AVAL
LISTED
NYSE

GRUPO AVAL ACCIONES Y VALORES S.A.

3Q2016 CONSOLIDATED EARNINGS RESULTS CALL TRANSCRIPT

NOVEMBER 29TH, 2016

PARTICIPANTS

Luis Carlos Sarmiento Gutiérrez – Grupo Aval Acciones y Valores S.A.
Chief Executive Officer

Diego Solano Saravia – Grupo Aval Acciones y Valores S.A.
Chief Financial Officer

Participants Question and Answer Session
Jason Mollin – Scotiabank
Nicolás Riva – Citi
Sebastián Gallego – Credicorp
Gabriel Nobrega – UBS
María Barriga – Corredores Davivienda
Anibal Valdés – Barclays
Natalia Casas – Ultraserfinco

PRESENTATION

Operator

Welcome to the Third Quarter 2016 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 Acciones y Valores S.A. ("Grupo Aval") is an issuer of securities in Colombia and in the United States, registered with Colombia's National Registry of Shares and Issuers and the United States Securities and Exchange Commission ("SEC"). As such, it is subject to the control of the Superintendency of Finance and compliance with applicable U.S. securities regulation as a "foreign private issuer" under Rule 405 of the U.S. Securities Act of 1933. Grupo Aval is a not a financial institution and is not supervised or regulated as a financial institution in Colombia.

As an issuer of securities in Colombia, Grupo Aval is required to comply with periodic reporting requirements and corporate governance, however, it is not regulated as a financial institution or as a holding company of banking subsidiaries and, thus, is not required to comply with capital adequacy regulations applicable to banks and other financial institutions. All of our banking subsidiaries (Banco de Bogotá, Banco de Occidente, Banco Popular and Banco AV Villas), Porvenir and Corficolombiana, are subject to inspection and surveillance as financial institutions by the Superintendency of Finance.

Although we are not a financial institution, until December 31, 2014 we prepared the unaudited 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 believe 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. IFRS as applicable under Colombian regulations differs in certain aspects from IFRS as currently issued by the IASB.

The unaudited consolidated financial information included in this document is presented in accordance with IFRS as currently issued by the IASB. Details of the calculations of non-GAAP measures such as ROAA and ROAE, among others, are explained when required in this report.

Because of our recent migration to IFRS and recent implementation of IFRS accounting principles, the unaudited consolidated financial information for the first, second and third quarter of 2016, and the comparative information for the relevant unaudited consolidated periods of 2015 presented herein, may be subject to further amendments.

This report 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 risks factors as evidenced in our Form 20-F available at the SEC webpage. Recipients of this document are responsible for the assessment and use of the information provided herein. Grupo Aval will not have any obligation to update the information herein and shall not be responsible for any decision 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 document we refer to billions as thousands of millions.

Today's call from Aval will be conducted by Mr. Luis Carlos Sarmiento, President and CEO; Mr. Diego Solano, Chief Financial Officer; and Mrs. Tatiana Uribe, Financial Planning and Investor Relations Officer.

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

Luis Carlos Sarmiento Gutiérrez – Grupo Aval Acciones y Valores S.A. – CEO

Thank you, Sylvia.
Good morning and thank you very much for joining our call. It is my pleasure to report that amidst a dynamic economic, political and financial environment, our third quarter results met our expectations. In the next few minutes I will highlight a few of these results and later on in the call Diego will explain these and other points in detail.

But first let me refer briefly to some of the events in Colombia that have been taking up most of the front-page space in our major newspapers:

For starters, it seems like ages ago but it was less than two months ago that we had a Brexit-like shocker in Colombian politics when a majority of voters opted for opposing the then existing draft of the peace accord with the FARC guerrilla. I guess people were afraid of expressing their true feelings in countless mistaken polls. The good news is that less than two months later, Congress is getting ready to ratify a new draft of the accord that reflects some of the points that the leaders of the opposition wanted in the document, albeit not the most important ones. In any case, in general, our perception is that this issue has dragged on long enough and that in general the population will be relieved when something else makes headlines. And we can't forget that residents of areas still under some sort of influence by the FARC will probably be the most relieved.

As if that wasn't enough, the much-announced Fiscal Reform was finally presented to Congress only a few weeks ago. There is currently a lot of debating going on within Congress and between Congress and interested constituents about possible changes and about clarification of diverse interpretations around certain issues presented in the Reform. As far as we are concerned, we have expressed our disagreement to the proposed tax treatment of preferred shares' dividends, to the perpetuation of the tax on financial transactions, to the additional withholding tax on interest paid to foreign lenders to 4G infrastructure projects, to the possible creation of deferred taxes which are not currently contemplated under current tax laws and to losing the ability to deduct from taxable income the expense generated as a result of the amortization of goodwill, among many others. However, in general, the Reform tries to comply with the premises under which it was conceived: lowering corporate taxes, expanding the taxpayer base by lowering the threshold amount to submit tax returns and increasing value added taxes. Although we salute the effort to lower corporate taxes we are also opposed to having this tax decreased gradually.

A third event that is causing ripples in Emerging Markets, which obviously include Colombia, has been the Trump effect. After a few months of relative stability we have seen once again the Peso/Dollar exchange rate rising and the stock market entering a selling mode. Volatility is now the norm and will probably remain so until the world understands and better digests Mr. Trump's real intentions.

