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PRESENTATION

Operator

Welcome to the 4Q 2015 Consolidated Results under IFRS Conference Call. My name is Bianca and I'll be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session.

Grupo Aval is an issuer of securities in Colombia and in the United States, registered with Colombia's National Registry of Shares and Issuers, RNVE, and the United States Securities and Exchange Commission. As such, it is subject to the control of the Superintendency of Finance and Compliance with applicable US securities regulation as a foreign private issuer under Rule 405 of the US Securities Act of 1933.

Grupo Aval is not a financial institution and is not supervised or regulated as a financial institution in Colombia. Although we are not a financial institution until December 31, 2014, we prepared the consolidated financial information included in our quarterly report in accordance with the regulations of the Superintendency of Finance for Financial Institutions and Generally Accepted Accounting Principles for banks to operate in Colombia, also known as the Colombian Banking GAAP, because we believe that presentation on the basis most appropriately reflected our activities as a holding company of a group of banks and other financial institutions.

However, in 2009, the Colombian Congress enacted Law 1314, establishing the implementation of IFRS in Colombia. As a result, since January 1, 2015 financial entities and Colombian issuers of publicly traded securities, such as Grupo Aval must prepare financial statements in accordance with IFRS as applicable in Colombia.

IFRS as applicable under Colombian regulation differs in certain aspects from IFRS as currently issued by the IASB. Our 20-F annual report filed in 2015 with the SEC provides a description of the principal differences between Colombian Banking GAAP and US GAAP, as well as the expected changes from our implementation of IFRS as applicable under Colombian regulation.

The unaudited consolidated financial information included in this webcast is presented in accordance with IFRS as currently issued by the IASB. This webcast 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 are evidenced in our Form 20-F available at the SEC's web page. Recipients of this document are responsible for the assessment and use of the information provided herein.

Grupo Aval shall not be responsible for any decisions taken by investors in connection with this document. The content of this document and the unaudited figures included herein are not intended to provide full disclosure on Grupo Aval or its affiliates. When applicable, in this webcast, we refer to billions as thousands of millions.

Today, the call will be conducted by Mr. Diego Solano, Chief Financial Officer of Grupo Aval; Mr. Tatiana Uribe Financial Planning and Investor Relations Officer of Grupo Aval; Mr. Diego Rodriguez, Chief Risk Officer; and Mr. Carlos Perez, Chief Strategy Officer.

I will now turn the call over to Mr. Diego Solano. Mr. Solano, you may begin.

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

Thank you, Bianca, and good morning to all. Today, we would like to present our consolidated fourth quarter figures for Grupo Aval under full IFRS. Even though unaudited, we expect these results to substantially reflect what we are going to present in our full-year full IFRS financial statements which will be included in our 20-F filing in the coming weeks. As part of the process of preparing our 20-F, the first one under full IFRS for both 2014 and 2015, our figures for full year 2014 will be adjusted versus the sum of the unaudited consolidated quarters under IFRS previously reported. Earnings have not substantially changed, showing a 1.5% reduction. However, the classification of certain line items has been revised. Adjustments for the year are reflected in the fourth quarter of 2014, which will be shown to you in today's presentation. In addition, some adjustments were made to the third quarter 2015 balance sheet compared to what we have previously reported.

Now, moving into the results for the year-end 2015, we want to highlight the following. Net income attributable for the shareholder was COP2.04 trillion or close to COP92 per share, which compares favorably versus COP1.81 trillion or COP87 per share earned during 2014. It is important to remember that 2015 includes the non-recurring impact of the equity tax COP209 billion or COP9.4 per share. In absence of this expense, net income for the year would have been COP2.25 trillion or COP101 per share.

In line with our guidance, our ROE for the year was 14.5% and our ROAA was 1.7%. Annual growth of both our balance sheet and our earnings were driven by a resilient Colombian economy as well as the strong fundamentals and the favorable impact of the appreciation of the US dollar relative to the Colombian peso on our Central American operations.

In Colombian peso terms, our assets grew by 21% and our liabilities grew by 23%. Excluding the impact of the devaluation of the peso on our Central American operation, our assets grew by 12% and our liabilities grew by 14%. Asset growth was mainly driven by loan book growth, which increased in pesos by 23%, 14% excluding the impact of the devaluation of the Central American operation.

As of the end of 2015, our deposits to loans ratio was 0.96, showing a slight deterioration versus the previous year, resulting mainly -- driven by the government decision to create the Cuenta Unica Nacional and by the general tightening of the liquidity in Colombia. This ratio compares favorably versus our other Colombian peers.

The structure of our deposit continues to be strong. As of the end of 2015, our current and saving accounts were 62% of our total deposit base. Despite the deceleration of the Colombian economy, the quality of our loan portfolio remained strong, slightly improving under all metrics. Our 90 days past due loans ratio, which will be given starting with this call, was 1.4% for 2015 versus the ratio of 1.5% for 2014. Our 30 days past due loans improved 0.2 [percentage points] to 2.4% for full year 2015 and our NPLs improved 0.1 percentage points to 1.6% for the full year 2015.

