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Grupo Aval Acciones y Valores S.A. BVC:GRUPOAVAL

Earnings Call

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Call Participants

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Presentation

Operator

Welcome to Grupo Aval's 4Q 2023 Consolidated Results Conference Call. My name is Mandeep, and I will be your operator for today's call.

Grupo Aval Acciones y Valores S.A. is an issuer of securities in Colombia and in the United States. As such, it is subject to compliance with securities regulation in Colombia and applicable U.S. securities regulation. Grupo Aval is also subject to the inspection and supervision of the Superintendency of Finance as holding company of the Aval financial conglomerate.

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

Banco de Bogota executed a spin-off of a 75% equity stake in BAC Holding International Corp to its shareholders, and Grupo Aval subsequently spun-off its equity interest to its shareholders on March 29, 2022. On December 19, 2022, Banco de Bogota sold 20.89% of the outstanding investment of BHI through a tender offer. As of December 31, 2022, Banco de Bogota held 4.11% of BHI. This investment is reflected as an investment at fair value through other comprehensive income.

Following the sale, the equity method recognized under the share of profit of equity accounted investees, net of tax, between April and November was reclassified to discontinued operations. For comparability purposes of this presentation, we have reclassified BHI's equity method for the second and third quarter of 2022 to net income from discontinued operations. Banco de Bogota's remaining 4.11% interest in BHI was disposed of in March 2023.

This report includes forward-looking statements. In some cases, you can identify these forward-looking statements by words such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, potential, or continue, or the negative of these and other comparable words. Actual results and events may differ materially from those anticipated herein as a consequence of changes in general, economic and business conditions, changes in interest and currency rates and other risk described from time to time in our filings with the Registro Nacional de Valores y Emisores and the SEC.

Recipients of this document are responsible for the assessment and use of the information provided herein. Matters described in the presentation and our knowledge of them may change extensively and materially over time, but we expressly disclaim any obligation to review, update or correct the information provided in this report, including any forward-looking statements, and do not intend to provide any update for such material developments prior to our next earnings report.

The content of this document and the figures included herein are intended to provide a summary of the subjects discussed rather than a comprehensive description. When applicable, in this document, we refer to billions as thousands of millions. [Operator Instructions]

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

Luis Carlos Sarmiento Gutierrez
President

Good morning, and thank you all for joining our fourth quarter 2023 conference call. Before Diego provides a detailed look at our numbers, I will provide an overview of Colombia's macro scenario, and of our digital initiatives and our ESG efforts. I will finish with some highlights of our financial performance and our overall view for 2024.

Although the global context surprised positively in 2023, this was not the case for Colombia. In fact, during 2023, the global economy surpassed expectations with an expected growth rate of 3.1%, exceeding the initial forecast of 2.7%. This growth was largely driven by the robust performance of the U.S. economy. U.S. GDP growth during 2023, which outperformed analysts' projections, is estimated at 2.5% versus 1.9% during 2022.

U.S. inflation, as measured by the Consumer Price Index, came in at 3.4% during 2023, a material drop when compared to 2022, but still somewhat distant to the 2% target. This led the Federal Reserve to prolong its hawkish stance, maintaining higher interest rates.

In Europe, the European Central Bank has kept its rates unchanged since August of last year and will probably move towards reducing its marginal lending rate before the Federal Reserve, considering that even though 2 years have passed since Russia invaded Ukraine, European natural gas futures are trading at their lowest levels since 2021, supported on mild weather, high storage volumes, and ample LNG supplies, also to reactivate a relatively weak economic outlook.

Moving to the local context, as you will probably remember, at the end of 2022, we called your attention to unabated inflation in Colombia with no foreseeable reasons to subside. What preoccupied us even more was that high inflation was occurring while GDP growth was materially slowing down. The Central Bank consequently responded with a rapid, unprecedented series of repo rate hikes, which increased rates by more than 1,000 basis points in approximately 12 months.

Obviously, marginal costs of funds followed this same trend, but were affected beyond the Central Bank's increases as new liquidity regulation was introduced, which led banks to scramble for certificates of deposit of longer tenures. Asset repricing, on the other hand, did not keep up with cost of funds, especially so in banks, with lending portfolios skewed towards consumer lending.

As a byproduct of this situation, 2023 was the most challenging year in recent history for the Colombian economy. GDP grew an underwhelming 0.6% when compared to growth of 7.3% during 2022, as the fourth quarter GDP grew only 0.3% when compared to the fourth quarter of 2022. This result was the weakest since the beginning of this century, excluding contraction in 2020 during the COVID-19 pandemic.

Economic slowdown during 2023 was mainly driven by moderation of household demand and a collapse of investments. According to experts, the absence of a rebound in investment levels will compromise the country's potential future growth, jeopardizing fiscal sustainability.