With regard specifically to Colombia's macroeconomic landscape, as we had anticipated in previous calls, through the third quarter of this year the economy continued to slow down. In fact GDP grew only 1.2% in the third quarter when compared to the same period in 2015, largely influenced by the recent trucker's strike as confirmed by the contraction in the transportation component of GNP during the quarter. Consequently, at this point it is tough to imagine growth of more than 2% for 2016. We do however continue to believe that next year's growth will be at least 50 basis points higher than this year's.

Inflation, as we had also anticipated, started to ease since the month of August after reaching a high, on a last twelve month basis, of almost 9%. As of October, on a last twelve month basis, inflation has decreased by almost 250 basis points. We now expect that this year's inflation will drop by a further 100 basis points ending the year at around 5.8%. Next year the downward trend in inflation should continue, barring unforeseen shocks to the economy, and should end at approximately 4.5%. Our inflation estimation for next year is somewhat higher than the analysts' consensus but this is because we are still unsure that we have seen the last of the Niña climate phenomenon and also because we have not been able to fully estimate the impact on consumer prices of the increase in value added taxes.

For now, however, as we anticipated in our last call, the Central bank has decided to keep its discount rate at 7.75% until inflation has proven its decreasing trend in a consistent way and, I would imagine, until it has had a chance to see where the exchange rate trends to, and with it the cost of imported goods, as a result of Mr. Trump's foreign trade policies. Although we don't yet have current account deficit numbers as of September, preliminary information points to a pause in the improvement of the country's trade balance deficit, which leads us to believe that we will probably also see a pause in the improvement of the current account deficit.

DTF has stabilized around 70 to 75 basis points under the Central Bank's rate which has proven correct our strategy to price most new commercial loans off of the Central Bank's rate or IBR. We are seeing the effects of this strategy in the strengthening of our NIM on loans.

Unemployment numbers continue to come in well under 10% which gives us confidence that the deterioration in the quality of our consumer loan portfolios will for now be minimal.

With respect to our other major market, the Central American economies continues to grow at a much better pace than Colombia's growth. The two main reasons for this have been the US economic recovery and the relatively low prices of oil. However, we are cautious as to the effect of president elect Trump's policies on immigrants in the USA and the potential consequences of those policies in the level of remittances sent by Central American immigrants to their home countries, specially to countries such as El Salvador and Guatemala. We are however somewhat relieved that most of our business resides in the other Central American countries.

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

Aval's Attributable Net Income for the quarter was Ps 614 billion or Ps 27.6 per share, showing a 38% increase versus the comparable third quarter 2015 result of Ps 445 billion or Ps 20 per share. Year to date, attributable net income, excluding the non-recurrent equity tax expense, amounted to Ps 1,860 billion which represents a 20% increase versus this same number in 2015.

Our total consolidated gross loan portfolio as of September 30 amounted to Ps 144 trillion, an increase of 4.2% versus a year before and of 0.8% in the quarter. In absence of the periods' exchange rate movements the gross loan portfolio would have grown by 1.1% in the quarter and by 6.2% in the last twelve months. We are now estimating loan growth, excluding exchange rate movements, of around 8% for 2016 and of around 10% for next year.

Our consolidated Deposits amounted to Ps 136 trillion as of September 30th, an increase of 5.5% versus a year before and a decrease of 0.6% in the quarter. In absence of the periods' exchange rate movements, the deposits would have declined by 0.3% in the quarter and grown by 7.5% in the last twelve months. We expect to have growths in deposits, during 2016 and 2017, similar to the expected growths in our loan portfolio.

Our ratio of Deposits to Net Loans closed at 95% as of September 30, 2016, fairly unchanged when compared to the 96% observed at the end of June 30, 2016 and slightly better when compared to the 94% as of September 30, 2015.

In line with our expectations, Aval's average yield on loans increased by 60 basis points during the third quarter of 2016 reaching 11.9% versus the 11.3% yield recorded in the second quarter of this year. The third quarter 2016 average yield on loans increased by 190 basis points when compared to the 10% yield recorded during the third quarter of 2015.

We also saw an important NIM expansion during the period.

NIM on Loans was 6.8% during the third quarter of this year versus 6.5% in the second quarter of 2016 and 6.3% in the third quarter of 2015; NIM on loans for this full year is expected to come in at around 6.6% to 6.7%. Average NIM on loans for the full year 2017 should be fairly similar to 2016's; however, we do expect that NIMs will decrease as the year progresses.

Total NIM was 5.8% in the third quarter of 2016 versus 5.6% in the second quarter of this year and 5.3% in the third quarter of 2015.

Cost of risk during the third quarter of 2016 was 1.9% before recoveries of provisions and 1.7% after recoveries of allowances for loan losses, returning to more normalized levels after the figures for the second quarter of 2016, which had come in at 2.1% and 1.9% respectively, and which were impacted by the one-time provision expense to charge off the Pacific Rubiales loan. We currently estimate 2016's cost of risk to come in at around 1.85% to 1.9% and we estimate that these same numbers will apply to 2017.

There has been a fair amount of press given to the government's intervention of Electricaribe. It is worth mentioning that our exposure to this client is currently around 0.3% of our total consolidated loan portfolio. We will book additional provisions to reflect this risk in the remainder of 2016 and during 2017. At this point, provisions to bring this credit to a rating of CC should represent approximately a 3 basis points increase, on an annual basis, in our consolidated cost of risk.

Our consolidated efficiency ratio, measured as cost to income, was 45.9% for the quarter ended on September 30th, 130 basis points better than the 47.2% observed during the second quarter of 2016 and 580 basis points better when compared to the third quarter of 2015. We remain committed to keep improving this ratio for the next few years at a rate of 100 basis points per year.