Consistent with our initial guidance, our cost of risk has slightly increased during the year. However, this increase was lower than initially anticipated. Cost of risk was 1.66% for 2015 versus 1.58% for 2014 under IFRS.

Our net interest margin for the year was 5.51%, only eight basis points lower than the 5.59% net interest margin for full year 2014. This positive outcome in a challenging year was the result of a stable NIM on loans of 6.3% and a lower NIM on investments, 1.9% during 2015 versus 2.6% during 2014. We were able to maintain our NIM on loans, despite having an increase in our cost of funds of 25 basis points, mainly driven by an increasing rate environment in Colombia where average DTF went from 4.1% in 2014 to 4.6% in 2015.

Our efficiency ratio on a cost to income basis was 48% for 2015 versus 46.8% for 2014. The deterioration of this ratio was mainly explained by the devaluation of the peso. In absence of the devaluation, the cost to income ratio would have deteriorated only 37 basis points.

Fee income and income from investments performed well during 2015. Despite the negative effect of the CREE surtax included in the 2014 tax reform, our implicit tax rate for the year was 36% for 2015, which compares favorably versus 37.6% for 2014.

Finally, our equity to assets ratio deteriorated slightly during 2015 from 12% in the previous year to 11%. Such deterioration was driven by the drastic devaluation of the currency. As you probably are aware, we hedge our investment in Central America into pesos. Therefore in a devaluation scenario, the Colombian peso our equity and direct Banco de Bogota remain stable, while the size of our assets and liabilities increase.

Growth in loans and assets in absence of foreign exchange movements will be in the low double-digits, around 10% to 12%. We expect the similar growth for our Colombian and our Central American operation. Continuing with general guidance, the quality of loans might show some additional deterioration driven by a weaker GDP and a softer internal demand. This could negatively affect cost of risk in the 10 basis points to 15 basis points range. This incorporates the impact of the economic cycle on consumers and SMEs. Cost of risk could increase due to one-time events in our corporate portfolio.

We expect the net interest margin on loans to increase in the current interest rate and liquidity scenario, if this scenario prevails. Short-term substantial increases in yields are more likely in our corporate loans, given the favorable evolution of EPS.

The performance of our total net interest margin will depend on the performance of our investment portfolio. We are now more positive on this front versus our previous guidance due to the reduction in the expected pace of increase in the US interest rates compared to the previous market consensus. On the other hand, successfully anchoring the long-term inflation expectations by the Central Bank will be key to this result.

Regarding efficiency ratios, we continue to work to improve on this front and gained back what was lost during 2015 due to the impact of the Peso depreciation and an increasing relevance of the mix of our less efficient Central American operations. Finally, we expect to improve our return on equity during 2016 trending towards the 15% level that we have mentioned in the past. We'll now move to the evolution of the macroeconomic environment.

On page 4, we present the evolution of some macro drivers of our industry. Real GDP growth for 2015 was reported at 3.1%, slightly better than what was expected at the time of our last call. Market consensus on GDP growth, as reported by Bloomberg now stands at 2.4% for 2016 and 3.1% for 2017. These figures are slightly lower than those prevailing at the time of our previous call. We share the market consensus with a slight positive bias, expecting 2016 growth to be in the 2.75% area.

As discussed before, we have a positive view on the impact of a more competitive peso as well as on the impact that the fourth generation concessions and private-public initiatives will have on the economy as the year progresses. Downside risk will continue to come from oil prices and lower government spending. In addition, uncertainty on GDP growth also comes from the potential impact of the terms of the tax reform.

Regarding unemployment, we have started to observe the mild deterioration that we had been expecting for some time. The last data point available in Colombia was the February 2016 data point. The figure reported was 10% up from 9.9% reported a year earlier in the same month. Finally, fourth quarter data on the current account deficit shows some improvement compared to the previous quarter. Nevertheless, in absolute terms, this continues to be fragile side of the Colombian economy.

Moving to page 5, we present inflation and some interest rate benchmarks. 12-month inflation has risen substantially since our last call. Year-end 2015 inflation reached 6.8%, slightly above our expectation. Inflation has continued to rise reaching 7.98% as of March, now doubling the Central Bank's upper limit of 4%.

Market expectation on inflation has continued to rise. However, we expect inflation to be lower in the latter part of the year as we experience a lower transference of currency depreciation into the inflation and El Nino fades away during the second quarter of this year. Consistent with recent inflation data, the Central Bank has continued to raise its rates over the last month's meetings, accumulating 200 basis points since August 2015, now reaching 6.5%. We believe an additional 50 basis points increase of the Central Bank intervention rate to be likely over the next couple of weeks.

With inflation close to 8%, the Central Bank continues to have a negative real interest rate. As well, DTF, our benchmark rate has closely tracked the repo rate, thus remaining in negative ground. Even though we have been cautious on the possibility of DTF spread expansion over the repo rate given what we've seen over the past few years, we believe that the current liquidity environment could be favorable on this front.

On page 6, we present oil prices and their effect on foreign exchange. The Colombian peso/US dollar exchange rate ended 2015 at COP3,149 per dollar, 2% weaker than three months earlier and 32% weaker than the year earlier. Fourth quarter average exchange rate was COP3,062 per dollar, 4% weaker than the previous quarter and 41% weaker than the same quarter a year earlier.

