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GRUPOAVAL.BG - Q3 2015 Grupo Aval Acciones y Valores SA Earnings Call

EVENT DATE/TIME: DECEMBER 02, 2015 / 2:00PM GMT



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PRESENTATION

Operator

Welcome to the third quarter 2015 consolidated results under IFRS conference call. My name is Sylvia and I will 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 were not a financial institution until December 31, 2014, we prepared the consolidated financial information included in our quarterly reports 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 Colombian Banking GAAP, because we believed that that presentation on that 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 regulations differs in certain aspects from IFRS as currently issued by the IASB. Our 20-F annual report filed with the SEC provides a description of the principal differences between Colombian Banking GAAP and US GAAP as well as 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 as evidenced in our Form 20-F available at the SEC webpage.

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



Today the call will be conducted by Mr. Luis Carlos Sarmiento, CEO and President of Grupo Aval; Mr. Diego Solano, Chief Financial Officer of Grupo Aval; and Mrs. Tatiana Uribe, Investor Relations Officer of Grupo Aval.

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

Luis Carlos Sarmiento Gutierrez - *Grupo Aval Acciones y Valores S.A. - CEO, President*

Thank you, Sylvia. Good morning and thank you very much for joining our call.

Before we get going, let me start by apologizing for somewhat delaying this call from its scheduled date. The IFRS world has not been devoid of learning challenges, and fine-tuning our numbers has proven challenging at times.

In fact, we have adjusted our first and second quarter results, albeit not materially. I'm sure, however, that as we move forward and gain proficiency, we will streamline our accounting consolidation processes.

With respect to Colombia's economic growth, expectations continue to be anchored around 3% for this year and similarly for 2016. As we have discussed in previous calls, the peso/dollar exchange rate has been significantly influenced by the price of oil, and we saw again this correlation during the third quarter of this year.

In fact, between June and September, we saw identical movements of approximately 20% in the exchange rate and in the price of oil. Needless to say, steep movements in the exchange rate bring along steep movement in the value of our dollar denominated risk-weighted assets.

The economy continues to adapt to this foreign exchange reality, as imports continued to decrease while exports stabilized. Consequently, the country's current account deficit continues to show improvement, which bodes well for next year's growth expectations.

In the meantime, unemployment continues to show acceptable levels. However, as we had predicted in our previous calls, inflation continued to creep up and, as of October on a 12 month basis, had reached a level close to 6%. This led the Central Bank to tighten monetary policy by raising its reference rate by 50 basis points in October and an additional 25 basis points in November.

Obviously, this effect was not felt during the third quarter, but we fully expect that the repercussions will be felt during the fourth quarter and during 2016. In fact, we expect the DTF to rise up to the Central Bank's rate within a couple of months after the Central Bank takes action.

Finally, if inflation has not stopped to grow by the end of this month, we expect that the Central Bank will have to intervene again by raising its rates an additional 25 to 50 basis points.

We mentioned during our last call the peace treaty with the FARC guerillas appeared to be headed towards a happy conclusion in the near future. Currently, this goal remains unchanged, a fact that we celebrate, and expect that the economy will benefit from it.

Now turning to Aval financial results, these are the main highlights. Diego Solano, Aval's CFO, will refer to each of these in more detail following this summary.

Our consolidated balance grew by 23.3% in the year ended September 30, 2015, 10.6% when eliminating the devaluation effect, and by 8.2% in the quarter, 3.1% when eliminating the devaluation effect.

As of September 30th, 71% of our assets were represented by our Colombian originated operations and the rest from our foreign operations.

Our loan growth for the year was approximately 30%, approximately 17% when eliminating the devaluation effect, and close to 9% in the quarter, 4.2% when eliminating the devaluation effect. Total growth in the last quarter came from both the consumer and the commercial portfolios.

We saw a slight improvement of 10 basis points in the quality of our loans, with 30 days past due loans reaching 2.5%.

Our cost of risk showed a 50 basis point improvement versus the previous quarter and a 20 basis point improvement versus the same quarter of the previous year. Most of the improvement related to our consumer loan portfolio.

Our deposits grew at a lower rate than our loans as the financial system has felt the effect of the government's Decree 2711, by which a portion of the central government's funds previously deposited in the system's banks are now to be deposited directly in the Central Bank until December of this year.