As of September 30, 2016, all of our banks showed Tier I capital ratios between 9.5% and 10.5%, which for the expected levels of growth and profitability give us ample capital bases.

During the third quarter of 2016, our return on average assets was 1.8%, 10 basis points better than the 1.7% observed during the second quarter of this year and 50 basis points above our ROAA during the third quarter of last year.

Finally, our return on average equity during the third quarter of 2016 was 16.2% almost unchanged versus our return on average equity during the second quarter of 2016 and 340 basis points above our ROE during the third quarter of last year. It is our expectation that this full year's return on equity will average approximately 15.25% including the equity tax expense booked during the first quarter. We consider that it is too early to tell what to expect regarding return on equity for 2017 until we have a better grip on the final outcome of the fiscal reform. Once we do we will share with you our best guidance.

I now pass on the presentation to Diego who will expand on the highlights that I just shared with you. Thank you and good day.

Diego Solano Saravia – Grupo Aval Acciones y Valores S.A. – CFO

Thank you, Luis Carlos.

I will now move to the presentation on a chart-by-chart basis. I will start with an update on the macroeconomic environment in Colombia and Central America.

On page 5 we present the evolution of some key macro drivers in Colombia.

The most relevant change since our last call has been real GDP growth. Last week, the market was negatively surprised with a 1.2% result for the third quarter of this year, well below market expectations of 1.6% to 1.8%. With this result, the year-to-date growth of the Colombian economy was 1.9% as of September.

The trucker's strike that occurred during the beginning of the third quarter was one of the main drivers of the slower than expected growth, sectors such as transportation and agroindustry both affected by this strike, declined in real terms versus the third quarter of 2015. Mining continues to be the sector with the strongest contraction. Construction, financials and manufacturing grew at a stronger pace.

Uncertainty derived from the tax reform discussions is expected to affect the year-end GDP growth as investment decisions get postponed in this environment.

With this data points, market consensus and real GDP growth estimates for 2016 and 2017 growth as reported by Bloomberg were adjusted down 20 basis points to

2.1% for 2016 and 2.8% for 2017. We expect 2016 growth to be close to 2% area, as well as the market we expect improvement in 2017, year in which we expect to see figures in the 2.5% to 3% range.

We believe certain tailwinds should result in stronger growth during 2017. These are: first, more stable oil prices in the $45 to $50 per barrel range; second, the contribution of the construction in the fourth generation concessions; third, a more controlled current account balance; fourth, a controlled fiscal deficit resulting from the approval of the fiscal reform; and fifth, a lower inflation and interest rate environment.

Unemployment, as of September, the most recent data point released, was 8.5%. This figure compares favorably with 9% for the same month of 2015. We foresee average unemployment to be under 10% for this year and the next year.

Finally, even though no new information on current account balance has been released since our last call, the market continues to expect its improvement. The Central Bank guidance for full-year 2016 was revised down to 4.7% improving from 6.5% in 2015.

On page 6, we present inflation and some interest rate benchmarks.

Inflation continues to fall as expected. Price shocks such as the strong depreciation of the Colombian peso, the truckers' strike and El Niño phenomenon have already passed.

Inflation peak at 8.97% in July 2016 and as rapidly corrected downwards. October, the latest figure available, stands at 6.84%. As the market, we expected to continue declining during 2017, we expect inflation to be 5.8% for the full year 2016 and to be in the 4.5% area for 2017. Our 2017 view, though positively somewhat more conservative than the market's 4% estimate. It incorporates the recent FX trend and potential impact of a proposed increase in the VAT.

The Central Bank kept its intervention rate flat at 7.75% last Friday, in line with our expectations. We believe the bank will start to cut rates at some point early in 2017.

Finally, the DTF detach from the Central Bank rate again, currently standing at 7%. We expect that the DTF trend will be similar to that of the Central Bank's rate. As discussed previously by Luis Carlos, we continued to guide our clients to migrate from DTF to IBR, benchmark based on floating rates for corporate loans. IBR closely tracks the Central Bank rate reducing our exposure to disconnection between funding and lending rates in the segment. As of now, one-third of our stock of Colombian peso corporate loans currently flow on IBR.

On page 7, we can find the evolution of the oil prices and the Colombian peso/US dollar rate.

The Colombian peso/US dollar exchange rate ended September at Ps 2,880; close to 7% stronger than three months earlier and 1% stronger than a year earlier. Third quarter average exchange rate was Ps 2,949; 2% stronger than the previous quarter and stable versus the previous year.

A negative correlation still exists between the Colombian peso/US dollar exchange rate and the performance of oil prices. Oil producing countries' currencies have weakened somewhat as oil prices have corrected down following the inventory data and positions taken by some OPEC members.

In addition, other events such as the increase in the probability of interest rate hikes in the US, fluctuations of capital flows to emerging markets, and the US political cycle have recently affected the movement of the peso. We expect FX volatility to persist dependent on international oil prices and movement of interest rates by the Fed.

On page 8 we present our chart on Central America macroeconomic drivers.

Our view on Central America continues to be positive. We expect a stronger 2017 growth in the region than that for Colombia. Having said so, remittances which are key in countries such as El Salvador, and a relevant source of income in Guatemala, could be affected by Trump's announced views on immigration. We closely follow the evolution of President-elect Trump's view on this front.

As in the past, we will continue to closely watch the macro and political events in the region and aligning our strategic decisions and growth expectations accordingly.

I will now move to consolidated results of Grupo Aval under IFRS, starting on page 9 with our asset evolution.