As repeatedly mentioned in the past, a strong negative correlation exists between international oil prices and the Colombian peso exchange rate. This correlation has been slightly lower in the past few months and we've seen an appreciation trend over the past few weeks. The peso depreciation will help explain some of the more relevant changes seen when comparing 2015 results with those for 2014.

Depreciation of the currency is positive for us from an income statement standpoint as our Central American operations increased its contribution to earnings. However, depreciation is heavy on solvency, as it accelerates risk-weighted assets growth in our Central American operation.

On page 7, we present our chart on Central American macro drivers. As mentioned on previous calls, analysts continue to have a GDP growth forecast of close to 3% for the region in 2016. We expect this environment to be favorable for our business in this region. We expect lower oil prices to be positive as well in Central America as these countries are net oil importers.

I will now move to the results of Grupo Aval, I will start on page 8 with our asset evolution. Total assets grew 21.1% during the last 12 months and 3.5% during the last quarter. In absence of the effect of the peso depreciation on Central America, these growth rates would have been 12.1% and 2.9% respectively.

Consolidated balance sheet structure was similar to that in place at the end of September 2015 and December 2014. Net loans continued to gain relevance in our balance sheet, now accounting for 65% of our assets, at materially the same level as three months earlier and up from 63.5% 12-months before.

Fixed income investments have compensated this slight increase now accounting for 11.2%, down from 12.3%, three months earlier and 13.4%, one year ago. Colombian assets account for close to 71% of our balance sheet. As we've mentioned in the past, the Central American assets have increased their weight over the last months, moving from 26% to 30% mainly due to the Colombian peso depreciation.

Page 9, we present our loan portfolio evolution. Gross loans increased by 22.5% over the past 12-months. In absence of the effect of the peso deprecation on Central America, 12-month growth would have been 13.8%. This change resulted from our Colombian book growing at 14.1% on our American operation growing at close to 49%; 13.1% in dollar terms.

Mortgages continues to be our most dynamic portfolio growing at 37.2% for the past year. Consumer and commercial loans grew at 24.7% and 19.5% respectively during the same period.

Broken down by regions, mortgage loans grew at [30.7%] in Colombia and 7.2% in dollar terms in Central America. Consumer loans grew at 13.5% in Colombia and 14.9% in dollar terms in Central America. Commercial loans grew 13.3% in Colombia and 14.8% in dollar terms in Central America.

In the fourth quarter of 2015, gross loans grew 2.5%. In absence of the effect of the peso depreciation on Central America, three months growth would have been 1.9%. This growth resulted from the Colombian operation growing at 1.2% and the Central American operation growing at 5.8%, 3.7% in dollar terms. The structure of our gross loan portfolio continues to experience a slight shift towards a higher component of personal loans. Commercial loans account for 60.4% of our portfolio, while consumer and mortgage loans account for 29.9% and 9.5% respectively.

Colombia accounted for 71% of our loan portfolio, down from 72% three months earlier and down from 76%, 12-months earlier. Increase in the weight of Central American operation has been mainly due to the appreciation of the US dollar relative to the Colombian peso.

On page 10, we present several loan portfolio quality ratios. On the top left of the page, you will find the evolution of our past due loans more than 30 days and our NPLs, both as a percentage of total loans. From this quarter, our delinquency ratio measured as 30 days past due loans to total loans slightly improved from 2.5% to 2.4%. Delinquency measured as NPLs to total loans were stable at 1.6%.

Moving to the right, annualized net provision expense, net of recoveries of charged-off assets for the quarter was 1.6% of average loans, up from 1.2% recorded three months earlier, and at the same level as 12 months earlier. Year-to-date, cost of risk defined in this manner was 1.5%. This ratio would have been 1.7% if recoveries of charged-offs assets were not considered slightly better than our original guidance for the full year.

At the bottom left, you will find the annualized ratio of charge-offs as a share of average NPLs. This ratio was 0.8 times during the fourth quarter of 2015, slightly lower than 0.9 times recorded during the previous quarter. 12 months charge-offs as a share of average NPLs was 0.8 times for both 2015 and 2014.

Finally, on the bottom right, you'll see several loan loss reserve coverage ratios. Our allowances are 2.6% of our total loans, and cover [1.6%] of our NPLs and [1.1%] of our 30 days PDLs.

Page 11, you will find further detail on the quality of our loan portfolio. This page, you will find the evolution of our loans past due more than 30 days and our non-performing loans as a percentage of total loans. We'll also refer to the 90 days PDLs, even though not included on this chart. In this quarter, our delinquency ratio was slightly improved when measured as 30 days PDLs to total loans from 2.5% in third quarter to 2.4% in the fourth quarter. Our 90 days PDLs to total loans remained stable at 1.4% and 1.6% for NPLs.