On the production side, the manufacturing and commerce sectors completed 3 consecutive quarters of year-on-year contraction, while construction completed 5 consecutive quarters of contraction. These sectors generate high levels of employment. Conversely, the financial and insurance activity sector recorded a 7.9% annual growth, driven by the strong results of asset managers, such as pension funds and trust managers.

Domestic demand decreased 3.8% in 2023, as gross capital formation contracted 24.8%, while household consumption and government spending modestly increased 1.1% and 0.9%, respectively. The trade balance benefited from a 14.7% drop in imports, well above the 3.1% increase in exports. We expect that the road ahead will remain challenging in 2024, as we anticipate GDP growth to be in the 0.75% to 1.25% range, reflecting sluggish consumption and investment dynamics, and less favorable external contributions.

A softer labor market consistent with low economic growth can be expected to constrain household consumption. Investment levels are expected to remain below pre-pandemic levels. Regulatory uncertainties, the government's urge to get several reforms through Congress and high capital costs, further complicate the economic landscape.

Inflation trended downward steadily since March 2023, decreasing from its peak of 13.34% to 9.28% in December 2023 and 8.35% in January 2024. Notwithstanding, inflation remains high, still doubling the average seen across Latin America and well above the Central Bank's target range of 2% to 4%. The deceleration in inflation has been driven by lower food inflation and by a softer demand for goods. However, the indexation processes and the desubsidizing of local gasoline prices pressed the services and regulated components. Our estimates now point to a 5.75% to 6% annual inflation during 2024.

Moving on to monetary policy, the current high inflation environment limits the speed at which the Central Bank intervention rate will return to historic levels. In the meantime, higher borrowing rates impose financial burdens on consumers and firms, particularly those with higher financial leverage. In any case, the Central Bank shyly reduced its intervention rate by 25 basis points in December 2023 and again in January 2024, taking the rate from 13.25% to 12.75%. These cuts fell short of those expected by economic analysts and capital market participants.

Given the downward trend in inflation, which has largely exceeded the repo rate decrease, real interest rates are becoming increasingly contractionary, which does not bode well for GDP growth. To reach the end of 2024 with real interest rates of less than 2.5%, the magnitude of rate cuts needs to increase over the course of the following monetary policy meetings.

Our estimations continue to point to a rate of approximately 8% by year end as the Central Bank continues its monetary policy normalization through 2024 and extended into 2025. Although unemployment continued to improve during 2023, sustained by employment generated through government spending, we saw initial signs of deterioration in job formations in January. The average 2023 unemployment rate fell to 10.2%, improving from 11.2% in 2022. We expect average annual unemployment to deteriorate to 11% in 2024.

Regarding the exchange rate, a 20.5% yearly appreciation took the exchange rate at year end down to COP 3,822 per dollar, its lowest level during 2023, correcting the distortion of the Colombian peso relative to Latin American currencies. This performance was driven by a weaker dollar, the correction of the Colombia's external imbalance, and a lower risk perception of the country as evidenced by its CDS.

In the last few weeks, we have seen depreciation of the peso as the exchange rate has fluctuated between COP 3,900 and COP 4,000 per dollar. Our view incorporates further depreciation of the peso in the coming months, resulting from a strengthening of the dollar, which will add to lower interest carry opportunities as Colombia will cut rates faster than the U.S. Current account deficit ended the year at 2.7% of GDP, a marked improvement versus the 6.2% deficit during 2022 due to lower domestic demand and continued correction of the trade balance.

Finally, on the fiscal front, the 2023 fiscal deficit is estimated to be close to 4.2% of GDP, an improvement versus the 5.3% recorded in 2022. However, the fiscal deficit for 2024 is projected at 5.3% of GDP, nearing the limit stipulated by the fiscal rule and ranking among the highest in the region. Government revenues are expected to fall short of the target set in the medium-term fiscal framework, and government spending is foreseen to have an even greater lag as the government continues to show a marked inability to execute the nation's budget. In fact, public spending is anticipated to increase only slightly versus 2023 to 1.1% of GDP in 2024.

And now, let me share some figures regarding Aval's digital strategy during 2023. Digital customers of Aval's banks now exceed 6.1 million. Our banks sold 1.9 million digital products, reaching a 31.5% compounded annual growth rate since 2020. Dale, our digital wallet, now has over 2 million users and 253,000 affiliated merchant establishments. Dale continues to be an integral piece of our payments ecosystem. Dale's mission is to not only focus on customer acquisition, but also to design and pursue deeper usage and customer relationships. Digital transactions represented almost 83.7% of total transactions and increased by 15.6% over the year. Transactions conducted in our branches decreased approximately 3.8% over the same period.