Consequently, we funded part of our loan growth with a reduction of our fixed income portfolio. Our current level of total deposits to net loans is 94%.

Because of the aforementioned, our ratios of total equity to total assets and tangible equity to tangible assets resulted in 10% and 5.7% respectively as of September 30th.

Although our loans' net interest margin remained stable at 6.3% during the third quarter, our fixed income NIM dropped to 0.5% as a consequence of the rising rate environment. Efficiency on a cost to income basis increased to approximately 50%, largely influenced by the foreign exchange environment.

Attributable net income year-to-date before the extraordinary wealth tax expense was approximately COP1.6 trillion, an increase of approximately 15% versus last year. Attributable net income for the quarter amounted to COP445 billion.

Finally, our return on average assets for the period was 1.5%, and our return on average equity for the period was 13.4%.

I will now pass on the presentation to Diego, who will describe in detail our results for the quarter. Thank you, and you have a good day.

Diego Solano - *Grupo Aval Acciones y Valores S.A. - CFO*

Thank you, Luis Carlos. Now starting on page five of the document, we present the evolution of some of the key macro drivers of our industry.

Market consensus and GDP growth as reported by Bloomberg now stands at 2.8% for 2015 and 2.9% for 2016. These figures were slightly lower than those prevailing at the time of our previous call. We share the consensus with a slight positive bias.

We continue to have a positive view on the impact of a more competitive peso, as well as on the impact of the fourth generation concessions and public-private initiatives on the economy. However, we expect their impact on growth to materialize in the latter part of 2016 and more substantially during 2017.

Regarding unemployment, the last data point available is that for October 2015. The figure reported was 8.2%, up from 7.9% reported a year earlier and consistent with the slower GDP growth.

Finally, positive data reflecting a reduction of the current account deficit during the second and third quarter of this year is emerging as a favorable sign for the Colombian economy.

Moving to page six, we present inflation and some interest rate benchmarks. Twelve month inflation as of October was 5.89%, substantially above the Central Bank's upper limit of 4%, as well as substantially above market expectations.

Even though market consensus of inflation has continued to rise, it has not yet incorporated this recent data. We expect 2015 inflation to be close to 6% and 2016 inflation to be above the Central Bank upper limit of 4%.



Consistent with recent inflation data, the Central Bank has raised its rates above previous expectations, accumulating 100 basis points over the last three monthly meetings, raising its intervention rate to 5.5%. We believe additional 25 to 50 basis point increases of the Central Bank intervention rate to be likely over the next six months.

With inflation close to 6%, the Central Bank continues to have a negative real interest rate. The DTF, our benchmark rate, has tracked the repo rate with a small lag, thus remaining negative in real terms.

Even though we are cautious on the possibility of DTF spread expansion over the repo rate given the recent performance, we continue to believe that changes in global and local liquidity could favor a recovery on this front.

On page seven, we present oil prices effect on foreign exchange. As mentioned in our last few calls, a very strong negative correlation exists between international oil prices and the Colombian peso/US dollar exchange rate.

This correlation has been weaker over the last couple months, with the Colombian peso depreciating more than what can be explained by oil prices, and more than emerging market currencies presented on this page.

Even though the exchange rate has been volatile over the past year and the accuracy of the forecast has been poor, it is worth mentioning that some analysts point to a potential stronger peso based on the economy's fundamentals.

Third quarter 2015 end of period and average exchange rates were COP3,087 and COP2,939 per US dollar respectively. This implies an end of period depreciation of close to 19% and a quarterly average depreciation of close to 18% during this quarter.

The peso depreciation will help explain some of the more relevant changes during this quarter observed later in this document.

Depreciation of the currency is positive for us from an income statement standpoint, as our Central American operations contribute more to it. However, it's heavy on solvency, as it accelerates risk asset growth of our Central American operation.

On page eight, we present our chart on Central American macro drivers. Analysts continue to have a GDP growth forecast of close to 4% for the region in 2016. We expect this environment to favor our business in the region. As mentioned in previous calls, we expect this region to be positively impacted by lower oil prices, as these countries are net importers.

I will now move to the results of Aval. I will start on page nine with our asset evolution.

Total assets grew 23.3% during the last 12 months and 8.2% during the last quarter. In absence of peso depreciation, these growth rates would have been 10.6% and 3.1% respectively.