Total assets grew by 3.3% during the last twelve months and presented a slight increase of 0.3% during the last quarter. In absence of the effect of a Colombian peso fluctuation in Central America, assets would have grown at 5.4% and 0.7%, respectively.

Broken down by region, for the past twelve months, our Colombian assets grew 4.9% while our Central American assets grew at 6.1% in dollar terms, a 1% decrease when translated into pesos. In third quarter of 2016, our Colombian assets grew at 0.4% while our Central American Assets grew at 1.5% in dollar terms.

Our consolidated balance sheet structure as of September 2016 was similar to that in place at the end of June 2015 and March 2016, with slight increases in the weight of our loans and leases in total assets. Our net loans accounted for 66.2% of our assets as of September 30, 2016, up from 65.6% a year earlier, and 66% on the previous quarter. Fixed income investments accounted for 10% of our total assets as of September, down from 12.3% a year earlier. This lower weight of our fixed income portfolio resulted from adjusting the size of our portfolio to the increasing interest rate environment.

Colombian assets accounted for 72.3% of our balance sheet as of September 2016, materially at the same level as reported in our last call. Our Central American operations accounted for 27.7%. This mix has been relatively stable during the last year as a volatility of the Colombian peso US dollar exchange rate has been lower than that during 2015.

On page 10 we present our loan portfolio evolution.

Gross loans increased by 4.2% over the past twelve months. In absence of the effect of the peso depreciation on our Central American operation, twelve-month growth would have been 6.2%. In the last twelve months our Colombian book grew at 5.2% and our Central American book grew at 9.2% in dollar terms, or 1.9% when translated into pesos.

Mortgage has continued to be a dynamic portfolio growing at 9.3% for the last twelve months period, 14% in absence of the effect of the FX fluctuations on our Central American operation. Consumer and commercial loans grew at 10.2% and 0.6% respectively during the same period. As mentioned by Mr. Sarmiento, the slow growth in the commercial book has been derived from the contraction of the US dollar denominated loan book of our Colombian banks, and by the fact that the uncertainty of the fiscal reform put a pause on investment decision for large companies.

Broken down by region, mortgage loans grew 22.7% in Colombia and 9.5% in dollar terms in Central America. Consumer loans grew 12% in Colombia and 14.4% in dollar terms in Central America. Commercial loans grew 1.4% in Colombia and 4.6% in US dollar terms in Central America.

During the third quarter of 2016 gross loans increased by 0.8%. In absence of the effect of the peso appreciation on Central American operation, three-month growth would have been 1.1%. This growth resulted from the Colombian operation growing at 0.4% and the Central American operation at 1.7%, growing by 3.1% in dollar terms.

The structure of our gross loan portfolio remained stable when compared to the previous quarter. Commercial loans accounted for 59% of our portfolio, while our consumer and mortgage loans accounted for 31% and 9.7%, respectively. Loans to individuals, which include consumer, mortgage and microcredit loans were 2.1 percent points higher than a year earlier. Colombia accounted for 72% of our loan portfolio, slightly down from 73% three months earlier, and from 75% twelve months ago. The variation in weight of the Central American operation has mainly been due to the Colombian peso fluctuation.

We expect 2016 loan growth in absence of FX movement to be around 8% with corporate loans growing at 7% to 8% and loans to individuals growing in the 12% to 14% range. As mentioned by Mr. Sarmiento, we expect to have a higher growth rate this year in our Central American operation, particularly in Panama and Costa Rica. We expect 2017 loan growth in the absence of FX movements to be in the 10% area.

On page 11 we present several loan portfolio quality ratios.

The overall quality of our loan portfolio was materially stable during quarter. On the top-left of the page you will find the evolution of our loan past due more than 30 days and our NPLs both as a percentage of total loans excluding interest account receivables. During this quarter our delinquency ratio measured as 30 days PDLs to total loans improved by 5 basis points to 2.8%. Delinquency measured as NPLs to total loans deteriorated by 11 basis points from 1.7% in the second quarter of 2016 to 1.8% as of the end of third quarter 2016.

Moving to the right, annualized net provision expenses, net of recoveries of charged-off assets for the quarter was 1.7% of average loans, improving from 1.9% compared to three months earlier, and above the 1.4% recorded twelve months earlier. This ratio is showing normalization of the impact of the Pacific Rubiales provision expense during the second quarter of 2016.

At the bottom-left you will find the annualized ratio of charge-off as a share of average NPLs. This ratio was 0.8x during the third quarter of 2016.

Finally, on the bottom-right, you will see several loan loss reserve coverage ratios. Our allowances are 2.8% of our total loans and cover 1.5 times our NPLs and 1 time our 30 days PDLs. We expect full year 2016 gross cost of risk to be in the 1.85% to 1.9% range, incorporating a 10 basis point impact of Pacific. Cost of risk net of recoveries of charged-off assets would be 15 to 20 basis points lower. We expect a similar cost of risk for 2017.

On page 12 you'll find further detail on the quality of our loan portfolio.

On this page you'll find the evolution of our loans past due more than 30 days, and our NPLs as a percentage of total loans.

During this quarter, our overall end of period delinquency ratio slightly improved by 5 basis points when measured as of 30 days PDLs to total loans to 2.7% in the third quarter of 2016. During the quarter, our 90 days PDLs to total loans increased by 10 basis points to 1.6%, and our NPLs to total loans increased by 11 basis points to 1.8%. All ratios calculated as a percentage of total loans excluding interest accounts receivables.