Metrocuadrado, our housing ecosystem, generated more than 5.5 million average monthly visits in the fourth quarter of 2023 with more than 2.3 million users per month. Through this platform in 2023, we received more than COP 446 billion in credit applications for home purchases. CarroYa, our mobility ecosystem, generated more than 300,000 leads to Aval banks, which, even in the difficult context of the automotive sector in Colombia, managed a conversion to disbursement close to 1%. In 2023, CarroYa acquired FacilPass, a provider of payment services through tag devices installed in vehicles. During 2023, we integrated more than 40% of the country's tolls to FacilPass.

Now let's move on to ESG. During 2023, we continued strengthening our strategy in line with our conviction that compassion towards the environment, social relevance, and strong governance standards are paramount to a successful business. To further reflect this, we recently updated our mission, vision, and strategic pillars with a deeper focus on ESG. These are a few of our ESG milestones during the year.

We obtained a rating of 49 points in the Dow Jones Sustainability Index, DJSI, improving 6 points compared to the previous year, making progress in all dimensions. Banco de Bogota and Corficolombiana were, once again, included in the yearbook. We reaffirmed our adhesion to the United Nations Global Pact, and along with our banks, we remain members of the financial initiative UNEP-FI.

We launched an ambitious project, which has been baptized Mision La Guajira. La Guajira is Colombia's most vulnerable department with the highest neonatal mortality rate, the highest death rate due to malnutrition, the lowest rate of access to drinking water, and 1 of the highest poverty indices. We are working together with several government agencies and ministries to find structural solutions to Guajira's lack of access to energy solutions, portable water supply, and food security, and to design solutions that are sustainable in time.

So far, we are the only economic group in the country that has tried to work hand in hand in a philanthropic project with Colombia's public sector. And to prove that, as long as we agree on the objectives, it is possible to work with any form of government. We are very hopeful that very soon our efforts will start to bear fruit, and that other economic groups in the country will follow suit with regard to other forgotten regions in Colombia.

In 2023, the holding company saw a reduction of 49% in our carbon footprint when compared to 2019. Aval and its subsidiaries established roadmaps to adopt the recommendations of the task force on climate-related financial disclosures and of the Sustainability Accounting Standards Board. Banco de Bogota issued Colombia's first international sustainable subordinated bond and is 1 of the country's largest lenders to renewable energy projects. Finally, in 2023, the CTIC, Cancer Treatment and Research Center, began operations and attended approximately 7,500 patients.

Regarding our financial results, Diego will refer next in detail to our financial performance during 2023. However, I would highlight the following. As I mentioned at the beginning of today's call, a steep contractionary monetary policy exacerbated by changes in regulations related to banks' liquidity positions and specifically to the net stable funding ratio resulted in an increase of marginal costs of funds well in excess of the repo rate increase of more than 1,100 basis points in the span of 1.5 years.

Furthermore, banks that specialize in consumer lending, as is the case with our own Banco Popular and [Banco AV Villas], suffered larger net interest rate margin compressions than banks that concentrated their lending portfolios in commercial loans. The sharp slowdown of the economy has not helped either. Consequently, 2023 was a subpar year in terms of attributable net income, which amounted to COP 739 billion, with a return on average assets of 0.7% and a return on average equity of 4.5%, down from the last 2022 attributable net income of continuing operations of COP 1.9 trillion.

Despite the challenging environment for our banking activity, we did, however, achieve a 61 basis points market share gain in total loans. We advanced our market share in 86 basis points in commercial loans, 102 basis points in consumer loans, and 24 basis points in mortgages. This performance was achieved despite stricter credit origination policies than those in effect a year ago.

Another good news is that we fared better than the banking system in the negative quality credit cycle experienced during 2023, particularly in consumer loans, mostly due to the structure of our credit portfolio. Specifically, our focus on payroll lending allowed us to better weather this situation, thus experiencing a milder deterioration of PDLs in our own consumer portfolios.

As we anticipated through guidance, the contribution of our non-financial sector to our net income decreased versus 2022, albeit less than we had forecasted, consistent with our toll road concessions approaching the end of their construction phase. This was driven by the completion of the construction of the Andina concession, Bogota-Villavicencio, and the slower construction phase of the Conexion Pacifico 1 and the Oriente concessions. This was partially mitigated by the energy and gas companies, which experienced stable performances versus 2022.

Finally, the profits from our hotel operations increased by 19%, achieving a record performance. Porvenir also accomplished its highest net income ever, driven by record high AUMs, commissions for mandatory pension contributions, and the strong performance of its stabilization reserve. The pension fund sector remains very attentive to the proposals filed before Congress to reform the industry.

For 2024, we expect to see the results of many revenue-enhancing initiatives and other cost-cutting initiatives, which will focus on reducing operating costs, but not at the expense of reducing sales forces. Additionally, we have begun to see a recovery of the margin on loans and expect this to continue as the Central Bank maintains its rate cut cycle throughout this year.

Finally, we expect that during 2024, we will almost double our 2023 return on equity, and that by 2025, we will return to acceptable profitability metrics.

