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GRUPOAVAL.BG - Q3 2014 Grupo Aval Acciones y Valores SA Earnings Call

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the third quarter 2014 consolidated results under Colombian Banking GAAP conference call. My name is Lorraine and I will be your operator for today's call. (Operator Instructions).

Quarterly results in this web cast have not been audited. However, they are prepared in accordance with the regulations of the Superintendency of Finance for a financial institution and generally accepted accounting principles for banks who operate in Colombia, also known as Colombian Banking GAAP which differs in certain significant respects from U.S. GAAP.

Yearly audited consolidated financial statements included in our form 20F filed to the site provided a description of the principle differences between Colombian Banking GAAP and U.S. GAAP. Grupo Aval is an issuer of securities in Colombia and in the United States of America. As such, it is subject to the control of Colombian Superintendency of Finance reporting applications to the United States Securities and Exchange Commission in compliance with Grupo Colombian and U.S. Securities regulations.

Although we are not a financial institution, we represent our consolidated financial statements under Colombian Banking GAAP in this quarterly report 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.

This web cast may include forward-looking statements which actual results may vary from those stated herein as a consequence of changes in general, economic, and business conditions.

Changes in interest and currency rates and other risk factors as evidenced in our Form 20F available at the [SEC] webpage.

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This content of this document is not intended to provide full disclosure in Grupo Aval or its affiliates. When applicable in this web cast we refer to billions as thousands of millions. With us today is Mr. Luis Carlo Sacramento Gutierrez, Chief Executive Officer of Grupo Aval; Mr. Diego Solano, Chief Financial Officer of Grupo Aval; and Tatiana Uribe, Financial Planning and Investor Relations Officer of Grupo Aval.

I will now turn the call over to Mr. Luis Carlos Sarmiento Gutierrez. Mr. Sarmiento you may begin.

Luis Carlo Sarmiento Gutierrez - *Grupo Aval Acciones y Valores SA - CEO*

Thank you Lorraine, thank you very much.

Good morning ladies and gentlemen and thank you very much for joining our call. This marks a special occasion as it is our first post-IPO call and our audience has increased significantly. We want to offer a special welcome to all those who are joining us for the first time.

We will run this presentation for this quarter in the same manner as we have run previous quarters presentations. First I will take a few minutes of your time to pick up the presentation with the main highlights of this year's third quarter. Then I will pass on the presentation to Diego Solano, our Chief Financial Officer, who will proceed with a brief update of the Colombian macro environment. And after he will focus on the main items of our financial results for the quarter ended Sept. 30.

To start with and referring to the economy, the country has continued to grow at a healthy pace. GDP growth for 2014 is now estimated at 4.6% and next year's at 4.4%, in line with our expectations.

As we had anticipated, during the past few months, inflation has continued to show signs that it will exceed 3% for 2014. In line with our review, the central bank further tightened monetary policy by raising its reference rate an additional 50 basis points during the quarter completing 125 basis points for the year.

The DTF, Colombia's prime rate equivalent and the rate at which approximately 85% of our local commercial loan portfolio is comprised of, reached upwards reacted upwards as it grows by 40 basis points to 4.3%, mostly towards the end of the quarter but still lagged the central bank rate. We expect that it will continue rising until at least matching the central bank rate before year end and continue to rise in the first months of 2015.

We have continued to see volatility in the exchange rate with close to 15% valuations since June 30.

With regard to our balance sheet, we have experienced healthy growth of approximately 21% in assets during the 12 months ending Sept. 30. Adjusting this growth for the two acquisitions we executed in Central America last year, growth in our assets amounted to 16%. Growth during the quarter of 4.3% is in line with this adjusted figure.

As in the past few quarters, approximately 20% of our balance sheet is comprised of foreign assets while 80% is locally originated. Our consolidated gross loans grew by approximately 19% in the 12 months ending September 30, 2014. Excluding the loans acquired with the Central American banks we purchased last year, growth amounted to approximately 13%. Growth for the quarter of 3.2% was in line with this adjusted figure.