Consolidated balance sheet structure was similar to that in place at the end of June 2015 and of September 2014, with net loans continuing to gain relevance in our balance sheet, now accounting for 65.1% of our assets, up from 64.4% three months earlier and close to 61.7% 12 months earlier.

Investments have partially compensated this slight increase, now accounting for 12.3%, down from 13.2% three months earlier and 13.4% a year before. Colombian assets account for 71% of our balance sheet. The Central American assets have increased, as has been mentioned, mainly due to the Colombian peso depreciation.

On page 10, we present our loan portfolio evolution. Gross loans increased by 29.7% over the past 12 months. This change resulted from our Colombian book growing at 18.4% and the Central American operation at 21.3%. This is 12.2% in dollar terms.

In the last 12 months' period, mortgages continued to be our most dynamic portfolio, growing at 52.7%. Consumer and commercial loans grew 29.3% and 27.2% respectively during the same period.



Broken down by region, mortgages -- mortgage loans grew 36.8% in Colombia and 6.6% in US dollar terms in Central America. Consumer loans grew 13.4% in Colombia and 14.5% in US dollar terms in Central America. Commercial loans grew 19.3% in Colombia and 13.2% in dollar terms in Central America.

During the third quarter of 2015, gross loans grew 9.1%, with Colombian operations growing at 4.4% and the Central American operations growing at 23.4%. This is 3.9% in US dollar terms.

The structure of our gross loan portfolio continues to experience a slight shift toward a higher component of personal loans. Commercial loans account for 62.1% of our portfolio, while consumer and mortgage loans account for 28.6% and 9.1% respectively.

Colombia accounted 72% of our loan portfolio, down from 75% three months earlier and down from 79% a year ago. The increase in weight of the Central American operation is mainly due to the peso depreciation.

On page 11, several loan portfolio quality ratios are presented. On the top left of the page, you will find the evolution of our past due loans more than 30 days and our non-performing loans, both as a percentage of total loans.

During this quarter, our delinquency ratio slightly improved from 2.6% to 2.5% when measured as 30 days PDLs to total loans, and from 1.7% to 1.6% when measured as NPLs to total loans.

Moving to the right, analyzed net provision expenses net of recoveries of charged off assets for the quarter was 1.2% of average loans, down from 1.8% reported three months earlier. Year-to-date cost of risk defined this way was 1.4%.

This ratio would have been 1.6% if recovery of charged off assets was not considered. Measured in this way, we expect cost of risk to be in the 1.6% to 1.7% area for the full year 2015.

Broken down by geography, net provision expense net of recoveries of charged off assets during the quarter were 1.1% of average loans in Colombia and 1.6% in Central America. Year-to-date, these ratios were 1.5% in Colombia and 1.3% in Central America.

At the bottom left, you will find the analyzed ratio of charge-offs as a share of average NPLs. This ratio was 0.9% [sic -- 0.9 times] during the third quarter of 2015, slightly higher than the 0.7 times reported during the previous quarter.

Finally, on the bottom right you will see several loan loss reserve coverage ratios. Our allowances are 2.5% of our total loans, and cover 1.6% -- or 1.6 times our NPLs and 1 time our 30 days PDLs.

On page 12, you will find further detail on the quality of our loan portfolio. On this page, you will find the evolution of our loans past due more than 30 days and our NPLs as a percentage of total loans. We also refer to the 90 days PDLs which, even though not included on this chart, are covered in the report made available to you on the webcast.

During this quarter, our delinquency ratio had a slight improvement when measured as 30 days PDLs to total loans, as 90 days PDLs to total loans, and as NPLs to total loans.

Thirty days PDLs improved from 2.6% to 2.5%, 90 days PDLs improved from 1.5% to 1.4%, and NPLs improved from 1.7% to 1.6%, all as a percentage of total loans excluding interest accounts receivables.

Broken down by type of loan, consumer loans experienced an improvement under all metrics, recording 3.8% and 1.8% when measured based on PDLs in the 30 day and 90 day horizons respectively, and 2.5% when measured based on NPLs.

Commercial loans were stable at 1.8% when measured based on PDLs on a 30 day horizon and 1.3% on a 90 day horizon, as well as at 1.3% when measured based on NPLs.



Broken down by geography, in Colombia 30 days PDLs to total loans were 2.6%, slightly better than the 2.7% recorded at the end of June 2015, while 90 days PDLs to total loans were 1.6%, slightly better than the 1.7% recorded on June 2015.

