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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q4 2014 consolidated results under Colombian Banking GAAP conference call. My name is Richard, and I will be your operator for today's call. (Operator Instructions).

Quarterly results included in this webcast have not been audited. However, they are prepared 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, which differs in certain significant respects from US GAAP. Yearly audited consolidated financial statements included in our Form 20-F filed to the SEC provide a description of the principal differences between Colombian Banking GAAP and US GAAP.

Grupo Aval as an issuer of securities in Colombia is subject to the control of the Superintendency of Finance. Although we are not a financial institution, we present our consolidated financial statements under Colombian Banking GAAP in this quarterly report because we believe that presentation on that basis most appropriately reflects our activities as a holding company of a group of banks and other financial institutions.

This webcast may include forward-looking statements which actual results may vary from those stated herein as a consequence of changes in general, economic, and business conditions; changes in interest in currency rates; and other risk factors as evidenced in our Form 20-F available at the SEC webpage.

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When applicable, in this webcast, we prefer to billions as thousands of millions. With us today is Mr. Luis Carlos Sarmiento Gutierrez, Chief Executive Officer of Grupo Aval; Mr. Diego Solano, Chief Financial Officer of Grupo Aval; and Tatiana Uribe, Financial Planning and Investor Relations Officer of Grupo Aval.

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

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

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

So much has happened since our last call and so much of it unexpected, that sometimes it's hard to believe that only a trimester has gone by since we last presented our results. In fact, through the last quarter of 2014, a new very onerous fiscal reform was passed, the Colombian peso devalued by approximately 20%, the price of an oil barrel was cut in half, inflation picked up, and growth slowed down. Frankly, if somebody had predicted one-half of these events, very few would have taken him or her seriously.

We will run through our presentation in the same manner as we have previous presentations, and we will try to focus on the immediate and future repercussions of these events on our results.

Having said that, allow me to take a few minutes of your time to address the main macroeconomic highlights of last year's fourth quarter, as well as the highlights of our own results. Then I will pass on the presentation to Diego Solano, our Chief Financial Officer, who will speak in more detail of these results.

To start with and referring to Colombia's economy, the country's growth slowed down in the fourth quarter, which at 3.5% was the slowest growing quarter of 2014. The drop in the price of oil -- which accounts for 55% of Colombian exports, 4% of the country's gross national product, and over 20% of the central government's fiscal revenues -- was among the principal causes for the slowdown.

Furthermore, as a result of the irrelevance of oil prices to the Colombian peso US dollar market, a very strong negative correlation was experienced between these two currencies, which resulted in the Colombian peso depreciation of 18% during the last quarter and 27% during the second half of the year.

The peso weakness continued into 2015 having corrected during the past few weeks as prices of oil have corrected up as well.

Additionally, as I mentioned before, a new tax reform was finally passed in the last few days of the year. In short, the new tax reform revived the equity tax, albeit at a small percentage than the previous temporary equity tax, maintaining tax on financial transactions, and increase the income tax rate from the current 34% up to 43% for the year 2018, starting at 39% in 2015. One feels that the uncertainty generated by the government in relation to the passing of this tax reform in the last two months of the year resulted in businesses adopting a wait-and-see attitude that contributed to the slowdown.

More importantly, although during 2014 GDP grew at a healthy 4.6%, this new reality has driven economic analysts to revise downward their growth expectation for Colombia's economy down to 3.5% for 2015 versus their previous consensus which exceeded 4.5%.

To continue, as we had anticipated, inflation came in at 3.7% for 2014 and has continued to increase since on a 12-month basis. In fact, inflation for the 12 months ending March 2015 came in at 4.6%. We now estimate that 2015 will experience inflation of approximately 4.5%, in line with what we have experienced so far in the year.

Under this inflation environment, the Central Bank will probably wait before undertaking any monetary policy adjustments, keeping its rate unchanged unless inflation numbers start to exceed the levels already observed.

As far as the DTF is concerned -- and it might be worth mentioning again that DTF is the rate at which approximately 85% of our local commercial loan portfolios priced us, we had expected that by now this rate would have increased over the Central Bank's rate at a spread of close to 50 basis points, consistent with historical trends.

In fact, DTF has been stuck at the Central Bank rate level of 4.5% for a couple of months now.

This means, if looked at in a different way, that commercial banks are funding themselves via 90 days CDs, which is the way DTF has established, at the same rate that the Central Bank funds itself overnight. We still believe this to be an anomaly, and therefore, we expect DTF to smoothly trend up towards 5% by year end.

On the other hand, analysts also coinciding their expectation that the economy will once again pick up steam in 2016 as oil prices recover and as our exports become more competitive due to better comparative labor costs.

On the other hand, Central American countries are experiencing better growth and growth expectations due to two principal factors. First, the recovery of the US economy, which affects them positively, as it has an immediate impact on the level of remittances flowing into those countries, and secondly, as the US's incapacity to absorb more of their exports; and thirdly, as a substantial amount of their imports cheap and due to the lower cost of oil.