Broken down by type of loan, quarterly. Commercial loans improved by 19 basis points to 1.9% when measured as 30 days PDLs, but deteriorated 11 basis points to 1.4% when measured as 90 days PDLs, and 11 basis points to 1.4% when measured based on NPLs.

Consumer loans experienced a 7 basis points deterioration when measured as 30 days PDLs, 90-day PDL and NPLs to 4.2%, 2% and 2.8% respectively. Mortgage loans deteriorated their quality from 2.8% to 2.9% when measured as 30 days PDLs, and from 1.1% to 1.2% when measured based on NPLs.

Funding and deposit evolution is presented on page 13.

Total funding grew 2.7% over the last twelve months and decreased 5.4% during the last quarter. In the absence of the effect of the Colombian peso exchange rate fluctuation on Central America, twelve-month and three-month growth would have been 4.7% and 0% respectively.

Broken down by geography, Colombian funding grew 4.5% over the last twelve months and decreased 5.5% during the last quarter. Central American funding grew 5.2% in dollar terms or negative 1.8% in Colombian peso terms for the last twelve months. For the third quarter of 2016, Central American funding grew 1.3% in dollar terms, stable in Colombian peso terms.

Deposits increased at 5.5% during the last twelve months and decreased 0.6% during the last quarter. In absence of the effect of the peso depreciation in Central America, twelve months and three months growth would have been 7.5% and negative 0.3% respectively.

Broken down by geography, Colombia accounted for 73.1% of total deposits. Colombian deposits grew 7.6% over the last twelve months and decreased by 1% during the quarter. Central American deposits grew 7.4% in dollar terms or 0.2% in Colombian peso terms over the last twelve months. Over the quarter, Central American deposits increased 1.8% in dollar terms, a 0.4% increase in Colombian peso terms.

Our funding and deposit structure had minor changes during the quarter. Our deposits account for 75% of our total funding at end of period. Our deposits cover 95% of our net loans.

On page 14 we present the evolution of our total capitalization, our attributable shareholders' equity and the capital adequacy ratio of our banks.

Our total equity, defined as attributable equity plus minority interest, was Ps 23.8 trillion as of the end of third quarter of 2016. This implies an 8.4% increase over the last twelve months and stability during the last quarter.

Attributable equity accounted for 63.7% of total equity as of September 2016. Attributable equity was Ps 15.2 trillion as of the end of September. This implies a 10.3% growth during the last twelve months and 0.4% during the quarter.

On this chart will also show the consolidated solvency of our banks, all of them show healthy Tier I and total solvency ratios. Tier I end of period ratios range from 9.5% to 10.5%. Solvency at the end of period was 14.4% at Banco de Bogota, 12.9% at Banco de Occidente, 9.7% at Banco Popular, and 11.5% at Banco AV Villas. Banco

Popular's total solvency would increase to 11.4% when adjusted for a Ps 300 billion subordinated bond issued out in October 2016, estimated to contribute approximately 1.7 percentage points of Tier II.

On Page 15 we present our net interest margins.

In line with the guidance given on our last call, our NIM expanded during the quarter to 5.8%, up from 5.3% recorded during the same quarter a year earlier. This increase resulted from the expansion of our NIM on loans and the higher share of loans over average interest-earning assets. Compared to the previous quarter, total net interest margin had a 23 basis points increase driven by higher NIM on loans. The NIM on loans was 6.8% in the third quarter of 2016, up from 6.3% a year earlier and 6.5% in the previous quarter. The net interest margin on investments was 0.5%, down from 0.8% a quarter earlier and stable compared to a year earlier.

Quarterly net interest income, including net trading income from investments held for trading to the profit and loss, grew 15.7% from Ps 2.1 trillion in third quarter 2015, Ps 2.5 trillion in third quarter 2016. It increased 4.3% versus the second quarter results.

We expect a full-year 2016 net interest margin of 5.7% with a NIM on loans between 6.6% and 6.7%. We expect 2017 average NIM on loans to be at a similar level to that of 2016. This should result from a higher margin during the first half of the year that will trend downward as the expected falling Central Bank rate prices into our corporate loan portfolio. We expect total NIM for 2017 to be in the 5.7% to 5.8% range with NIM on investments returning to the 1% area.

On page 16 we present net fees and other income.

We present fee income on top of the page. Gross fee income grew 10.2% compared to the same period a year earlier and 1.4% compared to that during the previous quarter. When excluding the effect of FX movements on Central American operation, fees grew by 10.1% and 2% respectively compared to those periods.

Broken down by geography, Colombia accounted for 61% of total gross fees. Domestic fees grew 6.8% over the last twelve months and 1.8% during the last quarter. Central American fees grew 15.6% in dollar terms, a 15.9% increase in Colombian peso terms for the last twelve months. During the quarter, Central American fees increased 2.2% in dollar terms, a 0.7% increase in Colombia peso terms.

On the bottom of the page we present other income. Our other income for the quarter was Ps 620 billion and included the result of our non-financial companies consolidated and non-consolidated, mainly through Corficolombiana.

On page 17 we present efficiency.

On this page we present the operating expense as a share of total income and average assets.

Our efficiency improved during the quarter both when measured as a cost to assets and cost to income basis. Our efficiency measured as operating expenses to average assets improved from 3.5% in second quarter 2016 to 3.4% in third quarter 2016. In Colombia, this ratio improved by 11 basis points to 2.8%. In Central America, this ratio improved 11 basis points to 4.7% in Colombia peso terms.