In Central America, 30 day PDLs to total loans was 2.2%, slightly better than the 2.3% recorded at end of 2015. And 90 days PDLs to total loans were 1%, at the same level as recorded at the end of June 2015.

Delinquency measured as NPLs to total loans in Colombia improved to 1.8% from 1.9% measured three months earlier. NPLs to total loans was stable in Central America at 1.3%.

Moving to funding and deposit evolution on page 13, total funding grew 24.7% over the last 12 months and 8.6% during the last quarter. When adjusted for the Colombian peso depreciation, these growth rates were 10% and 2.9% respectively.

Broken down by geography, Colombia funding grew at 14.5% over the last 12 months and 5.1% during the last quarter. Central American funding grew at 62.2% in Colombian peso terms, or 6.3% in US dollar terms, over the last 12 months.

For the third quarter, Central America funding grew 19.1% in Colombian peso terms and 0.3% in US dollar terms.

Deposits increased at 19% during the last 12 months and 5.3% during the last quarter. When adjusting for the Colombian peso depreciation, these growth rates were 7.3% and 0.6% respectively.

Broken down by geography, Colombian deposits grew 7.5% over the last 12 months and 0.5% during the last quarter. Temporary system wide liquidity squeeze that resulted from cash management at certain government bodies affected our end of September ratio, as discussed by Mr. Sarmiento. Liquidity improved in the system over October and November.

Central American deposits grew 63% in Colombia peso terms, or 6.8% in US dollar terms, over the last 12 months. For the third quarter, Central American deposits grew 20% in Colombia peso terms, or 1% in US dollar terms.

Our funding and deposit structure remained substantially stable during the quarter. Our deposits accounted for 73% of total funding at end of period. Our deposits covered 94% of our net loans, down from 9.8% [sic -- 98%] three months earlier.

Our checking accounts remain at 23% of deposits, and Colombia accounted for 72% of total deposits.

Page 14, the evolution of our total capitalization, our attributable shareholders' equity, and the capital and equity ratio of our banks are presented.

Total equity, defined as attributable equity plus minority interest, was COP21 trillion as of the end of September. This implies a 6% increase of the last 12 months and a contraction of 2.1% during the last quarter. Attributable equity accounted for 62.8% of total equity as of September 2015.

Attributable equity was COP13.2 trillion as of the end of September. This implies a 3.8% growth during the last 12 months and a 3.3% contraction during the last quarter.

Contraction in equity resulted from declaring dividends for a full semester while recording income for only one quarter. In addition, unrealized losses on investment securities resulting from a rising interest rate environment contributed to this change.

In this chart, we also present the consolidated solvency of our banks. Solvency at end of period was 10% at Banco de Bogota, 11.4% at Banco de Occidente, 11.6% at Banco Popular, and 10.8% at Banco AV Villas. In general, six month dividends declared during this quarter affected the bank solvency.



In addition, the accelerated growth of the Central American risk-weighted assets that resulted from the peso depreciation continues to affect Banco de Bogota solvency. We are currently monitoring the bank's performance and considering options to improve its solvency, analyzing on a line by line basis its regulatory capital and risk-weighted assets.

On page 15, we present our net interest margins. Our NIM for the third quarter of 2015 was 5.3%, slightly contracting from 5.4% during the previous quarter. This was mainly driven by a contraction in net interest margin on investments.

In the quarter, NIM on loans was 6.3%, slightly down from the 6.4% recorded for the previous quarter.

NIM on fixed income investments was 0.5%, down from 1.4% a quarter earlier. The yield on fixed income investments decreased due to the increase in rates of government bonds. Year-to-date, net interest margin was 5.4%, with NIM on loans at 6.2% and NIM on investments at 1.7%.

Quarterly net interest income grew 14.6% compared to the same period one year earlier, increasing from COP1.85 trillion to COP2.12 trillion during this quarter. Net interest income for this quarter grew at 2.2% relative to the previous quarter.

On page 16, we present net fees and other income. Fee income is presented on the top of the page. Gross fee income grew 31.7% compared to the same period a year earlier.

Net fees for this quarter increased by 10% compared to those received during the second quarter of 2015. In absence of depreciation of the Colombian peso, last 12 month and quarterly growth would have been 14.6% and 3.8% respectively.