As we set out to do, we especially continued to outpace the market growth in our mortgage and credit card portfolios. The quality of our loan portfolios measured as 30 days past due loans to total loans remained largely unchanged at 2.7% during the quarter. This ratio continues to outperform the market.

Our cost of risk averaged 1.5% during the quarter in line with our expectations. Our consolidated deposits grew by approximately 22% during the year ending September 30. This number adjusted for the 2013 Central American acquisitions, amounted to approximately 16% while growth for the quarter was approximately 3%. The mix of our deposits remains weighted towards checking and savings accounts which represent approximately 64% of our deposit base.

Our tangible capital ratio increased by 160 basis points to 9.9% when compared to September 30, 2013. And by 88 basis points during the quarter, largely as a result of our IPO which added to our capital base approximately \$1.1 billion before the [green shoe] which was executed during October.

We will start deploying the proceeds of our capitalization during the month of November when we expect to participate with our share-the share with our principle shareholder in Banco's announced capitalization of COP1.5 trillion. We expect to participate with about 80% of Banco capitalization thus we expect to ultimately raise our share in this bank.

In turn Banco will raise its tier one capital ratio by approximately 170 basis points before year end as a result of the announced capitalization.

Our net interest margin remained unchanged at 5.8% while our loans interest margin remained stable at 6.8% when comparing this quarter versus the previous quarter. We are confident that we will see an improvement in this important indicator in the next few quarters as we believe that loan



rates will not drop any lower and instead will start rising. We have started to see evidence of this in October and November and we hope that this trend will continue into 2015.

Efficiency improved by 130 basis points versus the second quarter of 2014 and by 160 basis points versus the third quarter of last year and we continue to work on ways to improve this efficiency during 2015 with our goal of improving this ratio further by 100 basis points during the next year.

Attributable net income for the quarter was COP436 billion, 8% higher than the attributable net income during the third quarter of 2013 and somewhat lower than the attributable net income for the second quarter of 2014.

The decrease in net income between the second and third quarter was mainly driven by lower net fees that were only partially offset by higher other operating income as this income was heavily skewed towards dividend income and income from other non-financial affiliates that are not wholly owned by Aval. Consequently a considerable amount of our other operating income was shared with our affiliates minority shareholders and not attributable to Aval.

Finally, principle is a result of an increase to our capital base at the end of the quarter. Our analyzed return on equity for the third quarter dropped to 13.4%.

With this, I'll pass to the presentation on to Diego Solano who will describe in detail the results. Thank you very much.

Diego Solano - *Grupo Aval Acciones y Valores SA - CFO*

Thank you Luis Carlo.

Now starting on page four, we present the evolution of some of the key macro drivers of our industry. The Colombian economy continues to outgrow the world average and as year progresses, analyst expectations on Colombia's 2014 GDP continues to be stable at 4.6%. In comparison 2015 has slightly been revised down currently at 4.4%.

Inflation continued to pick up during this quarter reaching a 12-month cumulative inflation as of September of 2.86%. (Inaudible) inflation has picked up to 3.29%. In line with these results, analyst continued to expect year end 12-month inflation to be in the mid-3s area.

As mentioned in our recent calls after having maintained its intervention rates stable at three and a quarter, the Central Bank begun in April of this year a series of increases that [took its] rate by end of third quarter to 4.5% reaching what we believe to be likely year-end rates.

ETF have just started to attract the Central Bank's intervention rate with a few months lag. Given though in this occasion levels, have not reached what could be expected from past experience, analyst projections point to the ETF to continue with its recent upward trend. As of this week, effective ETF stands at 4.41%. Finally on the bottom left of the page, exchange rate at end of month are presented.

As Luis Carlos mentioned, volatility picked up in third quarter and has continued into the fourth quarter. As a result, the Colombian peso depreciated 7.8% against the U.S. dollar during this quarter.

Moving to page five, we present our asset evolution. Solely as its 12-month growth was 20.8% as of end of September. As mentioned in our previous calls, 12-month growth is positively affected by the acquisitions in Central America, particularly in Panama and Guatemala completed during late December 2013.