Our efficiency measured as operating expenses to total income was 45.9% during the quarter, down from 47.2% recorded during the previous quarter. In Colombia this ratio improved from 43.5% during the second quarter to 42.1% during this quarter. In Central America, this ratio improved from 54.8% to 53.7% in Colombia peso terms. This quarterly cost to income result is in line with our full year expectation of 47%, 100 basis points improvement compared to 2015.

Finally, on page 18 we present our net income and profitability ratios.

Attributable net income for the quarter was Ps 613.9 billion or Ps 27.6 per share. Year-to-date, the total net income, net of the effect of Ps 179 billion attributable to equity tax was Ps 1,860 billion, 19.5% higher than that for the same period a year earlier.

Return on average assets and return on average equity for the quarter were 1.8% and 16.2% respectively.

Before we move to Q&A, I will now summarize the general guidance for 2016 and 2017 given in the previous part of the presentation.

We expect the loan growth in absence of FX effect of 8% in 2016 and 10% in 2017.

We expect the quality of loans to remain stable at current levels, 2016 gross cost of risk will be between 1.85% and 1.9%. This ratio would be 10 basis points to 20 basis points lower when considering net recoveries as charged-off assets. We expect 2017 cost of risk to stay in the 2016 level.

We expect the full year 2016 NIM on loans to be around 6.6% to 6.7% and total NIM to be in the 5.7% to 5.8% area. 2017 levels are expected to be similar resulting from a stronger first half and a lower second half as a reduction of Central Bank rates are priced for corporate loan portfolios.

Regarding efficiency ratio, we expect to end this year at 47% gaining part of what we lost in 2015.

Finally, as previously guided, we expect 2016 ROE to be in the 15% area. Even though we have bias for a slight improvement in 2017 ROE, is dependent on the approved terms of the fiscal reform currently debated in Congress. I will now open it to questions.

Question and Answer Session

Operator

Thank you. We will now begin the question and answer session.

(Operator Instructions)

And our first question on line comes from Jason Mollin from Scotiabank.

Jason Mollin – Scotiabank

Hello, good morning. Thank you for the presentation.

Two questions; first on, you just mentioned that it's difficult to come up with expectations for ROE for 2017 based on the fiscal reform. Can you help us frame the outcomes perhaps with a bullish and bearish scenario to look at the upside and downside from this 15% ROE or versus the 16% ROE that we saw in the third quarter results? And I'll hold off on my second question.

Diego Solano Saravia – Grupo Aval Acciones y Valores S.A. – CFO

Well, thank you, Jason. We don't really foresee a scenario where downside is higher than upside. Actually the tax reform is taking us back to a time where our ROE was substantially higher.

We are cautious because the debate is still ongoing, therefore we can't really commit to a result of the tax reform, but all what is being debated is positive for ROE and credit quality of corporations. Basically, the discussion here is on how fast we get there. The tax reform is bringing us down back to taxes that even though higher than other countries in the region look more like what we had a few years ago.

The discussion on graduality is perhaps what we are more concerned with, and it is if we're going to get taxes 32% that is being announced by the tax reform pretty soon or it's going to take a few years; anyway you look at it, it's a positive.

Then there is also other benefits with the wealth tax going away, plus the way the taxes and dividends came out in the draft that was one of the concerns we've had in the past, is pretty benign therefore is a defect on shareholders after taxes should be at all neutral. So even going to what could be negative that perhaps was the way you were pointing it out, the tax reform is positive for companies.

Jason Mollin – Scotiabank

Of course, we have to see what happens on the preferred share, how the tax structure (Technical Difficulty) but maybe I can just switch to a specific operating question, you posted a very good net interest income and net interest margin in the quarter and you talked about some guidance for NIM. But can you talk about the sensitivity of your operations to the policy interest rate in Colombia? And as well as in the US, I guess, for the Central American operations, how does the 100 basis points move down or up in Colombia, and I don't know if (Technical Difficulty) US, some kind of sensitivity to (Technical Difficulty)?

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

Yeah, Jason, you were cutting out, but what I understood was you wanted to understand the sensitivity to the Central Bank policy rate. The kind of sensitivity that we have is in the 15 to 20 basis points range for every 100 basis points.

Jason Mollin – Scotiabank

(Technical Difficulty) The sensitivity to the Central Bank to your Central American operations to US interest rates?

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

Well, Central America is a combination of local rates even though the numbers that you end up seeing reported are based on dollars, countries do have dual currencies, therefore, a part of the result comes as well from what happens with the local currencies.

It's been more the dynamic of the local currencies that has affected net interest margins on Central America rather than the US policy rate.

Operator

Our next question on line comes from Nicolás Riva from Citi.

Nicolás Riva – Citi

Yeah. Thanks, Luis and Diego for taking my questions.

The first one on loan growth, we did see that your loan book grew less than peers in the third quarter, but in particular, your commercial book, which only grew 1% year-on-year in nominal terms and was down 1% quarter-on-quarter. So if you can explain, maybe what was behind the lower growth in the commercial book?

And then the second question on taxes. So I understand, based on the tax reform bill, that next year there would be a reduction in the corporate income tax rate of 1% and then another 2% in 2018, and then the long-term the corporate income tax rate will be 32%. So can you talk about what will be, assuming that there are no changes to this tax reform bill, what will be the outlook for your effective income tax rate? And also, if there's any chance that you might lose any tax benefit from the reduction of goodwill amortization. And in that case, what would be the impact on your effective income tax rate? Thanks.

Diego Solano Saravia – Grupo Aval Acciones y Valores S.A. – CFO

Well, let me take first the commercial book discussion.