With regard to Aval's consolidated balance sheet, our assets grew during the year at approximately 15%, and our gross loans grew by approximately 17% in 2014.

This growth was, of course, aided by the conversion rate of our dollar assets in Central America. The quarter saw growth of 5.2% in assets and 8% in gross loans. At year end, approximately 26% of our balance sheet is comprised of foreign assets, while 74% is locally originated. These numbers are also affected by the exchange rate. Our strategy to outpace the market in mortgage and credit card lending keeps working as we have increased significantly our market participation in these two segments, and in fact, the composition of our loan portfolios shifted during 2014 from 35% consumer to 37.4% consumer.

The quality of our loan portfolios, measured as 30 days past due loans to total loans, improved slightly to 2.6% during the quarter. This ratio continues to outperform the market. Our cost of risk averaged 1.8% during the quarter, affected by one-time events that Diego will refer to, which accounted for almost 20 basis points of this number. Our consolidated deposits grew by approximately 13% during the year. The mix of our deposits remains weighted towards checking and savings accounts, which represent approximately 62% of our deposit base. Our tangible capital ratio remained basically unchanged at 9.8% when compared to September 30, 2014, and almost 100 basis points higher than the same number at the end of 2013, largely as a result of our New York Stock Exchange IPO, which added to our capital base of approximately $1.3 billion.

We have deployed the proceeds of Aval's capitalization principally by participating in Banco de Bogota's COP1.5 trillion capitalization and by acquiring approximately 9.3% of Corficolombiana's shares directly into our balance sheet.

Our loan net interest margin reversed. It's a decreasing trend and ended the year at 6.9%. Efficiency, measured as operating expenses over operating income, improved by 80 basis points versus the end of 2013. We continue to work on ways to improve efficiency during 2015 with our goal of improving this ratio further by 100 basis points during this year. Attributable net income for the year came in at COP1.7 trillion, 4.3% higher than the attributable net income during 2013.

Finally, principally as a result of the increased stored capital base at the end of the quarter, our annualized return on average equity for the year dropped to 13%, while the month per average share (technical difficulty) increased by more than 12% during the year. Mostly in the last quarter, our earnings-per-share decreased by only 7.5%.

And with this, I will pass on the presentation to Diego, who will describe in detail our results for this quarter. I thank you for your attention.

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

Thank you, Luis Carlos. Before moving into the rest of the presentation, we've been informed that some of you are having problems with the webcast. In case you are not being able to access our presentation, it's also (technical difficulty) on our webpage.

As Luis Carlos mentioned, last quarter of 2014 was a volatile period where severe changes in growth expectations, exchange rate, and inflation happened. I will, therefore, spend more time in this occasion on the macro environment in Colombia and point out its effects on some of our key metrics.

Starting at the top left of the chart on page 5, we have included real GDP growth up to 2014. And on the right side of the page, we have included market expectations of GDP growth for 2015 and 2016. In the last part of 2014, GDP (technical difficulty) in parallel downward provisions and market expectations on 2015 and 2016 GDP, brought consensus down for 2015, down from 4.7% as of October to 3.5% as of today. This adjustment came at a time where the two top items on which the market was (technical difficulty) oil prices and the tax reform we cosigned a couple of days before Christmas. Expectations for 2016's GDP growth stands at 3.7%, building in a market view of recovery in growth dynamics.

With regards to long-term GDP growth for Colombia economy's point to strong fundamentals (technical difficulty) Colombian peso and the competitiveness of Colombian exports, particularly related to labor-intensive industries.

It is important to highlight that (technical difficulty) there have been a negative provision on growth expectations relative to previous expectations on Colombia, it is expected that Colombia's growth will continue to be stronger than that of the world average over the next couple years.

On the bottom left of the page, you can observe how foreign investment fared through in the year 2014. Even though this figure increased as a whole through the year, there was a shift in structure. Foreign direct investment, long-term by nature, fell, while portfolio investments substantially increased.

On the right, you can see unemployment measures for (technical difficulty) December since 2010. Even though improvement trends have been seen over this period, December rating shows us a slight softening of the economy.

Moving to page 6, we present the inflation and some interest rate benchmarks. Inflation continued to pick up during this quarter, reaching 12-month cumulative inflation of 3.66% as of December 31 of last year. Cumulative 12-month inflation as of February was 4.56%, now inside the Central Bank target inflation range for two consecutive months. Analysts have begun to revise upwards their expectations. As Luis Carlos mentioned, it is our view that cumulative last 12-months inflation for 2015 would be close or above the Central Bank upper limit of 4%.

On the bottom left of the page, we present a chart which shows Central Bank intervention rates jointly with inflation and GDP. This chart shows how Colombian Central Bank has exercised its constitutional mandate of inflation targeting above GDP (technical difficulty). Under the previously mentioned inflation scenario and Central Bank mandates, we expect its rates to remain stable for the remainder of this year with a slight upward bias if inflation pressures continue.