I thank you for your attention, and now I'll pass on the presentation to Diego, who will explain in detail our business results and provide guidance for 2024. Thank you, Luis Carlos. I will now move to the consolidated results of Grupo Aval under IFRS.

Starting on Page 8, assets grew 1.9% in 2023 and 0.8% in the quarter to COP 301 trillion. The year marked a 20.5% year-on-year and 5.7% quarter-on-quarter appreciation of the Colombian peso that had a negative effect on year-end growth metrics, particularly of net loans and leases. This partially explains a slight shift in mix of our assets over the year in favor of fixed income investments and other assets that are predominantly peso-denominated.

Moving to Page 9, loans grew 1.9% over the year and contracted 0.4% during the quarter. Our peso-denominated loans increased 5.6% and 0.1% respectively, while U.S. dollar-denominated loans grew 8.7% and 3.1% respectively in dollar terms. Despite having tightened our origination policies, we outgrew our peers in all loan categories, resulting in year-on-year market share gains of 61 basis points in total loans, 86 basis points in commercial, 102 basis points in consumer, and 24 basis points in mortgages.

Commercial loans grew 2.2% year-on-year and contracted 0.4% over the quarter. Peso-denominated commercial loans grew 7.2% and 0.1% year-on-year and quarter-on-quarter, while U.S. dollar-denominated commercial loans grew 10.6% and 3.9% in dollar terms respectively.

Consumer loans grew 1% year-on-year and fell 1% over the quarter. Peso-denominated consumer loans grew 2.3% and contracted 0.9% year-on-year and quarter-on-quarter, while U.S. dollar-denominated consumer loans grew 4.6% and 1.9% in dollar terms respectively. The high interest rate environment, slow economic activity, and subtle macro outlook continued to underpin the sluggish dynamics of consumer loans.

Moving into different sorts of consumer loans, payroll loans account for 55% of our consumer portfolio, followed by personal loans, credit cards, and auto loans that account for 24%, 13%, and 9% respectively. Payroll loans contracted 2.1% over the quarter and year-on-year. Demand for this product was softer as interest rates and new disbursements peaked during the last quarter of 2023. We're now seeing recovery in demand as rates have begun to trend downward.

Credit cards grew 8.2% year-on-year and 1.5% quarter-on-quarter. Our automobile loans decreased 1.6% year-on-year and grew 0.2% quarter-on-quarter. Personal loans increased 6% over the year and contracted 0.5% during the quarter. Finally, mortgages grew 3.4% year-on-year and 2% over the quarter. Special nominated loans grew 10.2% and 4% respectively, while the U.S. dollar-denominated mortgage loans grew 0.2% and decreased 0.1% respectively in dollar terms.

We expect our 2024 loan growth to exceed that of the banking system, albeit remaining soft across products and segments. This will fall largely in line with the sluggish domestic demand and investment dynamics. Loan volumes will evolve accordingly with the normalization of monetary policy and positive effect on GDP growth.

On Pages 10 and 11, we present several loan portfolio quality ratios. The quality of our loan portfolios improved year-on-year measured by stages and slightly deteriorated over the quarter. 30-day PDLs closed at 5.5%, a 20 basis points deterioration over 3 months, and 112 basis points over the year, while 98 PDLs closed at 3.98%, a 19 basis points deterioration over 3 months and 23 basis points over 12 months. After an improvement in 30-day PDLs formation during the second and third quarters, we experienced an uptick in delinquency during October and November, especially some consumer lending products deteriorated.

This demanded an additional tightening of our underwriting process and additional provision expenses during fourth quarter. We have hence observed an improvement in new vintages. The 30-day PDL formations for the second half of the year was 20% lower than for the first half of the year, following the progressive tightening of our origination policies. The higher 30-day PDL formation during this quarter was driven by 2 main effects. First, a more challenging than anticipated macro environment that continues to underpin our consumers' payment capacity.

Second, on October 10, 2023, Law 2300 of 2023 became effective, limiting the bank's ability to execute traditional collecting procedures. This new law prohibits repetitive calls and short messages to clients justified by its promoters on a consumer rights protection argument. Unfortunately, the law failed to differentiate between collections of delinquent clients and outbound calls. This well-intended but ill-conceived law reduced our ability to lend at better prices to some riskier customer buckets.

Cost of risk net of recovery for the year was 2.3%, up from 1.5% a year earlier. Our quarterly cost of risk net of recoveries increased 13 basis points quarter-on-quarter to 2.7%. We expect that our product mix, richer in lower risk products and segments, will continue to support our lower cost of risk than that of our main peers. However, we expect our cost of risk to remain high during the following quarters, as the weaker vintages in personal loans and credit cards, [competitor] deterioration, are fully impaired and ultimately charged up. Finally, the ratio of charge-offs to average 90-day PDLs was 0.67x for the quarter and 0.63x for 2023.