Twelve-month growth in absence of these acquisitions was 16%.

In the third quarter, total assets grew 4.3% resulting from Colombia's assets growing at 3.1% and Central America at 8.6%. Our consolidated balance sheet structure was similar to that existence as of end of June 2014. With loans accounting for 60% of our asset investments or over 16% of those.

Other assets weight slightly increased recently due to the cash provided by our New York Stock Exchange issue.

Finally, Colombian assets account for close to 78% of our balance sheet.

On page six we present our loan portfolio evolution. Gross loans increased 18.5% over the 12-month period ending on September 30, 2014. As mentioned previously in our calls 12-month growth was affected by the Central American acquisitions with 12-month growth excluding these acquisitions up 13.2%. In the third quarter gross loans grew 33.2% with Colombia growing at 1% and Central America growing at 11.8%.

Mortgages continued to be our highest growing portfolio for the past 12 months growing at 44.7%. Consumer and commercial loans growing strongly as well at 18.9% and 16.9% respectively for the same period. The structure of our gross loan portfolio remained centered as existence 12 months earlier with a slight shift from loans to companies to loans to individuals.

Loans to companies defined as commercial loans plus financial business account for 63.1% of our loans, down from 64.3% a year earlier.

In contrast loans to individuals, defined as consumer loans plus mortgages plus micro credit loans, account for 36.9% of total loans up from 35.7 12 months earlier.

Colombia accounted for 78.4% of our loan portfolio, down from 80.1% three months earlier. The slight increase in our Central American operation is explained mainly by the depreciation of the peso against the U.S. dollars. The U.S. dollar.

On page seven, several loan portfolio quality ratios are presented.

On the top left of the page, you will find the evolution of our loan past due more than 30 days and of our non-performing loans both as a percentage of total loans. During this quarter, our delinquency ratio was stable when measured as NPLs to total loans and slightly increased when measured as 30 days past due loans (inaudible) loans.

Delinquency measured as non-performing loans total loans was 9.1% both at end of this quarter and at end of the previous quarter. NPLs in Colombia were 1.9% of total loans at the same level as reported at end of second quarter.

NPLs in Central America were 1.8% at the same date.

Delinquency measured as 30 days past due loans to total loans was 2.7% at period end, slightly up from 2.6% recorded three months earlier. Thirty days past due loans in Colombia were 2.6% and 2.7% for the second and third quarters of 2014 respectively.

In Central America, this ratio was 2.5% at end of period improving from 2.6% in our last quarter.

Moving to the right, annualized provision expenses to average loans for the quarter was 1.5%, slightly higher than the 1.4% recorded for the three months or three months earlier and a year earlier. Provision expenses to average loans during the quarter were 1.46% in Colombia and 1.67% in Central America.

The bottom left you will find the analyzed ratio of charge-offs as share of average NPLs. This ratio was 0.7% during the third quarter of 2014, slightly lower than the 0.75% times of shares during the previous quarter.

Accumulative annualized ratio of charge-offs for the first nine months of 2014 was 0.66 times average NPLs slightly higher than 0.63 times recorded for the same period of 2013.

Finally on the bottom right you will see several loan (inaudible) covered ratios. Our allowances are 3.1% of total loans and cover 1.64% of NPLs and 1.15% of our PDLs.

On page eight, you will find further details on quality of our loan portfolio. At the top of the page we present the evolution of our loans 30 days past due broken down by portfolio. As mentioned in the previous chart this ratio was 2.7% as of September 30, 2014 slightly above 2.6% recorded three months earlier. The slight deterioration in past due loans was mainly driven by the deterioration in financial visas from 3.4% to 4.0%. Financial visas account for 6.9% of our total loans. This deterioration was explained by a few events related to companies that provide services to the oil and gas industry.

As a positive development, it is worth highlighting an improvement in the quality of our consumer loans where past due loans to total loans improved from 4.3% to 4.1%.