Moving to the right and assuming into 2014, we present our relationship between the Central Bank intervention rate and DTF, the main benchmark used to price our loans for companies. As mentioned by Luis Carlos during our past call -- during this call, our historic spread of 50 to 70 basis points of DTF over the intervention rate has not materialized. Under this scenario, it is as expensive for the Central Bank to fund overnight as it is for banks to fund for three-month CDs.

In addition, inflation, if it retains the current level, would be at such a level that the Central Bank rate, as well as the three-month CD rate real interest rate, would stand at 0% real. We believe this situation to be unsustainable and thus expected yet to smoothly trend to approach 5% by year end.

On page 7, we present one of the key shocks of the Colombian economy: oil prices' effect on foreign exchange. As is common knowledge, the oil price fell abruptly during the last quarter or last year following a weak performance during the third quarter. Over recent years, the Colombian foreign exchange trade balance has become growingly exposed to oil prices as oil-related exports accounted for over half of Colombia's total exports.

Oil is also relevant for government finances, as well as for GDP growth, however, in a much milder way. As a result of the relevance of oil prices to the Colombian peso market, a very strong negative correlation was experienced between the Colombian peso and the US dollar. And as a result, the peso experienced a depreciation of over 17%, mentioned by Luis Carlos.

This depreciation for the quarter, added to our depreciation over the third quarter for a cumulative six-month depreciation of 27%. The peso weakness continued into 2015, having corrected during the past few weeks as oil prices have begun to show some signals of recovery.

I will now move to the results of Grupo Aval and will start on page 8 with our asset evolution. Total assets grew 15.1% during 2014, similar to the 15.6% asset growth net of acquisitions experienced during 2013. Total assets grew 5.2% during the fourth quarter. Our consolidated balance sheet structure was similar to that existing as at the end of first half 2014 with loans slightly increasing their share of assets. Loans account for close to 62% of assets and investments for 16% of those. Other assets weighed slightly decreased as the cash provided by the New York Stock Exchange issue was deployed.

Finally, Colombian assets account for 74% of our balance sheet. The Central American assets increase in weight was due to the Colombian peso depreciation, given the relevance of the US dollar in Central America.

On page 9 we present our loan portfolio evolution. Gross loans increased 16.8% during 2014, above the 14.7% loan growth net of acquisitions experienced during 2013. This growth resulted from Colombia growing at 12.1% and Central America at 34.4%; 8.2% in dollar terms. During the fourth quarter, gross loans grew 8% with Colombia growing at 3.3% and Central America growing at 25.5%; 4.1% in dollar terms. The quarter's growth was much stronger than the remainder of 2014.

Moving to the bottom for the chart, mortgages continued to be our most dynamic portfolio, growing at 38.6% during the year. Consumer and commercial loans grew at 19.3% and 14.4%, respectively, during the same period. The structure of our gross loan portfolio suggests a slight shift towards a higher component of personal loans.

Loans to companies -- defined as commercial loans plus financial leases -- account for 62.3% of our loans, down from 63.1% three months earlier. Loans and financial leases -- defined as consumer loans plus mortgages plus microcredit -- account for 37.7% of our loans, up from 36.9% three months earlier.

Colombia accounted for 75.4% of our loan portfolio, down from 78.8% three months earlier. This slight increase, as well as for the assets, is related to the appreciation of dollar relative to the peso.

On page 10, several loan portfolio quality ratios are presented. On the top left of the page, you will find the evolution of our loans past due more than 30 days and our NPLs, both as a percentage of total loans. During this quarter, our delinquency ratio was stable when measured as NPLs to total loans and slightly improved when measured as 30 days PDLs to total loans. Delinquency measured as NPLs to total loans was 1.9%, both at the end of this quarter as at the end of the previous quarter. NPLs in Colombia were 1.9% of total loans at the same level as recorded as of September 2014. NPLs in Central America were 1.7% of total loans, improving from 1.8% recorded three months earlier.

Delinquency, measured as 30 days PDLs to total loans, was 2.6% at period end, down from 2.7% recorded three months earlier. The 30-days PDLs ratio in Colombia was 2.6% of total loans at year end, improving from 2.7% three months earlier. In Central America, this ratio was 2.7% at period end, slightly above 2.5% three months earlier.

Moving to the right, analyzed net provision expenses to average loans for the quarter are presented at 1.8%, higher from 1.5% recorded three and 12 months earlier. Half of this increase in net provision expenses is explained by one-time charges linked to adjustments in loan portfolios of the Central American acquisitions and certain adjustments to financial lease portfolios. Provision expenses to average loans during the quarter were 1.7% in Colombia and 1.9% in Central America, the latter affected by the adjustments mentioned before.

At the bottom left, you will find the annualized ratio of charge-offs as the share of average NPLs. This ratio was 7.33 times during the fourth quarter of 2014, materially at the same level of the 0.7 times recorded during the third quarter. The cumulative annualized ratio of charge-offs for 2014 was 0.68 times average NPLs, slightly higher than the 0.63 times recorded for the same period of 2013.