What we have seen has been a combination of two main drivers. One had been on the demand side, once the fiscal reform discussion started we saw a delay in decision-making on new investments and companies, therefore reducing new demand for loans.

In addition, given the volatility of the Colombian peso/US dollar exchange rate we've seen people retrenching away from dollar-denominated loans, borrowing, which combined with an appreciation as of the end of period September compared to the beginning of the year, we started the year at Ps 3,150. So even though we're back to that kind of level as of today, at the end of the quarter, the numbers were lower. So a combination of those issues has been what has contracted on one side demand and then when we expressed into pesos, the corporate book.

Regarding taxes, in our case, we actually had thought of taking advantage of goodwill depreciation in the past, given that the mass of our goodwills are booked in Central America. That was the concept behind, at some point, the idea we had of merging Leasing Bogota, Panama with Banco de Bogota to be able to take advantage of those benefits. We missed it. We should have done that a few years earlier. Therefore, when the time for the tax reform came, we don't really have a change compared to the numbers that we were running before.

I would say that that our figures nowadays might be some of the figures that best reflect the full regulatory rate. Therefore, it will get the full benefit of having lower taxes.

The way to think of our taxes to be able to go to a specific number is as of today we have around one-third of our operation roughly coming from Central America being taxed at 28%, plus the remaining portion coming from Colombia being taxed nowadays at 40%, so we're taking two-thirds and we're lowering the taxes from 40% to 32%. So that's the magnitude of the impact that we will have.

Operator

Our next question comes from Sebastián Gallego from Credicorp Capital.

Sebastián Gallego – Credicorp

Hi. Good morning everyone, thanks for the call. I have two questions.

The first one is on asset quality regarding the potential impact of the mass transportation system, particularly in Bogota and other cities in Colombia. Could you provide an estimate or the magnitude that we could expect from that situation?

And the other question is regarding the leverage at the holding level. We have been seeing an increase in major indicators and we have a significant maturity scheduled for debt in 2017. Can you comment on that and can you just provide some color on what you feel comfortable? Thank you.

Luis Carlos Sarmiento Gutiérrez – Grupo Aval Acciones y Valores S.A. – CEO

Alright. Let me take your second question first and then Diego will take the other question a mass transportation.

But, as far as the leverage on the holding company, I must say that we're going exactly on the opposite way. One of the things that we did yesterday was that we pre-paid our 2017 bond, the one that you're referring to, the US 600 million bond. We pre-paid it yesterday, so it's not on our books anymore. And then secondly, on double leverage, actually we've been reducing our exposure on double leverage.

So, I would say that maybe we're looking at different numbers, but we'll be more than happy to sharing with you, just to give you some color as you as you asked for our double leverage is around 110% now, which is probably at the lowest it's been in the last three, four, five years.

So in terms of absolute, just nominal leverage, we have reduced it significantly and we still have just the one bond that matures in 2022 and that's US 1 billion bond and we pre-paid the other one as I said before. And in double leverage, we're really at a very low point, but obviously if we're looking at different numbers, we'll be more than happy to share them with you.

And I guess on the mass transportation, there is not much that we know at this point on mass transportation. I guess you're referring to the subway in Bogota, or whatever means of fast mass transportation to come up with.

We're way, way too far away from even discussing what sort of credit we would extend to that initiative here in any other city in the country. So yeah, all that I can say is it's just too quick to talk about that. We don't have any numbers.

In terms of 4G, we have been pretty active. And as you know, we're active participants not only on the construction side. As far as we are the largest concessionaire of toll roads in Colombia at this point, with the ones that we currently operate and in the ones that we will construct and operate.

And then we're actively financing projects where we're not majority shareholders, and projects of third parties. But again, sorry to disappoint, but on your mass transport question, we just don't have any number to come up with.

There is one additional and final comment, we just issued a US 100 million equivalent local bond in Colombia. We wanted to test back the fixed rate capital markets in Colombia and we're pleasantly surprised with the amount of interest that we received on that bond.

We issued it last just a couple of days ago, but we use that to replace debt, peso-denominated debt that was on our books, so even that didn't increase our leverage.

And I guess that's what -- I don't know if, Diego, you want to say something about mass transportation.

Diego Solano Saravia – Grupo Aval Acciones y Valores S.A. – CFO

Regarding mass transportation, I would say what you covered before, if you were referring to the SITP that's the local transportation in Colombia, we do have some exposure to that sector not of the companies who are lending to are companies that are in quite strong relative to the rest of the system, so we don't have anything else to comment on that at this point.

Operator

Our next question on line comes from Gabriel Nobrega from UBS.

Gabriel Nobrega – UBS

Hi, everyone; and thank you for taking my call.

I actually have one question about loan growth. We saw that commercial loans only grew 0.6% year-over-year. And you guys were expecting 8% and 10% next year. I just want to understand what types of loans will be growing more?

And my second question, is on your yield on average loans. It's been growing over the past few quarters. And I just want to understand what's the approximate level for this year and for next year? Thank you.

Diego Solano Saravia – Grupo Aval Acciones y Valores S.A. – CFO

Okay. So back to the growth discussion for Colombia, part of what we will see growing next year, as mentioned through the call, is recovery of some of the areas that either were postponed this year due to the tax discussion, the tax reform discussion, then we also have the fourth generation concessions coming in for corporates that will be relevant for growth.

And in addition, even though we are cautious on next year's growth, we do see some progress on GDP for next year. And as our demand is dependent on GDP growth, we expect to see that being translated into a loan portfolio growth.