Twelve month fees broken down by geographies were 14.7% in Colombia and 76.3% in Colombia peso terms in Central America. This is 14.4% in US dollar terms.

At the bottom of the page, we present other income. Other income contracted 19.4% compared to the previous quarter and 7.3% compared to 12 months earlier. This decrease was mainly driven by lower income from foreign exchange.

Income from our equity investments, which includes dividends and equity method and income from the nonfinancial sector, accounted for COP331 billion out of the total COP528 billion of other income recorded during this quarter.

On page 17, we present efficiency. We present our operating expenses as a share of total income and average assets. Our efficiency measured as operating expenses divided by average assets was 3.5% during the quarter, up from 3.3% recorded three months earlier.

In Colombia, this ratio went from 3% to 3.1%. In Central America, this ratio went from 4.3% to 4.6% in Colombia peso terms. It was stable in US dollar terms at 4.4%. Year-to-date, this ratio was 3.4% for Aval, with Colombia at 3.1% and Central America at 4.2% in Colombia peso terms.

Our efficiency, now measured as operating expenses divided by total income, was 50.7% during the quarter, up from 46.3% during the previous quarter. In Colombia, this ratio went from 42.7% to 48.4%, mainly due to NIM contraction due to a lower NIM on investments.

In Central America, this ratio improved from 55.8% to 55.5% in Colombian peso terms. Year-to-date, this ratio was 48.5% for Aval, with Colombia at 45.6% and Central America at 55.5% in Colombia peso terms.

Deterioration in our efficiency metrics during this quarter resulted mainly from an increase in the weight of our less efficient Central American operation, a slight increase in our cost base in Colombia, and a poor performance of our investment portfolio.

Finally, on page 18 we present our net income and profitability ratios. Net income for the quarter was COP445 billion, or COP20.00 per share. Cumulative net income as of June was COP1,348 billion, or COP60.50 per share.

In absence of the equity tax, our cumulative net income as of June would have been COP15,057 billion, or COP69.90 per share.

Return on average assets and return on average equity for this quarter were 1.5% and 13.3% respectively.

With this I finish the presentation, and we can now pass to questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question and answer session. (Operator instructions.) Juan Dominguez, Credicorp Capital.

Juan Dominguez - Credicorp Capital - Analyst

Good morning, and thanks for inviting us to this earnings call. I have a couple of questions, first regarding liquidity. You already mentioned that liquidity in October and November has improved. But, I wonder what are your expectations for next year, given that we will see an increase on test issuances competing with deposits in the financial sector on one side, and on the other side the government will not be as active in the deposit market as it is today.

And secondly, I know that it's pretty soon to have any results, but I wonder if you can give us some -- or actually if you can share your experiences on the recent launching of Aval Pay. I think that this is very disruptive for Colombia, and I want to know what's the experience and what are the main differences with the app of Bancolombia.

Diego Solano - Grupo Aval Acciones y Valores S.A. - CFO

Okay, Juan. I'll take the first one, and I'll pass the Aval Pay question to Luis Carlos, who is the brain behind this product.

Regarding liquidity, actually, yes, we saw an improvement during the past couple months in liquidity. Actually, the ratio would have measured -- I don't have a number that I have calculated. But I estimate, based on what I've seen on our Colombian balance sheets, that around half of what was lost has come back. This would imply almost a couple percentage points of improvement in the past due loans ratio.

But, your question might be the more relevant question when you are looking into next year. Even though we've seen this recovery, we now see a trend where loans continue to grow slightly faster than what deposits do. We see -- even though we are pretty well positioned on the deposits to loan ratios, we see some of our competitors are in a weaker position.

Therefore, we do expect this slightly tighter liquidity environment to be a new cycle that is quite different from what we had seen over the past two to three years. Part of what has been happening in Colombia was the monetary policy of the Central Bank hasn't been well transmitted to prices of deposits and loans.

Particularly on the shorter horizons where DTF is calculated, it's precisely that, and excess liquidity that was flooding Colombia based on Colombian funding and also some influence of foreign investment into Colombia.

And to next year, this cycle already somehow started several months ago where liquidity has drained out of emerging markets and the trend of additional liquidity in Colombia is tighter. Some of the drivers of that is what you mentioned, Juan. And it is less deposits from the government due to regulation as well as lower royalties and tax collections from oil price.