All of the ratios are calculated as a percentage of total loans excluding interest accounts receivables. Broken down by type of loan, commercial loans improved from 1.8% to 1.6% when measured on a 30 days PDLs basis and 1.3% to 1.2%, when measured on 90 days PDLs basis. Finally, they improved from 1.3% to 1.2% when measured based on NPLs. Consumer loans were stable at 3.8%, when measured on a 30 days PDLs basis and slightly deteriorated from 1.8% to 1.9% when measured as 90 days PDLs and from 2.5% to 2.6%, when measured based on NPLs.

Funding and deposit evolution are presented on page 12. Total funding grew 23.5% over the last 12 months and 3.7% during the last quarter. In absence of the effect of the peso depreciation on Central America 12-months, and three months growths would have been 14.3% and 3.1% respectively.

Broken down by geography. Colombia funding grew at 17.9% over the last 12-months and 2.6% during the last quarter. Central America funding grew at 40% in Colombian peso terms or 6.4% in dollar terms over the last 12 months. For the fourth quarter of 2015, Central American funding grew at 6.5% in Colombian peso terms and 4.4% in dollar terms.

Deposits increased at 19.8% during the last 12-months and 5.3% during the last quarter. In absence of the effect of the peso depreciation on Central America 12-months and three months growth would have been 11.3% and 4.7% respectively. Broken down by geography, Colombia accounts, as mentioned, 71% of total deposits. Colombian deposits grew 12.6% over the last 12-months and 4.8% during the last quarter.

As mentioned on our last call, a temporary system-wide liquidity squeeze affected our end of September ratio, equity improved in the system over the last quarter of 2015. Central American deposits grew 42.4% in Colombian peso terms or 8.2% in dollar terms over the last 12-months. In the fourth quarter, Central American deposits grew 6.6% in peso terms and 4.5% in dollar terms.

Our funding and deposit structure slightly strengthened during the quarter. Deposits account for 74.2% of our total funding and at the end of period up from 73%, three months earlier. Our CASA ratio was 61.6%, slightly higher than the 61.2%, three months earlier and our deposits cover 96% of our net loans, up from 94%, three months earlier.

On page 13, we present the evolution of our total capitalization, our attributable shareholders' equity and the capital adequacy ratios of our banks. Our total equity defined as attributable equity plus minority interest was COP22.9 trillion as of the end of 2015. This implies a 7.3% increase over the last 12 months and 5.9% from the last quarter. Attributable equity accounted for 63% of total equity as of December 2015.

Attributable equity was COP14.4 trillion as of the end of 2015. This implies 5.1% growth during the last 12-months and 6% growth during the last quarter. Equity growth mainly resulted from net income during the quarter.

On this chart, we also show the consolidated solvency of our banks. Solvency at the end of period of was 10.7% for Banco de Bogota, 11% for Banco de Occidente, 11.2% for Banco Popular and 10.9% for Banco AV Villas. Banco de Bogota's increase in solvency was mainly due to a $0.5 billion subordinated loan granted by Grupo Aval which contributed to its secondary cap. As has been mentioned during our past calls, the accelerated growth of the Central America risk-weighted assets resulting in peso appreciation continues to affect the Banco de Bogota's solvency ratio.

Page 14 represent our net interest margins. As mentioned on our last call, net interest margin for the third quarter was softer than previous quarters. This performance resulted from a combination of a poor performance of the fixed income portfolio and the pressure on the net interest margin on loans resulting from an accelerated increase in our cost of funds resulting from the change in Central Bank rate policies.

Net interest margin had a strong recovery during the fourth quarter 2015, reaching 5.7%, up from 5.3% reported during the previous quarter was mainly driven by an increase in net interest margin and investments. Net interest margin on fixed income investments was 2.3%, up from 0.6% a quarter earlier. The net interest margin on loans remained stable at 6.3% in spite of the continued pressure on the funding cost resulting from an increase in the Central Bank rates. Year-to-date net interest margin was 5.5% with NIM on loans at 6.3% and NIM on investments at 1.9%. Quarterly net interest income grew 25.9% compared to 2014 results, increasing from COP1.89 trillion to COP2.38 trillion in 2015.

Page 15 represents net fees and other income. Fee income is presented on the top of the page. Gross fee income grew 13.2% compared to the same period a year earlier and 7.5% to those received during the third quarter of 2015. The bottom of the page represents other income. Other income increased by 28.7% compared to the previous quarter. This increase was mainly driven by a recovery in income from foreign exchange, and a higher income from the non-financial sector, net.

On page 16 represents efficiency. This page represents our operational expense as a share of total income and as a share of average assets. Efficiency measured as operating expenses divided by average assets was stable at 3.5% during the quarter. Colombia, this ratio remained at 3.1% but in Central America, we saw a slight improvement from 4.6% to 4.5%. Year-to-date, this ratio was 3.4% for Aval, with Colombia at 3.1% and Central America at 4.3% in Colombia peso terms.

Efficiency measured as operating expenses to total income was 46.7% during the quarter; better than the 50.7% recorded during the previous quarter. Colombia, this ratio improved from 48.4% from the third quarter to 43.8%, mainly due to NIM expansion. In Central America, this ratio improved from 55.5% to 52.6%.