As you might have noticed, we have reduced our guidance for this year and for next year trying to reflect the last data that we received during this week that we should expect to see affecting lower numbers. We're however more positive on next year than this year.

The other part that you should also consider is we expect to see a change in the monetary policy cycle, happening at some point early next year that should help to boost demand throughout the year. The magnitude expected by the market is quite relevant and it should happen early next year, so we should see the results being translated into year-end growth, as a result of a better environment. I think that covered your question, Gabriel.

Operator

Our next question comes from María Barriga from Davivienda Corredores.

María Barriga – Davivienda Corredores

Hello. Thank you very much for taking my call.

The first question comes from the conglomerates financial law. I wanted to know how does the financial law impacts your operation if it's approved.

And the other one is your cost of risk guidance considering the Electricaribe case? Thank you.

Diego Solano Saravia – Grupo Aval Acciones y Valores S.A. – CFO

Okay. Starting with the last one, as Luis Carlos mentioned, this would effect in around 3 basis points our full year cost of risk, so we highlighted it because it's been a relevant event presently, but from the cost of risk standpoint, it is not a very relevant issue. As a matter of fact, I would say we are comparable to what other Colombian banks are exposed to Electricaribe.

Regarding the conglomerates law, in our case we have voluntarily been doing a lot of what the law brings. We have been disclosing the way our conglomerate is structured, the ownership structure of our conglomerate. We have been consolidating risk since we registered with the SEC six years ago. In addition, we've been subject to transactions with related parties as we have been very transparent in the ownership and relationships of the group.

In addition, we have been closely paying attention to double leverage. That could be something that would come in the conglomerates law. This has been driven by the fact that we've been rated for many years already with our international bonds.

So summarizing, we have been doing what the conglomerates law calls for, so in our case, yes there is a difference from doing it voluntarily to see it written in a law, but this change might have more effect on other conglomerates in the country than our case.

Operator

Our next question comes Anibal Valdés from Barclays.

Anibal Valdés – Barclays

Hi, good morning.

I have a specific question on fees and commissions. I think compared to some of your largest peers in Colombia, we saw weaker growth in fees and commission at the Banco Bogota level. So I wanted to know if there's in your view any room for improvement in that front for Grupo Aval and its banks?

And also if you can comment a little bit from a competitive landscape in Colombia and how do you expect that to evolve next year. Thank you.

Diego Solano Saravia – Grupo Aval Acciones y Valores S.A. – CFO

Okay. Regarding commissions, I can't really comment on banks outside of the group, because I don't know exactly how their structure is driven. I can comment on what has been done at Grupo Aval.

I do agree with what you say, there is a huge potential for increasing fees in the case of Aval. We've been working on that for many years, because when we benchmarked against our competitors having the same rack rates we have understood that we haven't been that successful bringing in all the fees that we should be bringing in.

So we've been working on that with some progress.

We've been taking action and some particular products, for example, bancassurance is something that we had disregarded for many years and it has become relevant in our fee structure. Then on the retail side, as the group moves slowly to a portfolio that has a higher weight of individuals, we're also bringing in fees from credit cards and these kind of products.

In addition, on the corporate side, our banks have begun to get fees from syndication of loans. I think that was not charge for in the past in Colombia. So these are kind of some of the sources that we've been working on to try to improve our number.

But to your comment, we do agree that there is still a lot of work to be done, and a lot of potential to increase our fee income at the group level.

Something to bear in mind is we are growing at a multiple of our loan portfolio at this point. So yes, we would like to see more growth in that front, but there is something to show when you grow at 16% your fees and your assets are growing at 7%.

On your second question on the competitive landscape, Colombia has been very competitive for many years. Going to the structure of the market when you add up, Grupo Aval, Bancolombia, Davivienda BBVA, you add up around 80% of the market, and the following entrant would be Itaú. Itaú has been in the market of banks for several years already, so the initial impact of ITAU should already be there.

We don't underestimate any competitor, so we watch carefully on a segment-by-segment and product-by-product basis who's coming into the market and expect the Colombian market to continue being quite competitive.

Regarding changes in structure there is not something substantial in ownership of banks or consolidation of banks that we foresee. Going perhaps away from market structure, something that we are working on and we assume our competitors are doing so, is digital banking. That is perhaps the other front not the next year front, but the next ten year front where some of the competition will be happening, therefore we are getting our homework done.

Operator

Our final question comes from Natalia Casas from Ultraserfinco.

Natalia Casas – Ultraserfinco

Hi. Thank you for the call.

I would like to know something about the solvency ratio. Have you talked with the rating agencies regarding this aspect and the negative watch status that Bogota and Aval have because of this ratio?

Diego Solano Saravia – Grupo Aval Acciones y Valores S.A. – CFO

Well, we had discussions a few times since we had the credit watch and then the negative watch, actually we saw Banco de Bogota issuing quite recently, therefore it was reviewed by the credit agency.

I can't really tell you what their decision will be, but we think that we've made progress on our balance sheet at Banco de Bogota.

We see our tangible common equity being competitive compared to other peers, as well as the quality of our capitalization is strong, having the highest tangible equity and solvency ratio of the larger banks in Colombia, we would expect to see at some point some reaction from the rating agencies, but we have to let them have.

Operator

No further questions at this time.

Luis Carlos Sarmiento Gutiérrez – Grupo Aval Acciones y Valores S.A. – CEO

Alright. With that, we appreciate everybody joining in the call as always. And we'll see you in our next call. And in the meantime, obviously if anybody has any questions, we'll be more than happy to take them by phone or email. And we hope to see you next time. Thanks a lot, Sylvia.

Operator

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