Finally, on the bottom right, you will see several loan loss reserve coverage ratios. Our allowances are 3% of our total loans and cover 1.63%, 3 times our NPLs and 1.17 times our PDLs.

On page 11, you will find further detail on the quality of our loan portfolio. On the top of the page, we present the evolution of our loans 30 days past due, broken down by portfolio. As mentioned in the previous chart, this ratio was 2.7 as of December 31, 2014, improving from 2.7 recorded three months earlier. The slight improvement in past-due loans to total loans during the quarter was mainly driven by an improvement in consumer loans from 4.1% to 4.0% and financial leases from 4.0% to 3.2%. Consumer loans and financial leases account for 29.4% and 6.6% of our total loans, respectively.

Improvement in consumer loan portfolio is also observable when analyzing our NPLs to total loans evolution. 30-days past-due loans evolution in billions of pesos is presented in the lower part of the page. Our 30-days PDLs where COP2.9 trillion as of year-end 2014, up from COP2.7 trillion three months earlier. New PDLs added COP494 billion to the evolution of PDLs during this quarter. Approximately COP100 billion of those are explained out by the FX effect on balances in Central America. Charge-offs were COP373 billion during this quarter.

Funding and deposit evolution is presented on page 12. Loan funding grew 12.9% during 2014 and 5% during the last quarter. Deposits grew at 13% during 2014 and 5.1% during the last quarter.

Our funding and deposit structure remained substantially stable during the quarter. Our deposits account for 78% of our total funding and fully fund our loans with deposits covering 105% of our loans. Our checking accounts represent over 25% of our deposits.

On page 13, we present the evolution of our total capitalization, our attributable to shareholders equity, and the capital and equity ratio of our banks. Attributable to shareholders equity increased by COP3.4 trillion in 2014. This increase mainly resulted from the substantial capital infusions made by Aval over this period through two equity offerings that jointly provided COP2.7 trillion in additional funds, our New York Stock Exchange debut and the final tranche of our 2013 Colombian common stock issuance. The last tranche of the Colombian common stock issuance was completed during January 2014 and provided COP0.3 trillion.

Our second offering, our New York Stock Exchange offering, provided COP2.1 trillion during September 2014 and incremental COP0.3 trillion in October when the Green Shoe option was exercised.

With regards to our recent New York Stock Exchange offering and in line with what was announced during our roadshow, we have substantially deployed the funds raised as follows. We actively participated in the Banco de Bogota equity offerings, ascribing COP1.2 trillion out of the COP1.5 trillion raised.

In addition, we acquired shares from Corficolombiana and are previously owned by Banco de Occidente for an approximate amount of COP0.8 trillion. Our total equity -- defined as attributable equity plus a minority interest -- grew 23.4% during 2014 and 6% during the last quarter. Attributable equity accounted for [67.2] of total equity as of December 2014, up from [64.4] a year earlier. Attributable equity group at 4.8% during the quarter and 28.7% compared to December 2013.

Finally, on the bottom of the page, we present a consolidated solvency ratio of our four Colombian banks. The Tier 1 ratio and solvency ratio of Banco de Bogota increased [5.4 percentage] points. This increase resulted from the COP1.5 trillion equity offering offset by an increase in the Central American risk-weighted assets and goodwill derived from the FX movements that we have previously discussed.

On page 14, we present our net interest margin. Our net interest margin for the last quarter of 2014 was 5.7%, bringing the cumulative 2014 result to 5.8%. The slight decrease in NIM during the quarter resulted from a decrease to our fixed income investments, despite a positive performance in the NIM on loans.

During the quarter, NIM on loans increased to 6.9%, up from 6.8% during the previous quarter, breaking a contraction trend that began in early 2013. This increase in NIM resulted from an increase in yield and loans and a stable average cost of phones. NIM on loans for 2014 was 6.9%.

On the other hand, NIM on fixed income investments was 1.3%, down from 1.9% a quarter earlier. Yield on fixed income investments fell as a result of raising rates on bonds. NIM on fixed income investments for 2014 was 1.9%.

Our quarterly net interest income grew 10.1% compared to the same period one year earlier, increasing from COP1.77 trillion to COP1.95 trillion during this quarter. Net interest income for this quarter grew 3.8% relative to that for the previous quarter.

On page 16, we present net fees and other operating income. Our fee income is presented at the top of the page. Net fee income grew 11.5% compared to the same period a year earlier. Net fees for this quarter increased by 10.6% compared to those received during the third quarter of 2014.

At the bottom of the page, we present other operating income. Other operating income decreased 6.5% compared to the previous quarter, reflecting the fact that the first and the third quarters are the periods during which dividends are mostly received. Other operating income different from dividends increased 9% quarter on quarter. Dividends accounted for COP61 billion out of the total COP307 billion of other operating income recorded during this quarter.