The former trends are also observable on the right side of the page when analyzing the non-performing loans to total loans evolution of consumer and financial visas portfolio. Thirty days past due loans evolution in millions of pesos is presented in the lower part of the page. Our 30 days past due loans were COP2.8 trillion as of September 2014, up from COP2.6 trillion three months earlier, contributing to these numbers NPL status of COP517 million and charge-offs subtracted COP339 million during this quarter.

Funding and deposit evolution is presented on page nine. Total funding grew 18.8% during the 12 month period ending September 30, 2014 and 2.4-2.8 during the three-month period ended on the same date.

Deposits grew 22.4% during the 12 month period ending on September and 2.7% during the three-month period ending on the same date. During this quarter Colombian deposits grew 1.2% while our Central American deposits grew 9%.

Funding and deposit structure remained substantially stable during the quarter with our deposits fully funding our loans. Deposits covering 108% of our loans and our checking accounts representing over 22% of our deposits.

On page 10, we present the evolution of our total capitalization. Our attributable shareholders equity and the capital equivalency ratio of our banks. Attributable shareholders equity increased by COP5.3 trillion over the past 12 months period ending on September 30. This increase was mainly resulting from the substantial capital infusion made by Aval over this period to two equity offerings which jointly provided attributable equity of COP4.5 trillion as of the end of September. An additional 0.3 trillion pesos was issued during October as the reissue of our New York Stock Exchange issue was exercised. These offerings as of September increased the number of shares outstanding by approximately 18%.

Our first offering provided 2.4 trillion pesos and was executed in the Colombian market during late 2013 and finally or with the last (inaudible) during January 2014. Our second offering, our recent New York Stock Exchange offering provided COP2.1 trillion pesos during September 2014 and an incremental COP0.3 million in October when the reissue option was exercised.

With regards to our recent New York Stock Exchange offering and in line with what was announced in our use of proceeds we have begun to deploy the funds raised. In particular, we're expecting to actively participate in the (inaudible) equity offering currency underway. Banco expects to raise COP1.5 trillion, approximately \$700 million. Aval expects to contribute with close to 80% of this offering as has happened in the past. Our total equity defined as attributable equity minus minority interest grew 10.5% during the quarter and 40.5% compared to a year earlier. Attributable equity accounts for 68% of total equity up from 65% three months earlier.

Attributable equity grew at 15.1% during the quarter and 57.3 compared to 12 months earlier.

Finally on the bottom of the page we present the solvency ratio for our four Colombian banks. The tier one ratio have slightly improved in Banco and (Banco Accidente), improvements in (Banco Popular) in our areas were more substantial. Slight deterioration in (inaudible) equity ratio of Banco is explained by the effects adjustment of our dollar denominated goodwill associated with our Central American acquisitions.

At a pro form basis Banco tier one ratio will increase by approximately 170 basis points with the equity offering currently in progress. This will take Banco to be in line with the rest of our banks.



On page 11 we present our net interest margin. After a 20 basis points contraction during the first half of the year our net interest margin remains stable compared to the previous quarter at 5.8%. For the quarter, net interest on loans was 6.8% while net interest margin on investments was 1.9%. It's worth mentioning that our expectation continues to be that the ETF will continue its upwards trend positively affecting our net interest margin on loans and our total net interest margin in future quarters.

In peso terms, our quarterly net interest income grew 11.5% compared to the same period one year earlier increasing from COP1.69 trillion to COP1.88 trillion during this quarter.

Net interest income for this quarter grew 1.2% relative to that for the previous quarter.

Moving to page 12, our (inaudible) is presented at the top of the page. Net income grew 7.3% compared to the same period a year earlier. However, net sales for this quarter fell slightly by 2.1% compared to those received during the second quarter of 2014.

The bottom of the page we present our other operating income, increased 40% compared to the previous quarter reflecting the fact that the first and third quarters of the year of the previous (inaudible) which dividends are received. Dividends account for COP150 billion out of a total of COP328 billion of other operating income recorded during this quarter.

On the top of page 13, we present our operating expenses as a share of operating income and as a share of average assets. Our efficiency measured as operating expenses divided by operating income was 45.9% continuing our improvement trend that has been experienced over the past years. This resulted mainly from a low increase in expense of net appreciation from amortization of 0.8% compared to the previous quarter.