On Page 12, we present funding and deposit evolution. Funding increased 0.8% year-on-year and contracted 0.5% during the quarter. As a result, our deposit-to-net loans ratio remained high at 103%. Peso-denominated funding grew 11.3% year-on-year and 1.3% during the quarter. U.S.-denominated funding decreased 2.9% and 0.2% in dollar terms during these periods. Contraction in U.S.-denominated funding was driven by the maturity of Banco de Bogota's 2023 $0.5 billion subordinated bond that was partially replaced with a $230 million sustainability-subordinated bond.

The share of deposits in our funding mix increased to 73.5%, partially explained by the appreciation of the Colombian peso. In addition, our banks have issued long-term time deposits as a substitute for some peso bond maturities. Deposits grew 5% year-on-year and 0.9% during the quarter. Time deposits increased weight in our mix, triggered by the changes in net stable funding ratio that had started to recede by then. Peso-denominated deposits increased 9% year-on-year and 1.6% quarter-on-quarter. U.S.-denominated deposits increased 9% and 3.2% respectively in dollar terms.

On Page 13, we present the evolution of our total capitalization, our attributable shareholders' equity, and the capital adequacy ratios of our banks. Our total equity increased 2.3% over the year and 2.5% over the quarter. Our attributable equity increased 1.9% and 2.4% respectively.

On November 22, 2023, Grupo Aval, Banco de Bogota, Banco de Occidente, and Banco Popular entered into a shareholders' agreement that designated Banco Popular as a controlling entity of Corporacion Financiera, Corficolombiana, [Corficol]. Under the terms of Articles 260 and 261 of the Colombian Commerce Code, some adjustments to our governance and control model were triggered by this agreement. This change had a positive effect on regulatory capital and the solvency ratios of Banco Popular during this quarter. In addition, it allowed Banco de Bogota and Banco de Occidente to improve their regulatory capital and solvency ratios as well.

On Page 14, we present our yield on loans, cost of funds, spreads, and NIM. The year-end benchmark in Colombia peaked at 13.25% in May, falling to 13% late in December 2023. This implied a hefty 583 basis points annual increase in average intervention rate to 13.03%. The sharp increase in the reference rate hurt our retail banking portfolios that carry predominantly fixed rates and thus reprised slowly in a falling interest rate environment. In contrast, our commercial banking portfolios that are mainly priced using floating rates based on IBR benefit in this environment.

The overall pressure on margins was exacerbated by changes in the net stable funding ratio that disported deposit rates during most of the year, widening the spread between deposit costs and sovereign rates. In addition, our merchant banking segment, which mainly uses funding to generate non-financial income rather than interest income, further pressed our interest expense and our total NIM.

Total full year NIM ended at 3.44%, down from 3.68% in 2022. This resulted from a 67 basis points decrease in our NIM on loans to 4% and 131 basis points increase in our NIM on investments to 1.2%. The quarterly improvement was driven by a favorable result of our NIM on investments. Our full year total NIM on loans was 4%, down from 4.7% for 2022. The NIM on commercial loans increased 42 basis points to 3.9%, while the NIM on retail loans contracted 214 basis points to 4.21%.

The full year total NIM of our banking segment contracted 30 basis points to 4.2% with NIM on loans contracting 44 basis points to 4.8% and NIM on investments increasing 44 basis points to 0.9%. Fourth quarter NIM on loans was 4.99%, 3 basis points higher than a quarter earlier and 52 basis points higher than the lowest point in the year in first quarter 2023. We have seen the cost of funds come down since mid-December as the Central Bank rate cut cycle became imminent. The spreads between time deposits and sovereign rates started to turn back to their historic levels.

On Page 15, we present net fees and other income. Annual gross fees and net fees income grew 12.4% and 15.5% respectively. Gross and net fee income for the quarter increased 7.9% and 2.3% year-on-year and fell 2.6% and 10.8% respectively quarter-on-quarter. The income reflects a substantial annual improvement in banking, trust and pension and severance fees. Banking fees for the year reflect a recovery of bancassurance merchant acquiring debit and credit card fees.

Annual net pension and severance fees grew 26.3%, mainly due to higher performance-based fees, in line with favorable capital market conditions. The expectation of a normalization in the level of global interest and an improvement in Colombia's country risk premium drove strong valuations in the global

And local fixed income and equity markets. This boosted the profitability of assets under management and therefore performance-based fees. In addition, a historically high increase in minimum wage in 2023 led to higher fees for collection of mandatory pension contributions.

Income from the non-financial sector was strong during 2023 despite an anticipated decrease of 29.2% relative to 2022. As mentioned in past calls, our infrastructure sector, that is the largest contributor to our non-financial income, entered the final stages of construction of its current toll road concessions. Consequently, its non-financial income fell 33.9%.