On page 17, we present efficiency and nonoperating income. On the top of the page, we present operating expenses as a share of operating income and average assets. Our efficiency -- measured as operating expense divided by operating income -- was 52.9% during the quarter, improving from 53.7% during the same period a year earlier and declining compared to 49.5% during the previous quarter. The decline in efficiency compared to the previous quarter was partially explained by seasonality in dividends received on the income side and of taxes different from income tax, marketing, and consulting fees on the expenses side. 2014 efficiency measured in this manner was 51%.

Our efficiency -- measured as operating expenses divided by average assets -- was up 3.8% during the quarter, improving from 4.1% during the same period a year earlier, declining as well from 3.6% during the previous quarter. 2014 efficiency measured in this way was 3.7%.

On the bottom of the page, we will find the contribution of net nonoperating income. As I have mentioned in previous calls, the nonoperating income mainly includes income from the sale of property, plant, and equipment and foreclosed assets and the recovery of other provisions.

On page 18, we present our net income and profitability ratios for this quarter. Net income from the quarter was COP414 billion or COP19 per share. Return on average assets and return on equity for this quarter were 1.3% and 11.5%, respectively.

Finally, on page 19, we present 2014 cumulative net income and profitability ratios. Net income for 2014 was COP1.669 billion or COP80 per share. Return on average assets and return on average equity for this quarter were 1.6% and 13%, respectively.

With this, I conclude the presentation, and I now open it to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Carlos Macedo, Goldman Sachs.

Carlos Macedo - *Goldman Sachs - Analyst*

A couple of questions. First, I want to ask a question on the sensitivity of your loan growth to the developments in Colombia with GDP growth. There's been a lot of volatility in the outlook for GDP growth, as you mentioned, and we had a view for loan growth in the past. Just want to understand how sensitive are your expectations for loan growth to that kind of growth in Colombia, not only for 2015 but also for 2016, so we can get a better idea of what to expect going forward both in terms of how it generates NII, as well as how it consumes the capital on your book?

The second question, if you allow me, comes from the impact of the different things that are happening out in the beginning of the year, particularly the taxes. We do know that the taxes was increased with the wealth tax staying on for a few more years. What kind of impact do you expect that to have? If you can give us some guidance for the effective tax rate going forward, it would be helpful in trying to understand where earnings are going to go. And if there is, like for other peers, there is an offsetting event like moving it to IFRS and not having to provision or amortize the goodwill anymore and things like that. Thank you.

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

Okay. Carlos, with regards to your first question, what we have said in the past is there's been a very tight relationship, a very strong elasticity of loan growth in Colombia to GDP. The way they say elasticity has behaved is the Colombian loan portfolio has been growing at 2 to 3 times real GDP plus inflation. What we are seeing with this revision of [100/100] basis points down in GDP growth is that it will have a toll on loan growth.

Going through to very basic analysis that I mentioned, if you are going to take the lower part of this range, given that this is a softer cycle and this elasticity is lower than during the softer cycle, 3.5% GDP growth times 2 adds up to 7% to real growth of the loan portfolio, plus an inflation, that as Luis Carlos mentioned, might be at 4% or above that during the year.

So that brings us up to around 11%. Therefore, trying to round that up, we would expect to see something in the low double digits, meaning 10% to 12% could be the right figure.

If you go through the same kind of analysis for the following year, you could expect an increase in growth of 100 to 200 basis points based on GDP recovering from 3.5% to 3.7%, therefore moving to a higher elasticity and a higher GDP growth.

Now, regarding taxes and offsetting effects, trying to summarize the effect of taxes that we will see to our P&L during 2015 comes mostly from the increase in CREE. CREE is a surcharge on an income tax, and this was increased by 5 percentage points. So an impact of this tax, in absence of other offsetting effects that I'm going to get into that in a moment, would be of around 1% or 1 percentage point of ROE.

Regarding guidance, you might have noticed that the effective tax rate of Grupo Aval is higher than the regulatory tax and higher than that of our peers.

There's a number of values that we've been working in the past to try to improve this measure. Some are very easy to understand. Just to give you a fact, given the accounting rules exist in Colombia before IFRS, we're forced to bring dividends from our Central American operation in order to be able to recognize in the unconsolidated financial statements of Banco de Bogota their investment in Central America. This was quite relevant for solvency and other matters. These taxes or taxes related to bring these dividends cost us more than COP60 billion during 2014. Therefore, that is something that is going to go away. There's another number of measures that we are taking where we as part to get close to offset around half of these effects of the CREE that we will have.

Trying to wrap that up, what we would be able to do with the initiatives that we have in place with this would be to bring down the effective tax rate of Grupo Aval in around 200 basis points -- 150 to 200 basis points. So we would go more in line to what what is happening with the rest of the industry and what the regulatory tax looks like.

That would mitigate substantially or a substantial piece of this tax. Therefore, we could end up in the high 30s could be an effective tax rate including CREE, given the tax reform and what I just mentioned that was already in place.

