the banking business, on the pension fund business. And other businesses outside the banking world that up, but they do have consequences for the banking world such as their health reform. On the other hand, we are optimistic with inflation having peaked and with the Central Bank rates having peaked. And as Diego was saying that should immediately start relieving net interest margins for our consumer oriented banks in the sense that the cost of funds will probably taper off. And at the same time, there are longer -- the longer it takes for the consumer fixed rate portfolios to reprice, will be compensated by the relief in the rates they get.

The commercial banks keep doing well. The pension fund administrator has done very well this first quarter. And if Diego was saying, we haven't changed our guidance regarding our Corficolombiana, which is something like 70% of the net income they produced last year. With all that in mind, we do expect to hit our ROE targets for this year and return gradually to the 15% target. With that, I thank you all for joining our call, and we'll see you next quarter. Thank you so much.

Operator

Thank you, ladies and gentlemen. This concludes today's conference call. Thank you for participating. You may now disconnect.