Energy and gas companies slightly increased their contribution by 5.2% in comparison to particularly strong construction progress of Promigas projects in Peru during 2022. Strong gas distribution volumes of industrial and residential plants helped mitigate this effect. Hospitality business had a record high performance as room and food prices benefited from inflation and strong occupancy rates.

Finally, on the bottom of the page, other income during 2023 was higher than a year earlier. Profit taking on fixed income investments valued at fair value to OCI implied COP 244 billion increase in net gain on sales of investments and OCI realization. For optimization of property, plant and equipment resulted in higher income to other income operations of COP 219 billion pesos.

On page 16, we present some efficiency ratios. All of our business units continued implementing cost contention initiatives during 2023. Total OpEx grew 12.6% in 2023, well below the 16% increase in minimum wage and the price indexation based on 2022 inflation of 13.12%. Personnel depreciation and amortization, and general and administrative expenses grew year-on-year 7.8%, 3.8%, and 17.9% respectively.

Of the steep increase in general and administrative expenses, 9.3 percentage points are explained by a 39.4% increase in operating taxes and 2.5 percentage points are explained by a 23.3% increase in deposit insurance. These 2 items constitute 39% of total general and administrative expenses in 2023.

In Colombia, the industry and tax commerce called ICA, is based on gross income. As such, the base for tax increased significantly in a high interest rate environment where interest income is higher. In addition, this tax is set by regional administration, some of which enacted substantial rate increases during the year. Quarterly OpEx grew 3.6% year-on-year, of which 3.3 percentage points are driven by taxes and deposit insurance. Quarter-on-quarter growth was 8.7%, of which 3.1 percentage points are driven by marketing expenses and other seasonal expense.

Cost to assets for 2023 was 2.8%, up from 2.7% in 2022. Cost to income was 52.1%, up from 45.8% a year earlier. The duration in cost to income was mainly driven by the contraction and the increasing income from the non-financial sector.

Finally, on Page 17, we present our net income and profitability ratios. Attributable net income for 2023 was [7] in the quarter. Attributable net income was COP 83 billion. Finally, our return on average assets and return on average equity for the year were 0.7% and 4.5% respectively. These ratios were 0.5% and 2% for the quarter.

Before moving into questions and answers, I will now summarize our general guidance for 2024. We expect loan growth between 8% and 8% with commercial loans growing between 8.5% and 10%, and retail loans growing between 6.5% and 7%. NIM in the 4% area with NIM on loans in the 4.75% area. NIM of our banking segment in the 4.75% area with NIM on loans between 5.25% and 5.50%.
Cost of risk net of recovery is in the 2.1% area. Cost to assets in the 2.7% area. Income from the non-financial sector of 70% of that for 2023. Our fee income ratio between 20% and 25%. Finally, we expect our 2024 return on average equity to be in the [8%].

Question and Answer

Operator

[Operator Instructions] Your first question comes from a line of Julian Ausique with Corredores.

Julian Felipe Ausique Chacon
Corredores Davivienda S.A., Research Division

My first question is just because I didn't get it. What is the expectation of cost of risk for 2024? And my other 2 questions is regarding the expectation of the non-financial sector, for example, Corficolombiana due to the regulatory changes that Colombia has had during this year. So, what are the expectations of growth for Corficolombiana and also for the energy sector?

And finally, what are the expectations that you have for 2024 regarding the cost of funds for the banks? I know that you are expecting a better NIM for this year, but it doesn't look like such like performances during 2024. So, I would like to understand why the NIM for 2024 is just 4% and not something a little bit close to 4.5% or something like that.

Diego Fernando Solano Saravia
Chief Financial Officer

Okay. Regarding cost of risk, we're guiding net of recoveries somewhere in the 2.1% area for next year. And then, regarding cost of funds, we have -- or rather than cost of funds, we prefer to guide to NIM because it captures also what might change in monetary policy. We have already begun to see the benefits on our numbers. The rationale is reverse of what we have experienced over the past couple of years. And it says, we have a relevant portion of our portfolio based on fixed-rate loans.

And as the cost of funds has begun to come down, as we have experienced in Colombia since December, we have started to see that portion of NIM improve. According to our calculations, that should continue throughout the year. We expect to see the Central Bank somewhere in the 2% real terms intervention rate. And in that kind of scenario, there's a substantial improvement in our NIM, particularly on the consumer portfolio side and the mortgages side.

On the corporate side, we should see something in line with the reversal of what we saw over these couple of years. And it says, we might be seeing some compression margins as the Central Bank rate comes down, given that most of the loans are floated based on IDR that is related to Central Bank. We also have a non-financial question.

Luis Carlos Sarmiento Gutierrez
President

Why are we building up a pipeline? Because as we said, most of our concessions have been built or are about to be built. And then we move on to the operation phase, which might be another 20 to 25 years of operation. But according to IFRS 15, as you know, the net profits coming from toll road concessions, once the construction phases are over, are much less. And that's why we're guiding our non-financial sector income or contribution to our attributable net income next year during 2024 to be about 70% of what it represented during 2023.