Then you mentioned another number of offsetting effects. Those offsetting effects are pretty clear for Aval and for the rest of the banks. There's two main effects that would be favorable. One is the equity tax. This is more of a P&L effect, even though in substance we will end up paying this tax, but through our P&L, the equity tax is not expected to flow.

There's two main differences between what Colombian IFRS will be and what pure IFRS is, and it is the way the equity tax is accounted for. And the second one is, as of today, there is regulations from the Superintendency where the benefit that we would get from reducing our -- or from having lower provisions on loans will not flow through to P&L, but will flow to the OCI, to the other comprehensive income.

Having said so, if you take the equity tax and then not having to amortize goodwill, this accounts for over COP30 billion of positive effect.

We also have a positive effect of consolidating Promigas. Promigas we've been dealing with through dividends, and as you might expect, being able to consolidate that will generate additional revenue.

On the negative side, we have capitalizing to our assets some of the reappraisal of fixed assets, and this will generate additional depreciations of less than COP50 billion. So there is a number of positives. If Colombia would not have this exception of sending provisions to OCI rather than net income, we could be talking about something in the order of magnitude of another COP100 billion of positive. However, as current regulation stands, this will not flow through P&L.

So summarizing, there is a strong negative effect of this increase in CREE. As I mentioned, for this year it will take away around 1 percentage point of ROE, and there is a number of positives that some of those that we already were working on and others that will come with IFRS that will help us improve our bottom line.

Operator

Saul Martinez, JPMorgan.

Saul Martinez - *JPMorgan - Analyst*

I have a couple of questions, and one is more general and one is more specific. So, the first is a more specific question on asset quality, and I realized that the headline NPL and past due loan figures were flat to down. I also realized that you had a model revision, which added I think about 20 basis points to your cost of risk. But if I look at the NPL formation, it was pretty elevated this quarter, very similar to last quarter, and my understanding is seasonally the second half of the year tends to be pretty good. First quarter tends to show an uptick.

So can you give us a little bit of color as to what your expectations are for credit quality? Do you still believe your cost of risk will remain in the 1.5%, 0.6% range? Are there any segments you are seeing pressure in? Just can you give us more comfort that -- or why should we feel comfortable that NPLs and asset quality are not going to worsen, especially in a slower growth environment?

The second question is a bit more general, and I understand why you feel that the economy will pick up in 2016, but there is a growing school of thought that maybe Colombia for the next few years is going to be stuck in a much slower growth environment, say 3% or even less, given a lot of the macro headwinds that the country is facing. What does that mean -- if you are wrong about growth picking up and even wrong about 2015 for that matter -- 3.5% -- what does that mean for your business? Not just for your loan growth but for your business, your loan growth, your NII growth, credit quality? Can you expand ROEs in that environment? How do you think about the business and the financial outlook if Colombia is, indeed, stuck in a slower growth environment for two or three years?

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

Okay. Taking the first one, there was something I perhaps mentioned too briefly when I went through the presentation. But when you look at NPL formation, we had a very relevant effect of re-expressing the value of the Central American assets. If you look at the chart -- and let me try to direct you to the page where you can see that. It's the second page on NPLs.

The way we start our chart is beginning balance of the fourth quarter of 2014 is exactly the same as the ending balance of the third quarter of 2014. As you might imagine, this is not incorporating -- perhaps it's a mistake in the way we present the chart and we should have an adjustment due to FX -- but in order to reconcile the numbers we are making -- we are having our new PDL number higher than it would be if we had adjusted for currency previously.

As I mentioned, out of these COP493 billion, around COP100 billion were not related to new PDLs but to turning the dollar-denominated PDLs into pesos. If you adjust for that, you would fall down to below COP400 billion. That is almost exactly the same number that we had for the fourth quarter of 2013. So there is -- around all our numbers there is some noise regarding FX, but in this case what gives you this perhaps mistaken reading is what I am referring to.

Now, moving to the Part B of your first question, you were asking, what is your expectation on credit quality. We used to talk of around 1.5% to 1.6% of cost of risk. What we have seen -- and it is something that is not only seen on the (inaudible), an upward tick that we have seen in expenses, but also recognizing that the Colombian economy will grow over 100 basis points less than what market consensus was as of October. We should expect to see that moving around 10 to 15 basis points up. This would bring us up to somewhere around 1.5% to 1.7% of cost of risk.

Now, your third question perhaps is a -- we could spend the rest of the call on this one, but there's a number of well-based reasons why we believe that Colombian economy will recover strongly in the medium term. It's a combination of a number of events. One, Colombia had been suffering a negative effect of a strong currency. The Colombian currency was perhaps stronger than what it should have been. Therefore, we have been destroying Colombian jobs for a number of years. This has been happening for five to seven years already. With a much weaker peso, what happens is Colombian labor becomes cheap. And, therefore, when you add that up to the commodities, prices that are worldwide the same, you end up with cheaper Colombian products.

That has a double effect. One from the FX standpoint where we might be stronger exporting and imported goods will be less attractive. But the more substantial piece of that is that Colombian labor will be replacing imported labor in this process. Therefore, we will have a much healthier economy because labor-intensive industries get GDP to flow into consumption much faster than oil GDP. That was part of what we had been receiving.