For full-year 2015, this ratio was 48% compared to [46.32%] in 2014. Colombia slightly deteriorated from 44.5% in 2014 to 45.1% in 2015. Central America was substantially at the same level moving from 54.2% to 54.6% for the same years. Efficiency ratios during 2015 resulted mainly from an increase in weight of our less efficient Central American operation.

Finally, on page 17 we present our net income and profitability ratios. Attributable net income for the quarter was COP693 billion or COP31.1 per share. Cumulative attributable net income for 2015 was COP2,041 billion or COP91.6 per share. In absence of the equity tax, our cumulative net income for 2015 would have been COP2,250 billion or COP101 per share.

Return on average assets and return on average equity for this quarter were 2.1% and 19.8% respectively. Return on average assets and return on average equity for 2015 were 1.7% and 14.5% respectively.

With these, I complete the presentation and open it now for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Carlos Macedo.

Carlos Macedo - *Goldman Sachs - Analyst*

Good morning everyone. Thanks for taking questions. First question, I mean 2015 is done. We're already almost halfway into 2016, if you can give us some guidance as to what to expect this year in terms of loan growth, asset quality, margins, et cetera just so that we can have an idea of really what to forecast, given the volatility that we've seen all over the place this year?

Second question, going back to Banco de Bogota, I understand you're probably going to capitalize some of the retained earnings at some point early in the year and that will increase the common equity Tier 1 ratio. But it is quite low and you mentioned that it is because of Central America. Is there a solution there? I mean, if the peso continues to devalue, that would put even more pressure there. Has the Central Bank said anything about or pressured you in any way to address that situation? I mean, what is the direction that that will go going forward. Thank you.

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

Okay. Regarding your first question, I covered some of that at the beginning of the presentation. But to give you some more color on what our view on growth in quality and margins are; regarding loan growth, I mentioned, we expect to grow in the low double digits, this means 10% to 12%. The rationale for this kind of growth is that -- if you might have been in our previous calls and remember that we gave a similar guidance for 2015. We're expected to grow somewhere around 13% during 2015.

We were positively surprised by a higher growth, even stripping away the effect of FX on our operation. However, we see a different cycle this year. 2016 even though might end up with a similar GDP growth than the kind of growth that we had during 2015, something close to 3% or short of 3%, the composition of that growth will be quite different.

During 2015, we saw a GDP growth coming lower because, in simple words, a piece of the Colombian economy was stripped away when oil prices fell. Therefore, it wasn't an economy-wide effect what generated a slower growth but something that was very much sensed inside oil.

Given that oil is not employment intensive, this didn't really flow into the rest of demand. Actually employment figures improved during 2015. However, we believe there is no free ride. There is a second derivative and it is once these companies do not pay taxes or royalties to the central government and the regional government's spending falls.

In addition, there has been a shift in liquidity. We used to live in an environment where the emerging market's liquidity basically was overriding what the Central Bank was doing in each one of these countries, at least those countries as Colombia, which are pretty open financial markets. Therefore banks were willing to lend out substantial amounts of money without feeling any pressure on deposit prices and margins.

Moving into this year, liquidity has gone back to normal, therefore also from the supply side, banks have already begun to be much more careful and a risk adjusted pricing has come back to the way loans are being given out. All-in-all what we expect to see is a slower growth than what we saw last year. It's going to be growth in the low double-digits, something similar in Colombia, and Central America was already was growing in the lower teens and they're trying to move into asset quality.

As I mentioned before, this is a year where it's more about lower consumer demands than an industry such as the oil industry generating less GDP. Therefore, we expect to see the retail side, retail meaning consumer and SMEs being affected, and then, there could be some one-time events from industry sensitive customers.

Finally on margins, we've started to see the Central Bank react as we would have liked to see much earlier during 2015, a sequence of interest hikes and combined with the different liquidity scenario, we've been starting to see or we started to see during the last quarter of 2015, a better transference of the monetary policy of the Central Bank into the banking system.

What this translates into is the DTF has gone up. Therefore, banks which have large corporate portfolios have benefited from DTF that has reacted pretty quick to what happens with the Central Bank. As these banks have a checking and savings accounts, we start to see those margins opening.

Story for consumer products is quite different, it depends on a product-by-product base, products which are given out at a fixed rate take much more time to re-price. You can get up to, let's say, three years to re-price these kinds of portfolios, while credit cards and revolving lines do reprise at a much faster pace.

Therefore, the reason why we have a positive bias on margins and loans, on net interest margin and loans is that we have a higher component in our portfolio of consumer lending and a substantial portion of that portfolio is loaded on DTF. Therefore, roughly half of our portfolio re-prices on a DTF re-pricing as well.

Now moving to your second topic, the capitalization ratios of Banco de Bogota. It is something that we've mentioned in the past as a pretty sensitive area that we've been looking into. I can't really give you an action plan at this point, but what we are looking into is not only capitalizing or increasing the amount of earnings being capitalized. That's one of the potential initiatives that can be acted upon.

We've actually started to payout a lower payout ratio even though in peso terms our dividends have been either stable or growing. But in fact, we are towing back much more of our earnings than we did before. We do believe that this does help, but this doesn't really solve the full puzzle. Therefore, we are actively working at Banco de Bogota and also at the Aval level to look at initiatives that could improve our solvency either we are improving our equity side or optimizing our risk weighted side.