In that environment, what we expect to see is perhaps a more positive base for a better pricing on our assets, though as I mentioned during the document, we need to be cautious on this, given that recent performance might point in a different direction.



Now I'll pass the Aval Pay question to Luis Carlos.

Luis Carlos Sarmiento Gutierrez - *Grupo Aval Acciones y Valores S.A. - CEO, President*

Thank you, Diego. Well, I would say that Aval Pay has been so far a success that has exceeded our expectations. I would start by saying that by the end of this month we'll have 100,000 downloads of the app, which surpasses what we had thought we were going to obtain in the first couple of months.

Aval Pay is nothing different than just a virtual wallet. And all we want to do is really simulate what a real wallet looks like with, for example, credit cards of -- not entirely your own, but you can have credit cards of other banks as well.

And you asked what the difference -- the main difference with Bancolombia's virtual wallet was, and there you have it. In our wallet, you can put -- in our virtual wallet, you can place any credit card of any bank in the country. And in Bancolombia's, it's only Bancolombia's credit cards.

Aval Pay has been a huge success, I would say, especially with our young audience, with our young clients and in conjunction with the strategy that we'd put in place two years ago of securing all -- the pre-purchase of tickets to concerts.

And what we do is we have negotiated with a sponsor of concerts, with OCESA, a big Mexican company that sponsors concerts all over Latin America. We have secured with them that, before tickets are offered to the public in general, they are only offered to either Aval Pay or Aval credit card customers.

And obviously, this has had good receipt from our young audiences. And in conjunction, as I've said, with Aval Pay, I think that it's boding pretty well for the product.

I think the most important thing of Aval Pay is really not what we have right now, but all the enhancements that we're working on. And I would say that over the next six months, we will have enhancements that are really going to be innovations. And I think that it's going to be hard to match them.

And so, I would say all in all Aval Pay has done pretty well. We have started to see a nice flow of transactions coming in through Aval Pay. But, obviously that is -- when you do one of these initiatives, there are two pillars to them.

One is to launch the product that technologically works, but the other one is to have it accepted by the businesses. And that is the end that we're working on right now.

So, we'll have more and more businesses accepting Aval Pay as we go along. And we expect that by the end of December we'll have about 50,000 businesses accepting Aval Pay. And hopefully, we'll keep engaging more businesses as we move along. So, hopefully that sort of answers your question.

Diego Solano - *Grupo Aval Acciones y Valores S.A. - CFO*

Mauricio, I believe your line is open and the operator were not hearing you.

Mauricio Restrepo - *BTG Pactual - Analyst*

Okay. Can you hear me?



Tatiana Uribe - *Grupo Aval Acciones y Valores S.A. - IR Officer*

Yes.

Diego Solano - *Grupo Aval Acciones y Valores S.A. - CFO*

Yes, Mauricio.

Mauricio Restrepo - *BTG Pactual - Analyst*

Okay. Hi, guys. Thanks for the call. A couple of questions, the first one on asset quality, if you can provide us more color on the trends. So, there were some improvements in this quarter. I would like to know how is the exposure of the [Canal Diaz] and if you expect some impacts in forthcoming quarters.

The second question on the NIM. Given the changes in liquidity and on deals that you expect, which are the trends for the NIM next year?

And finally, how do you see the capital ratios for Banco de Bogota evolving as well? Thank you.

Diego Solano - *Grupo Aval Acciones y Valores S.A. - CFO*

Regarding asset quality, we had a positive quarter. However, as you might have heard us in the past, we continue to be cautious on the cycle. Cautious on the cycle means we do not expect a significantly different cycle relative to what we have seen year-to-date, but quarter-to-quarter variations are not representative of what could be the numbers moving forward.

What we expect to see, as I mentioned before, is we should end this year at somewhere -- cost of risk between 1.6% and 1.7%. We are slightly more positive than we were before. Before we were expecting to be in the 1.7% area.

This 1.6% to 1.7% figure already incorporates the Canal Diaz issue that you mentioned. We have a pretty small exposure to Canal Diaz relative to some of our larger peers. Our exposure is up close to \$40 million. And the 1.6% to 1.7% cost of risk figure that I mentioned already incorporates having to substantially provision Canal Diaz during the remainder of this year.