Our efficiency measured as operating expenses divided by average assets was substantially the same as the previous quarter at 3.6%.

On the bottom of the page you will find the contribution of net non-operating income. Non-operating income includes income from sale of property, plant, and equipment and foreclosed assets and the recovery of other provisions.

Finally on page 14, we present our net income and profitability ratios. Net income for the quarter was COP436 billion or COP21 per share. Return on average assets and return on average equity for this quarter were 1.8% and 13.4% respectively.

I now will open this call to questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions).

And our first question comes from Saul Martinez from JPMorgan. Please go ahead.

Saul Martinez - JPMorgan - Analyst

Hi, good morning and congratulations on your first earnings release and conference call post-the ADR issuance.

Two questions. One more specific, one more general. I guess I have a little bit more cautious or even negative view of the credit quality trend in the quarter there than what was expressed on the call. What I saw was the 15% increase in gross loan loss provision, sequentially 38% year on year. The 30-day MPL formation worsened in the quarter, even as a percentage of loans, it was the highest third quarter in a while. Financial leases and even commercial MPLs went up a little bit and the explanation that it was related to oil and gas sectors doesn't seem exactly comforting given oil prices right now and also given the economic backdrop which has decelerated in Colombia. Can you give us more color you know as to what your



expectations-why you feel comfortable that asset quality is under control and why you're, why you think your cost of risk will remain roughly in the 1.5% range going forward?

My second question is related to tax proposals. It seems especially given the equity issuances you've done that this could take a real bit out of earnings next year. Can you give us an update as to what the latest is there and does it concern you at all in terms of the earnings impact in your ability to expand your return on equity going forward?

Diego Solano - *Grupo Aval Acciones y Valores SA - CFO*

Thank you Saul. Starting with your first question regarding the quality of our loan portfolio, let me start with the specific and then perhaps go to broader trends. I mentioned a deterioration of oil and gas but I want to put that into perspective. What has suffered, hasn't been the overall oil and gas industry in Colombia but for the smaller companies that provide services such as drilling or other services to the larger companies. The main portion of our oil and gas portfolios concentrated more in the (inaudible) of the country. The kind of companies as I mentioned that have suffered from this effect are more the smaller companies which typically barrel through the leasing products therefore this is what we saw deteriorating during the quarter. I mentioned numbers are not that impressive. The size of the loan portfolio in this category for Aval represents around 0.75% of our overall loan portfolio.

We have started to see some improvement during our October. I can't be factual about this yet but there's a trend appears to be correcting.

Now moving to a more general perspective, what we expect to see have is GDP expectation for Colombia even though has been slightly revised down or continues to be very healthy closer to the 4.5 area. This is closely correlated to the quality of the portfolio. We have seen some early signals of improvement in the consumer portfolio as I mentioned before. Therefore, the deterioration is pretty much contained into very specific companies. That's the reason why we continue to be confident that next year's (inaudible) of risk will continue to be in the 1.4 to 1.6 area.

Now moving to your second question. This is a very tough question Saul, given that it's yet unclear how the current tax reform will be approved. In particular, the level and the mix of incremental wealth tax and marginal income tax are still to be defined. Therefore, we do believe this to be a material event that will affect our results but we prefer not to provide any specific guidance.

Once we have clarity of how the reform will be proposed or will be approved we will update the market on what our expectation of impact will be.

So I'm sorry not to be specific there, what I can tell you is we're watching closely how numbers will come out and we'll let you know at that point.

Operator

Thank you and our next question comes from Carlos Macedo from Goldman Sachs. Please go ahead.

Carlos Macedo - *Goldman Sachs - Analyst*

Thank you, good morning, Luis Carlos and Diego. Couple of questions. First on loan growth, I know that the outlook has been a little bit weaker than it was maybe when you were on the road for the offering. Could you give us a little bit of an idea this quarter, you did have a lot of growth that came from Central America. Also on the consumer book I presume that the Central America growth was also driven by effects. Looking out to 2015, with the 4G products coming on line, do you still have the same solid view on growth, your ability to expand your loan book on the consumer side, the corporate side. Or how much has that been tapered by the recent changes in oil price and perception of the economy?