You also mentioned our regulatory changes. And we are obviously very expectant to see what happens with Commission on Energy Regulations and how things might change, for example, for Promigas. But for now, Promigas is bound to have a very good year once again. And unless something happens, we should be okay with that.

There are also obviously a lot going on with -- in Colombia, what they call the vigencias futuras, which is basically the monies that toll road concessions receive once they're built basically to repay the loans they took to build up the roads. And the good news is that, from what the government have said, those roads where we are expecting to receive vigencias futuras will not be affected. And more so, 1 of the roads that does not depend on vigencias futuras, which is a road between Bogota and Villavicencio, with the announcement the government -- the decree that the government published just about 2 weeks ago, about COP 0.5 trillion has been assigned to that road to fix existing problems with the road and make it, again, to the shape that it was about a year ago.

So all in all, on the energy side, we don't see any big funds opening. Promigas is related to that of the year. On the concession side, we will not be affected by the decree regarding vigencias futuras that the government published about 2 weeks ago. Some money has been assigned to the Bogota-Villavicencio road, which is good news. And just to recap, we are building a pipeline and hopefully we'll have some news on that in the next 2 or 3 months.

Operator

[Operator Instructions] Your next question comes from the line of Daniel Mora with [East Creditor Capital].

Daniel Mora
CrediCorp Capital, Research Division

I have a couple of questions. The first one is regarding margins. I would like to confirm that the NIM guidance for 2024 is placed at 4%, and this is considering the net trading income. That's the first question. I would like to understand what will be the path of this NIM recovery to 2024. It will start the first quarter close to these levels and then improve and have in the fourth quarter a NIM closer or above the overall guidance for the year. I would like to understand that. And also, with the negative performance in 2023, do you expect to make any changes to the loan mix structure or the funding structure of those banks most impacted by the inclusion in interest rates? That will be the first part regarding NIM.

And the second question is regarding provision expenses. It was stated in the third quarter of 2023 that the peak in provisions will be experienced during 2023. I would like to understand it. Do you expect to see more quarters with new highs of cost of risk or we should be comfortable that the fourth quarter was already the peak in provisions? And also, when do you expect to see the peak in asset quality indicators considering the improvement of vintages, but also the recent data of unemployment?

Luis Carlos Sarmiento Gutierrez
President

Well, regarding the NIM guidance, bear with me, I'm going to go into some detail here. When you think of NIM for Grupo Aval, you have to break it into 2 separate pieces to try to compare it with the rest of the market. You have to have the NIM from the banking segment, and then you have Corficolombiana where we take interest-bearing liabilities, but we invest those to get returns from the profits -- from the income from the non-financial sector. Therefore, we give guidance broken down in 2.

The NIM of our banking segment, we expect it to be in the 4.75% this year with NIM on loans between 5.25% and 5.50%. Then when you add to that what is coming from Corficolombiana where you have the expense side but you do not have any substantial income side, that brings down the total NIM to the 4% area because you have a higher cost of funds and a larger amount of interest-bearing liabilities.

And then when you calculate it, taking into consideration that cost, the NIM on loans would be in the 4.75%. Therefore, the 4% of total NIM compares with the 4.75 for the banking segment. And the 4.75% for the total NIM on loans compares when you only look at the banking segment with 5.25% to 5.50%. It does include a net trading income, and we're expecting something similar to what we're getting this year that is barely about 1% NIM on investments.

Then you had a second part of evolution for the year. You're absolutely right. You expect to see a first quarter that is basically trending from last year evolving throughout the year as the rates start to fall from the Central Bank will continue falling where we will start to approach double-digits ROE by year end. So you will see a progression happening, driven mainly by NIM expanding.

Something else to bear in mind, and it ties with your next question, is provision expenses. When you break down how our portfolio looks like, you pretty much understand why our cost of risk is much lower structurally than our peers. Roughly 55% of our consumer portfolio is payroll loans that runs barely about 1% cost of risk, something in that sort of a range. Then from our exposure to companies, we have a large concentration into larger companies that also bear very small or very low cost of risk and are not expected to deteriorate [to the site].

Finally, we fall into the 2 riskier categories in the Colombian sector, and it is moving into the unsecured consumer loans, the personal loans, where numbers have been substantial in Colombia over the past cycles, and SMEs that are more exposed to a lower rate of economy. So, when you look at each one of those categories, we look pretty much as the rest of the system looks. But given that we have a different mix, we end up with this much lower cost of risk.

Perhaps what I missed was, you asked what are we thinking of loan mix and funding mix. Obviously, we've been very demanding and understanding why we were hit by this cycle as we were, and we're actively working into improving our mix. There's not something strategic to comment at this point, but obviously we're looking into improvement in our funding mix. That's our primary focus at this point.