Regarding pressure from volatility of the currency, we can't really make a forecast of foreign exchange. However, we do believe that a lot of the volatility or the magnitude of volatility that we had last year is somehow gone. We can't guide you into appreciation of the Colombian peso. However, we see some analysts pointing to reasons why that could happen either in the medium term or even eventually due to technical reasons in the shorter term.

This could be a plus for the solvency of Banco de Bogota, but we are not counting on that to get the equation solved. Given that we are working on this, on our next call, we should be able to give you a more precise guidance.

Operator

Mauricio Restrepo, BTG Pactual.

Mauricio Restrepo - *BTG Pactual - Analyst*

Hi, thanks for the call. Maybe a follow-up on the bank's strategy, I wanted to know how do you see your four banks growing, specifically Banco de Bogota were grow (inaudible) has to be with a lower Tier 1 ratio and probably you are going to move the growth that you are seeing on that bank to the other three or what you can comment on that? Thank you.

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

Regarding the growth of our banks, I'll start from your second question. Actually the reason why we are looking keenly on the solvency of Banco de Bogota is because we do not want to have to forego any growth in loans. We are very positive in Colombia in medium and long-term. Therefore, we believe that there is a substantial opportunity for loan growth in the country.

Given the strong positioning Banco de Bogota, we are not willing to give away any growth from Banco de Bogota that we could potentially capture. Now moving into the bank's growth this year, it will be a combination of segmentation and also our balance sheet structure and now I'm going broader than Grupo Aval; I'm going into whole, the system as a whole.

Liquidity will be key. For example, the relationship between our access to deposits and to funding will be a factor that might differentiate what some banks can do in the system and what others can't due to pressure under net interest margin. Given the strong starting base from where Grupo Aval can approach the market, we see some competitive advantage coming from this front.

Now moving into our banks, different segments have had different dynamics. We have seen the consumer lending dynamics to be stronger during the first quarter and the beginning of the year, and the corporate loan growth slightly slower. But as the year progresses, we expect to see things to shift. Shift will come on the consumer side from eventually deterioration in employment and other factors of this kind and therefore our willingness and how strict our scoring models look.

Therefore, it will be supply driven what's going to happen on the consumer front, if unemployment continues to show some slight deterioration. On the other hand, on the corporate side, there is a number of positive things happening. One, well there usually is -- infrastructure projects have begun to get to their financial closes and demand for loans will come from that front. But perhaps the most relevant event is, we've already begun to see some of our customers which have benefited from a more competitive peso demanding loans.

At this point, this has been much more on the working capital side, but at some point it should also be on the working capital and the CapEx side to build additional capacity. The latter hasn't really happened in a substantial way, but we have already started to see hints of that happening. Carlos?

Carlos Perez - *Grupo Aval Acciones y Valores SA - Chief Strategy Officer*

Well, may be adding what Diego just mentioned, regarding market share in the first quarter in the retail side, we're increasing our market share basically in all the products, including mortgages. On the commercial side, we're flat. We're maintaining our share. And on the deposit side, we're doing fine in current accounts and the savings and we are (inaudible) in time deposit. So that's [net to] what's happening.

Operator

Catalina Araya, JP Morgan.

Catalina Araya - *JP Morgan - Analyst*

You mentioned earlier that you expect some improvements in efficiency. So I just want to know if you can share your expectations in terms of cost growth and also what strategies are you taking to improve or reduce expense growth.

And then my second question related to the cost of risk, how do you see it evolving given some deterioration in unemployment in the consumer segment? So how should we think about cost of risk?

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

Cost growth has been relevant for us throughout the history of Grupo Aval is particularly relevant in this kind of cycles. What we're seeing is to try to summarize, net interest margin expanding, slight increase in cost of risk, pressure on the cost side or the per unit cost side, given that we've had a 7% increase in the minimum wages and we also have some increase in the cost that are dollar-denominated such as technology.

We have other factors also coming in, but given that we're going to have pressure on cost of risks side and a slower growth, it's absolutely key to try to reduce the number of units, to say it in some manner that are being spent. We see opportunities in this slower growth environment to be much tighter on cost growth. We've asked our banks even though their budgets pointed to given cost growth to revise those numbers and adjusted them down where possible.

On the other hand, we have the Central American operation where a substantial or a huge potential for efficiency yield exists. When you look into that operation, that operation has lower productivity standards from the sales side than what we have in Colombia and is growing at a quite fast pace. Therefore it's a proper environment to try to restrict cost growth and allow the Bank to grow.

We've been able to reduce growths initially expected in our payrolls, in the sizes of our headcounts rather than payrolls and continued to look in that front. Then, dollar side has been more positive this year than it was before. We've actually had some appreciation there. Even though we can't count on these for the full year nor base our performance on these kinds of externalities, we see it as a better environment to deal with that.

In addition to headcount, we've gone through an exercise of prioritizing projects. This is happening not only in Central America, but also in Colombia. Some of our banks have already reduced the pace at which some of the projects were being done and we've moved into a discipline where things that had been budgeted are reviewed before being spent again.