On your second question on changes on NIM with liquidity, there is a medium term and a short term effect of what has been happening with rates in Colombia. And this is at the time where the Central Bank rate is increased. We have a pretty fast repricing of our deposits that pressures our net interest margin.

However, once prices are adjusted within, let's say, a couple months, we move to an environment where we benefit from higher inflation and higher interest rates, as any bank around the world does.

Therefore, we have a positive view on longer term net interest margin, though cautious on the effort that we need to run from our banks of repricing as quickly as possible our loans based on the pressure we get from the Central Bank movement.

Then the second piece of your questions that is liquidity, that is not exactly the same as the Central Bank behavior. We believe it's a clear positive for banks, and particularly for banks that are better positioned on a deposit to loans basis. So, overall we see this environment as a positive environment for us.

Finally, on capitalization of Banco de Bogota, I mentioned that we are keen on following what is happening with Banco de Bogota. There is no announcement to be made yet, but we're reviewing the way risk-weighted assets contribute to income as well as consume capitalization of the bank, as well as looking at each one of the lines of regulatory capital to see what should we consider to do to act on those lines.



Operator

Boris Molina, Santander.

Boris Molina - Santander - Analyst

Yes. Thank you for taking my questions. I had a question regarding the outlook for your growth in loans and fees for next year. Now, we've seen the diminished expectations in terms of the impact of the 4G, in terms of potential loan growth due to higher funding cost and fiscal pressure from the government. So, how would you categorize your outlook for loan growth in Colombia in 2016 and in Central America?

And my second question is related to Banco de Bogota again. You seem to be more keen on optimizing risk-weighted assets than to address the overall level of capital. But, it appears to us that regulatory changes or implementation of Basel III still has some impacts in Colombia that will probably affect Banco de Bogota still. So, do you feel that there is a potential need to do a capital increase in Banco? I thought you just recently concluded one.

Diego Solano - Grupo Aval Acciones y Valores S.A. - CFO

Okay. Regarding your first question on loan growth, we might have been -- or let's say this year we were more cautious on loan growth than what actually showed up. We were expecting to see something in the lower teens area. And as you saw in the results we presented, it's clear that this year will end much higher than that, even taking away all the effect of depreciation.

Part of what has happened is the slower growth of the Colombian economy was very much sensed inside the oil and gas industry. And as you might imagine, the oil and gas is not intensive in labor. Therefore, its impact on consumption and the overall economy has been quite mild.

However, when you move a step ahead into next year, it does have an implication on lower tax and royalties revenues for the government. Therefore, the discussion is very much about government spending and the way consumer -- the quality of employment and consumer behavior.

In this kind of environment, we're looking into growth that could be in the 10% to 12% area. This growth should be homogenous at the system in the different categories of loans. That means corporate and consumers as well as mortgages. However, as we have been doing in the past, we should be able to outgrow in certain categories the system's growth.

Regarding Central America, we continue to be quite positive. Central America actually has healthier GDP growth expected for next year than the Colombian one, at least 100 basis points higher. Therefore, it is moving on a more positive cycle, so we should expect to see more of the same as we've seen over the past few months.

Now moving to your question on solvency of Banco de Bogota, I might have not seemed clear enough. But, yes, we are looking into risk-weighted assets, but more so are we looking into the capital structure or the regulatory capital of Banco de Bogota.

When I mentioned on a line by line basis, this means that the only way to improve solvency is not only to capitalize the bank, it is to look at each one, at every single line of equity where we can do different things. Some could be done on the primary capitalization.

Others could be done on the secondary capitalizations, such as subordinated bonds that, you can imagine, we are obviously considering as well, and things that we can do not only from the inflowing to the capital structure but also from the outflows on the capital structure.

Therefore, we are actually looking at both. And it might be easier to act on the regulatory capital front than on the risk-weighted assets front.

Operator

We have no further questions at this time, and I will turn the call back to Mr. Sarmiento for closing remarks.

Luis Carlos Sarmiento Gutierrez - *Grupo Aval Acciones y Valores S.A. - CEO, President*

Thank you very much, Sylvia, and thank you very much for everybody who participated. Thank you, Diego and Tatiana. And see you next time.

Diego Solano - *Grupo Aval Acciones y Valores S.A. - CFO*

I might add that you will shortly receive our historical quarterly results under IFRS starting at the beginning of 2014.

Operator

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

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