And then, as we have been evolving throughout the years, we're moving much more into retail as a whole in our balance sheets, trying to move into these much more profitable areas. Obviously, as always in the past, that sort of transformation is very careful. We're not rushing into very substantial growths above the system. Obviously, we've been gaining market share skill that we're starting from a stronger point in quality, but we will continue to be careful.

Operator

Your next question comes from the line of Alonso Aramburu with BTG.

Alonso Acuna Aramburú
Banco BTG Pactual S.A., Research Division

Yes. I wanted to follow up on the cost of risk comments. Just wondering with your guidance of 2.1, which is a big improvement from the roughly 2.6 you had the last couple of quarters, is that something -- I assume that it should be gradual throughout the year, or do you expect that more of a sudden change in the next couple of quarters closer to that figure?

And I also -- on my second question, I wanted to ask you about Dale, your digital wallet. Maybe you can share with us some of the targets that you have there, some of the strategy, maybe targets on users and target for monetization over the next few quarters.

Diego Fernando Solano Saravia
Chief Financial Officer

Well, starting with cost of risk, 1 of the things that we have in IFRS is, IFRS starts to anticipate the cycle much more than what the local gap does. And that's the reason why we had a higher cost of risk during the last quarter of 2023. In fact, what we have been seeing has been improvement since the second quarter. So, we have had 2 continuous quarters where we have seen improvement in quality, second versus first, and third versus second. And then, during the fourth quarter, around October and November, we saw an uptick in delinquency, particularly of the unsecured consumer lending, even though it was wider than that, but pretty much that was what broke provisions. And that's why we ended up having to increase our provisions during the last quarter.

So, what we see hence is the quality of the vintages, and I think I didn't answer that before, has been slightly improving. Slightly improving means we're starting to see a reversal in the process. However, in absolute terms, those are still pretty high vintages. And that's the reason why we're guiding into a 2.1. You ought to think of what looks like a stable level of cost of risk. That would be much more in the 1.75 or perhaps south of that in a regular cycle. So, this is still a high year of cost of risk that we're looking into, consistent with a very low GDP growth, and also carrying that the vintages that we've seen recently are not where they should be longer.

Luis Carlos Sarmiento Gutierrez
President

All right, let me take the Dale question. First, when you speak about Dale, and this in our case, Dale is just a part of our digital strategy. And our digital strategy, if you recall, and we said it before, basically did not start with a digital wallet. We started first with digitalizing our legacy products, and we were actually first to market with digital products. Then we started digitalizing our operations, because that really -- what that afforded us was a decrease in operation costs.

And then, we're now concentrating on a whole payment ecosystem, which includes the mobility platform, the mortgage platform, and Dale, and some of the QR codes and portals, but then that's how we come down to Dale from the overall strategy. In Dale, we now have about 2.5 million customers, and we've reached and activated about 260,000 retailers. And obviously, we have to keep growing. We will participate, and we're working on that in being a digital wallet to distribute some of the government subsidies, which was the way that [Nike and Viplata] really acquire a tremendous amount of customers, especially during the pandemic.

And we, in all honesty, were not present when that happened, but the government is about to activate a whole bunch of subsidies. And as long as your digital wallet participates in that, you will acquire, in that form, a couple other million customers, and we're going to participate in that.

And then, the last thing with Dale, as I've said, I think in my presentation, we're trying not to maximize per se the number of customers. What we're trying to do is make sure those customers are active customers and transact, and then we have to see how we make them profitable for the group. And that is, if we're able to fit Dale with our overall payment ecosystem, I think that's what's going to make that possible.

So again, and to recap, Dale is just a component of our overall digital strategy, and more specifically of our payment ecosystem. And so that's what we're paying a lot of attention to it. We'll keep growing number of customers, we'll keep growing number of retailers as a way to make the platform profitable. And the other thing is that we're in the brink of open finance in Colombia, and also the Central Bank is working on establishing sort of a big strategy, like in Brazil, where there probably will be open finance and open data for all the digital wallets. And honestly, for the smaller digital wallets, that's going to be a great opportunity. So we're waiting and very, very attentive to what happens with the Central Bank's new digital wallet.

Operator

There are no further questions at this time. Mr. Luis Carlos Sarmiento Gutierrez, I turn the call back over to you.

Luis Carlos Sarmiento Gutierrez
President

Thank you so much, and thank you, again, for everybody that signed up for this call. We have about 100 people, and mostly web, and we appreciate having you on every one of our calls. I appreciate having you all over all these years, and hopefully we'll bring better news after, as I said, a subpar year in 2023. We expect 2024, as Diego said, to find a quarter of maybe double-digit return on equity, and then moving on to 2025, where again acceptable profitable margin.

So once again, thank you so much, and we'll see you next time.

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