All in all, we believe that this is a year where we should be able to recover what was lost last year. This will imply a very strict commitment to cost control and then longer term, just to give you a view for several years to come, mobile banking is increasing to be relevant and then, our integration from the operational side continues silently but steadily to allow us to get some efficiencies. To try to make it quantitative, what our target is, is to be able to recover what was lost during 2015.

Now regarding cost of risk, in cost of risk, we expect to see moving up around 10 basis points to 15 basis points plus unexpected. Therefore, it could be something between 10 basis points to 20 basis points, let's say, to give you a range to try to include those. We expect to see this coming more from the retail side and this, rather than the numbers really pointing to this magnitude of an increasing in cost of risk comes from the analytics that we've done and how we see consumer demand and disposable income had being pressed during the year.

We have Diego Rodriguez, our CRO here, who might also add something to the cost of risk and the delinquency side.

Diego Rodriguez - *Grupo Aval Acciones y Valores SA - Chief Risk Management Officer*

Yes, good morning. What we also have seen is that the Colombian -- thinking of the commercial banking sector, they have faced the brunt of their devaluation during 2015 in sectors -- depending on imports, such as textiles and the car sales have already adjusted. You've seen those companies adjust their business to maintain the profitability and we have not seen major deterioration in that sense. What we do expect to see in 2016, is that the benefits of devaluation maybe come to materialize. We see in the textile sector, Company substituting imports and starting to produce.

So we don't foresee any major deterioration of the loan portfolio in 2016 because we think our commercial banking clients have already faced the brunt of that devaluation and now they're beginning to benefit from its effects. And we've also identified those sectors such as oil, such as say coal those are commodities, which have been -- the prices have been going down.

We have identified which -- maybe the companies that are more exposed. For example in terms of oil, it's really mainly the Colombian oil company. We do have an exposure to Pacific Rubiales that's already fully identified and we began to provision to purchasing to the banks, the cost of that situation.

In terms of coal, which is also -- Colombia is a big exporter, but our exposure to coal is very low. We do have large lines of credit to companies like Glencore, BHP Billiton and Drummond, they are not been utilized and we have them on watch, so that if any unforeseen [optimizations] come up, our senior management [remains] on top of that. So in essence, we have our loan portfolio pretty much identified or (inaudible) and we don't expect any surprises during 2016.

Operator

Nicholas Rivera, Citibank.

Nicholas Rivera - *Citibank - Analyst*

Yes, thanks Diego for taking my questions. I wanted to ask you, I saw that your loan loss provisions increased in the fourth quarter despite the NPL ratio being flat quarter-on-quarter. I wanted to ask you, if you included any amount of loan loss provisions for the construction company Conalvias in fourth quarter. And also, if your guidance of an increased to 10 basis points to 15 basis points in the cost of risk this year includes any additional loan loss provisions for Conalvias this year.

And then my second question is on Central America, if you can disclose the ROE that you made in Central America in 2015 and also the guidance for the ROE in Central America this year? Thanks.

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

Yes, regarding Conalvias we had a very small exposure to Conalvias. I will let Diego add to that. But it is included in our guidance, the Conalvias provisions. Some of that happened last year and a small piece this year. Diego, I don't know if you want to add on the magnitudes?

Diego Rodriguez - *Grupo Aval Acciones y Valores SA - Chief Risk Management Officer*

Yes, our exposure to Conalvias to all other companies is about COP110,000 billion compared to total exposure of over CPB700,000 billion. We've provisioned up around 15% last year and there is a budget to provision probably another 30%, 40%. On the positive side, we are very close to getting an agreement with the company and it's not been all the way what we had initially expected to be a more serious situation, it's not going to be as bad. Just really some arrangements to pay part of their loans with assets and to refinance what's remaining and we see operationally the company, actually much better than we expected before. So, in Conalvias we've identified it with the provision but we don't expect any surprises there either.

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

The exposure was originally around [$40 million] so it's unsubstantial compared to the size of our portfolio. Now moving to your question on Central America, Central America ratios are quite strong. The return on asset on Central America for the quarter was close to 2% and for the 12-months, it was something short of that, something around 1.8% to 1.9% and I have the precise number here, but that's basically the range where we moved.

Regarding return on equity, it's kind of tricky, because in the past few years, we haven't paid cash dividends out of Central America. Therefore we've been retaining a substantial amount or creating a substantial amount of equity. With that our return in Central America should be somewhere in the mid-teens area, short of the mid-teens, something around 14% approximately. If we have been taking out dividends, the return on equity in Central America would be in the high-teens area.

Tatiana Uribe - *Grupo Aval Acciones y Valores SA - Financial Planning and Investor Relations Officer*

Just to add to Diego, our accounting ratio of equity to assets is about 13%, so it's close to 14%. So as Diego was pointing out, rather than targeting the ROE, you should focus on the ROA back and this year we expect at least to maintain the ratios that we had for 2015.

Operator

Jason Moan, Scotiabank.