Second question on expenses, you had a pretty solid performance in the quarter on your expense line, just wondering you know given that's one of the good things that you can control and you have you know the project to consolidate the back office or to combine certain back office operations from the four subsidiaries, how far advanced is that? What should we expect going forward in terms of the bank's focus on expense?

Diego Solano - *Grupo Aval Acciones y Valores SA - CFO*

Regarding loan growth, we continue to expect loans to grow similar to what has happened this year. This means between 13 and 15%. This will be Colombia. Central America continues to have a very strong performance. You are right, we were positively affected by the 7.8 depreciation of peso or depreciation of dollar against the peso that happened during this quarter. We expect to continue seeing this kind of performance. In addition we expect our 2013 acquisitions to continue being integrated and increase their contribution to overall Central America and results. So overall we continue to have the same view. It is consistent with GDP growth of 4.5, 4.3%. We believe this to be a number to look forward to.

Regarding expenses, expenses even though there's a big integration project that we mentioned when we were on the road this is a project that will provide us additional efficiencies several years down the road. At this point, we are continuing to improve at the same pace that we have done over the past years our cost to income our efficiency ratios based on more mundane initiative of cost cutting, cost cutting while we're growing and we expect to continue seeing that into 2015 due to these kinds of initiatives rather than the major initiatives on project integration.

Project integration you're absolutely right. Is a strong positive but will not generate 2015 substantial results. We, regarding forecast on the positive side, even though not captured by the cost to income metrics, we expect to see a positive from our movement into IFRS particularly regarding the amortization of goodwill which at the Aval level means net of minority interest should contribute with around 100 billion pesos for next year.

On the negative side, we're still waiting for the tax reform, particularly the wealth tax is accounted for in the line of operating expenses and would be an event flow negative on the effort to cut costs. What we're doing at this point, as management, we're concentrating on the kinds of drivers and levers that we can affect and those that depend on our managerial performance. Therefore, we are confident that we will be able to deliver around 100 basis points on improvement based on those levers.

Operator

Thank you and our next question comes from Juan Dominguez from Credit Corp. Capital. Please go ahead.

Juan Dominguez - *Credit Corp. Capital - Analyst*

Good morning and thanks for hosting this call. I have a follow-up question on loan growth. I mean, loan growth in Colombia decreased to 12% on a year on year basis. And actually the commercial loan book decreasing on a quarterly basis 0.4%. So wonder if you could give us some color on what happened in commercial lending. Is this related to the oil and gas sector current environment and what we'd expect from 2014 and 2015 in terms of commercial loans?

Diego Solano - *Grupo Aval Acciones y Valores SA - CFO*

Juan, basically the performance has been more of a stationary or seasonal performance. We do not see any changes in long-term trend, or long-term trends and growth based on these observations. Our yearly basis both continues to be quite strong.

Juan Dominguez - *Credit Corp. Capital - Analyst*

OK, thank you.

Operator

Thank you and our next question comes from [Diego Usame] from [Grupo Aviles]. Please go ahead.

Unidentified Participant

Good morning. Thanks for taking my question. Just two quick questions and one verification. The first question is regarding the expansion in Central America and do you think it means an extension in the medium risk section of loans? And the second question is if do you expect a substantial improvement in the line of incomes service incomes (inaudible) by the end of the year related with some seasonality? And if can you clarify if the weight of oil and gas loans over the total loans is 0.35%?

Diego Solano - *Grupo Aval Acciones y Valores SA - CFO*

Diego, I'm not sure I understand fully your questions. However, let me try to respond to those.

The expansion in Central America at this point is an expansion where given the share that we have in the region of around 10% gives us a chance to move into a high quality customers. We are not being forced at this point in time to move outside of what our (inaudible) risk customers are. Particularly discussing corporate, the corporate segment precisely what we've done in Central America over the past three years is to build a corporate banking or to strengthen our corporate banking franchise. This has been a combination of all segments, including larger corporate which in the past we had some penetration or back before our acquisition had some penetration but below what we believe should be their share. We expect to continue seeing growth given that the big market share opportunity that we perceive in the region without having to compromise the quality of the portfolio.