Then we can't neglect another piece that is very relevant for growth, and it is the fourth generation concessions. I didn't mention that before, but Colombia has something called the fiscal rule. It's being discussed currently. There could be changes there.

But what that generates, in fact, is when you look at what would be the classical tools policy that you would use to strengthen the economy, there is two. One, lowering interest rates, but that's something you can't do in Colombia given the inflation targeting mandate of the Central Bank. And then increasing government spending. What we're seeing in Colombia is exactly the opposite given the fiscal rule, and it is the government has announced around COP5 trillion of expenses being cut. Part of that will come from investment.

Therefore, turning into investments done by the private sector becomes a clear priority, as has been voiced by the government. So, the credibility of the fourth-generation concession plan has actually picked up.

In addition, I don't want to get into that, but there is a number of technicalities that end up showing that it's a fiscal positive process to build those toll roads given that those toll roads pay taxes and that the government commitments are long-term and still will have an offsetting side, that is the taxes being paid. Therefore, we have two very strong forces kicking in. One is the infrastructure plans and then the strengthening or the more competitive Colombia peso currency.

The caveat for that is that that doesn't happen overnight. That will be something that will not affect in a very substantial manner 2015. We will start seeing that in 2016, but it will have a full effect after that. So that's the reason why we do believe that the Colombian economy should be able to recover the kind of pace of growth it had before and even in a healthier manner.

Then you said, what if you're wrong? If we were wrong, then there is a number of things that need to happen here. One, as we have been doing over the past, we believe that there's a number of things that are driven by the economy; there is a number of things that are driven by management. Things that are driven by management are things such as efficiency, such as having a more effective pricing strategy, and these kind of initiatives. We will continue working on those as we have done.

And as you might imagine, the kind of conversations we've been having with our banks -- because the way we discussed things with our banks is exactly the way the same way you discuss it with us. We are investors in those banks -- is we need to revise what our efficiency targets look like, what our spending targets look like. You might have noticed that NIM on loans picked up in spite of DTF being flat over the second half of last year. This has been happening through a disciplined pricing process that we've pushed into the banks.

We believe this is not only happening at Aval but systemwide. Therefore, we are not alone in this exercise, and we expect to see this kind of pricing discipline happening in the system and try to fare the cycle this way.

Our business is a very long-term business, and as you might have imagined, it would lead to a number of lower cycles and even in some crisis cycles much, much deeper than what we are facing now. And when you look into the past, the way Aval has performed compared to its peers has always been better. Therefore, we expect to continue doing more of the same and being able to pull that through.

Operator

Jorge Kuri, Morgan Stanley.

Jorge Kuri - *Morgan Stanley - Analyst*

I have two questions, if I may. The first one is, on the expense side, was there anything extraordinary in terms of expenses during the fourth quarter related to the ADR issue? And if so, can you quantify them?

Second question is -- so, you've spoken about some changes on your outlook, loan growth provisions, taxes. I guess those on the negative side. On the positive side, probably on the pricing and efficiency. So if you put it all together, what does this mean for your bottom-line growth over the next two years?

If you look at consensus estimates, which I think for the most part still reflect a scenario -- the previous scenario of Colombia growing around 4%, 4.5% -- consensus estimates have you growing net income around 18% to 20% in both 2015 and 2016. Given the change in macro backdrop and taxes, et cetera, what do you think would be a number that you would feel more comfortable with? Those are my two questions. Thank you.

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

Okay. Let me take those. On the expense side, there was nothing extraordinary. On the ADR issue, yes, there were some expenses. But even though this contributed to increasing expenses, that was not the explanation.

There are two things I mentioned, that the income side of the last quarter, as well as the second quarter of the year, is lower than the other quarters because of dividends. That is part of the explanation of a cost to income. However, what you would ask me is I also saw some deterioration on the cost to asset side.

What we saw there, and it explains around 70% of the additional expenses that we had that would take us to remaining at the same efficiency level we were a quarter before, are basically taxes and marketing. Those are the largest two items that explain this increase.

Taxes has some seasonality. This time around, we had higher taxes. Particularly that is taxes on financial transactions and other. These are the kind of taxes I'm referring to, not income tax. And then on the marketing side, we also had some costs given that we had increased throughout this year our marketing expense.

We had the World Cup, and that brought up some of the expenses and other campaigns that were follow-ons on that. And, as you might imagine, part of reacting to a slower market is also being much more aggressive on the commercial side, not on the risk side, but being able to have a stronger reach. Therefore, we had some increase in marketing trying to make up for some areas where we believe we have a high chance to have a stronger growth that we hadn't experienced up to then.

So these are the kind of expenses -- that's why I'm referring to seasonality and also some expenses that are related to some actions that we took. The ADR issue did affect us, but does not explain the majority of this pickup.