Jason Moan - *Scotiabank - Analyst*

On your NIM, your NIM on loans was stable quarter-on-quarter, yet we saw the net fixed income margin increase a 170 basis points at a 2.3% in the quarter from 0.6% and you showed that the average yield on fixed income investments increased 190 basis points quarter-on-quarter. Can you talk about the breakdown of your fixed income investment portfolio and what explain this increase in yields and if this is a new -- a more sustainable level or if we should go back to the yields you were generating before?

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

Well, Jason, something that we've mentioned was that, the third quarter of last year is actually the outlier. The guidance that we had given with some negative bias on the overall interest rate environment was that full year net interest margin and fixed income would have been something between 1.5% and 2%. We ended up within that range for the full year and that was a combination of a quite bad third quarter and a fourth quarter where we had some recovery of what had been lost, but it wasn't really an extraordinary quarter.

If we are to think what were to expect net interest margin and investments to be, this number should be in within that range for this year. It should continue to be somewhere between 1.5% to 2% and it will depend mainly on two things. One, the fixed income market has been hurt somehow by a higher long-term inflation expectation in Colombia.

The Central Bank has lost at this point some credibility, being able to return into the 2% to 4% range, it seems unlikely at least in the near future, meaning this year and at least part of next year. Therefore building that into fixed income is a negative. On the other side, on the other hand, what will also affect the performance of the Colombian fixed income market as will affect the performance of all fixed income markets in emerging markets will be what happens with the US dollar interest rates.

We had a more negative view several months ago, we actually thought that the NIM on investments could be in the low ones, if the US rate started to increase as was expected, let's say three months ago. With a milder or a slower increase in interest rates in the US, going back into something in the lines of 1.5% to 2% should be too expected.

Operator

Mayara Riddlebaugh, Wells Fargo.

Mayara Riddlebaugh - *Wells Fargo - Analyst*

Hi, thank you. You mentioned on the positive net loan ratio, the negative impact from the Cuenta Unica Nacional. Can you give us an idea of the magnitude of the impact in your deposits and which one of your bank was mostly affected?

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

I'm sorry, not to be able to give you a number, because I'm not familiar with the amount that has moved into Quinta Nacional. However, what we are seeing is a most of the impact of that shift in the structure of the market is already reflected in the liquidity structure over the past few months. We saw a very strong impact during September. It was a combination of Cuenta Unica. What it does is, it forces government entities to take their money to certain accounts and not throughout the whole system. A rough order of magnitude just not be too loose on my answer, it would be something short of, something around $1.5 billion to $2 billion, could be the order of magnitude what was shifted due to the Cuenta Unica Nacional but this is a very rough number.

Anyway, what we've seen over the past months is more stability in liquidity. So it seems even though it's early to know how things will end up evolving, but it seems that the impact was a one-time effect. It was like a step effect and now we're moving in a different equilibrium. What has helped banks such as ours is that we have the largest branch network in the country. So you are basically back to basics. When you're doing banking, being able to secure retail deposits and being able to do that and supported by a branch network becomes relevant.

A year ago where liquidity appeared to be infinite because of the amount of liquidity flowing into emerging markets, it became cheaper to have a guy sitting by a phone in a treasury desk and being able to raise huge amounts of money without having to go to the network. So we believe that part of the reason why we've been able to fare better than some of our peers on the deposit to loan side is because we have never given away the relevance of being able to secure retail deposits and use our branches to do that.

Operator

(inaudible)

Unidentified Participant

Thank you, maybe earlier you didn't hear me. But my question is regarding both the solvency ratio, what are your short-term plans for facing this situation and taking into account that some of rating companies downgraded the Company's rating. Thank you

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

Maria, I think I already addressed that question. We're in the process of reviewing what are we going to do and what the targets are. Therefore, at this time, I will not be able to answer that. What we mentioned was this will be something that we will deal with on our next call. In this process, we are also talking to the rating agencies, as is public because of the rating agency reports particularly to Moody's.

And we are going through explaining the different complexities of our accounting to get the rating agencies to better understand that to give you a flavor of that, part of what has affected, our numbers has been that under IFRS, some accounts that were not reported as intangibles are now reported as intangibles. A couple examples of that pretty substantial because they add up around COP2.8 billion as a whole, close to a $1billion is a concession, toll road concessions and a gas pipeline concessions that used to be accounted for as deferred assets in the past, or other assets are now moved into intangibles.

An additional complexity on that is that, that happens at (inaudible) subsidiary level and we have a very large minority interest in those intangibles. Our minority interest in those intangibles could be around 80% of the value of those intangibles. This is just an example of the kind of discussions that we're having with the rating agencies to give them a flavor to better understand our numbers as compared to those of other banks.

On the other hand, we do recognize this as something that we not only have to put out eye on but also act upon. And that's why I mentioned before, we are carefully studying what we should do there. And once we make a decision, we'll be able to convey it to the rating agencies and the market as a whole and put ourselves and trying to deliver on whatever we planned to do. Sorry to give you a very long answer to a question. I had already answered it before, but I think it's a relevant point.

Operator

This concludes the question-and-answer session for today. I'll turn the call back over to Mr. Diego Solano for closing remarks.

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

Well, thank you very much for attending our call and look forward to see you on our next call.

Operator

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