Overall, what has been happening in Central America is there's been a shift slightly to have a heavier portion or a larger portion of the portfolio in corporate loans. Therefore, the overall quality of the Central American loan portfolio has improved and is expected to continue improving over the next few years.

And your second question regarding pension income. We do expect to see pensions to pick up from current levels and continue under growth trends given that the core drivers are in place. The core drivers are growth in pensions are basically dual and the fee income is (side). We expect to see improvement from further formalization in employment, increase in average salaries from our customers.

On the other hand, some of the variations that we get from our pension business comes from our investing in the pension funds themselves a portion of our equity as required by law. In these front we do not expect to see any substantial variations to what has been seen recently.

Finally on the oil and gas question that you were bringing up, trying to be more specific on what are the kind of customers that have been affected by these services, those-or let me step back. The oil industry is broken down into different kinds of players. You have the very large players where the changes in all prices have been more of an equity price discussion. And but not a credit quality discussion. Then there are smaller players that depend on those larger players and depend on their ability to explore and produce in the skill sets that they're working on. Particularly with prices falling down what you get is some of the fields are not as attractive any longer. If you have, if you're covering other industries, you might have heard some of the larger players forecasting that they will not invest as much in some of their activities for the next six months.

It is this kind of a companies which provide these kinds of services such as geology, drilling, or those kind of services that will be affected given that the larger companies will reduce their spending in these kinds of activities.

That's the area where we have a 0.75% of our portfolio.

Operator

Thank you. And our last question comes from [Mauricio Restrepo] from [BTG Batwall]. Please go ahead.



Unidentified Participant

Hi guys. Thanks for the call. Now that you plan to capitalize (Banco Abogata), I don't know if you can give us some color about the plans to limit the downside of the profitability in coming quarters if you have some expectations on how the bank is going to deploy some of the capital.

And my second question on effects gains, maybe you can give us more details on which is receiving that income maybe (inaudible) Colombiana or if you have some special hedges on the balance sheet that are also resulting on some gains. Thank you.

Diego Solano - *Grupo Aval Acciones y Valores SA - CFO*

Yes, regarding-I'm going to start with the last one first on effects. We have had two (inaudible) of effects gains and losses. Most of what you will find over time in on our balance sheet is due to a combination of or rather on balance sheet management combined to the Treasury activities of a our banks such as Banco, a profit-generating unit that is expected to generate profit over time.

There is a different kind of effects discussion and it was the one we had for the first quarter results that had seen a result of exposure on our overall balance sheet outside of our course of business in the banks. This was an event that we had temporarily during the first quarter and that hasn't repeated itself over the remaining portion of the year. As a matter of fact, the equity offering that we recently completed was fully hedged. Therefore, there's no expectations of any material results of effects exposure coming out from that course.

So we expect to continue seeing the profits from our net effects activity given or derived from the Treasury activity as part of the normal course of business of our banks.

Then moving to the capitalization of (Banco Abogata). As we have mentioned, we expect to continue seeing strong growth in the loan portfolio in Colombia and in Central America which is consolidated under (Banco Abogata) over the foreseeable future. In that context what we expect to see is (Banco Abogata)'s ability to lever over the next few years the capitalization that we're in process of completing. I'm not sure I completely understood what you meant by limiting the downside on profitability. The way we look at this capitalization is more as an opportunity to support profitable growth over the next few years of the bank.

Operator

Thank you. I will now turn the call back over to management for closing remarks.

Luis Carlo Sarmiento Gutierrez - *Grupo Aval Acciones y Valores SA - CEO*

All right. Well thank you very much Lorraine and thank you very much everybody who participated in the call. We hope to have you all again in our next quarter call and in the mean time anything you need, please get in touch with us. And with that, I bid everybody farewell. Thank you very much.

Operator

Thank you. And thank you ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.



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