We do expect to continue on the trend of improving our efficiency metrics. As I mentioned, that's one of the areas that we believe it's due for us as management, and we have a number of initiatives working on those directions. Part of the cost that we also had at year-end was consulting fees. Some of those consulting fees, as you might imagine, are related exactly to launching these initiatives to improve our numbers.

Then you asked, putting all this together, what does that mean? What that means is we expect to see our ROE trending slightly up. And when I mean trending slightly up, it is doing somewhere in the 13% to 13.5% area for this year. This is in spite of the increase in CREE and in spite of the rest of the cycle. If we were in the absence of these kind of figures, we would be pointing to much higher numbers.

As we have mentioned in the past, we do have a target to be able to raise our ROE about 15% and even into higher numbers. This number has had a permanent adjustment due to higher taxes that might account for around 100 basis points of that. But different from that, we continue to look into the same kind of aspiration.

Regarding growth, I think I already went through that, and regarding quality, I also mentioned that before.

Operator

Mauricio Restrepo, BTG Pactual.

Mauricio Restrepo - *BTG Pactual - Analyst*

Maybe follow-up questions on the ROE. Now that you mentioned you expect to have an ROE of 15% in the medium-term, when is a good time with respect on ROE around this level?

And maybe a second question on dividend income. If you can explain what's the driver of that dividend income on this quarter, which is mainly was unusual on previous years.

My third question is on provisions in Colombia. You explained that a part of the growing provisions came from new models in Central America, but also you experienced some high growth in provisions in unconsolidated numbers in Colombia. If you can comment on that as well. Thank you.

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

Okay. Regarding ROE, first to mention, it is not our aspiration to run at 15%. It's our aspiration to run about 15%, and we're working in that direction.

Regarding timing, if we take into consideration a 3.5% growth for this year and 3.7% for next year, and only recovering after that around 2017, what that implies is our plan to get into these kind of targets has been delayed for, let's say, a little less than a couple years, around a year and a half. What that would take us to is we should be reaching the 15% ROE area in around 2017.

Then you mentioned or you asked why did we have dividend income during the fourth quarter. This was basically dividend income that did not come in during the third quarter, given the timing of dividends being declared.

Moving into provision expense discussion, there's been -- I mentioned two actions; I believe you were separating those. One, Central America, and another one linked to Colombia. In Central America what we did is, particularly with the acquisitions that we had completed a year earlier, we came to the conclusion that we wanted to increase slightly the level of those provisions. So that is the reason why we saw more provisions in Central America.

However, what you pointed to is we also saw some increase in provision expenses in Colombia. You might have seen those are, particularly in Banco de Occidente and Banco Popular, are the two areas where you might have seen that.

Regarding Banco de Occidente, it is mostly explained by increases in provisions related to leasing products. The reason why we had these additional provisions is something that might be -- it not only nonrecurring but might be partially recovered. We had these provisions because the appraisals of some assets were overdue more than a year. Under Colombian regulation and when assets are overdue over a year, you are forced to rate those in a more negative way than it would be just because of performance.

Therefore, without committing to being able to reverse those, we are working in that direction, given that part of that might have been lack of attention of some of our officers in the bank.

I just didn't mention what the dividend was, and the dividend that came in was (inaudible) de Bogota. We had other dividends of that sort. And that actually happened around Colombia as well. It is very much linked to expectations on equity tax. Some companies that believe have some dues that they should have paid before, had some additional dividend payout getting closer to year end in order to reduce their base for calculating the equity tax. So that was part of the explanation there.

Operator

Natalia Casas, Serfinco.

Natalia Casas - *Serfinco - Analyst*

I want to know what are your expectations about the operation in Central America.

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

Okay, that's a good question. Something that we didn't highlight in the presentation is Central America is very much correlated to the US economy. We continue seeing Central America as a region that has a very positive diversification effect in Colombia, and that as the US economy is showing -- or is giving expectations of positive surprises, we expect to see positive surprises as well from Central America.

Regarding our own operations, our operations during 2014 went through a, let's call it, an adjustment year -- an adjustment year because we had completed year end 2013 to very relevant acquisitions in Panama and Guatemala.

Part of what we did throughout the year was adjusting the profile of the loan portfolios. As you might imagine, even those these were very good performing operations and we liked the bank as a whole, there are some areas that we had a different risk appetite than the former owners had. This also explains why, when you zoom into why Central America grew, our operation grew slightly slower than had grown in the past. When you zoom in, you will find that those are precisely those adjustments.

Now moving to 2015, most of that adjustment has already been done. So we should be able to recover the pace we used to have in Central America.

Operator

And at this time, I see we have no further questions. I'd like to turn the call back over to our speaker for closing remarks.

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

Well, thank you very much for the attendance of everybody. We hope to continue these calls with the same types of attendance. It really makes us proud to have all you guys on the line. Hope that we've answered your questions, and obviously as you know, we always remain attentive to your calls, between calls, and we'll be happy to answer any further questions at that time.

For now, the Aval team says goodbye, and we'll see you next call. Thank you very much.

Operator

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