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1Q2017 CONSOLIDATED EARNINGS RESULTS CALL TRANSCRIPT

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FIRST QUARTER 2017 CONSOLIDATED EARNINGS RESULTS CALL TRANSCRIPT

Operator

Welcome to the First Quarter 2017 Consolidated Results under IFRS Conference Call. My name is Hilda and I will be your operator for today's call. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session.

Grupo Aval Acciones y Valores S.A., Grupo Aval, is an issuer of securities in Colombia and in the United States, registered with Colombia's Registro Nacional de Valores y Emisores and the United States Securities and Exchange Commission, SEC. As such, it is subject to the control of the Superintendency of Finance and compliance with applicable US securities regulation as a foreign private issuer under Rule 405 of the US Securities Act of 1933. Grupo Aval is not a financial institution and is not supervised or regulated as a financial institution in Colombia.

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

Although we are not a financial institution until December 31, 2014, we prepared the unaudited consolidated financial information included in this quarterly report in accordance with the regulations of the Superintendency of Finance for financial institutions and generally accepted accounting principles for banks to operate in Colombia, also known as Colombian Banking GAAP because we believe that presentation on that basis most appropriately reflected our activities as a holding company of a group of banks and other financial institutions.

However, in 2009, the Colombian Congress enacted Law 1314 establishing the implementation of IFRS in Colombia. As a result, since January 1, 2015 financial entities and Colombian issuers of publicly traded securities such as Grupo Aval, must prepare financial statements in accordance with IFRS. IFRS as applicable under Colombian regulations differs in certain aspects from IFRS as currently issued by the IASB. The unaudited consolidated financial information included in this document is presented in accordance with IFRS as currently issued by the IASB. Details of the calculations of non-GAAP measures such as ROAA and ROAE, among others, are explained when required in this report.

Because of our recent migration to IFRS and recent implementation of IFRS accounting principles, the unaudited consolidated financial information for this quarter of 2017, and the first and fourth quarter of 2016, maybe subject to further amendments. This report may include forward-looking statements, which actual results may vary from those stated herein as a consequence of changes in general, economic and business conditions, changes in interest and currency rates and other risk factors as evidenced in our Form 20-F available at the SEC webpage. Recipients of this document are responsible for the assessment and use of the information provided herein.

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

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

Luis Carlos Sarmiento Gutiérrez, Chief Executive Officer

Thank you, Hilda. Good morning all, and thank you very much for joining our 2017 first quarter results call. Allow me to start by providing an update in reference to two recurring items in the agenda of our quarterly calls: Ruta del Sol and Electricaribe.

In the first place, I will refer to Ruta del Sol. As you may recall in our previous quarterly call, I informed you that in March 27 we signed an addemdum to the February 22nd agreement to terminate and liquidate the concession contract between the [ANI] and the concesionaria Ruta del Sol (or CRDS). The essence of the addemdum was to initiate the execution of the conditions that had to be met by CRDS for the [ANI] to allow the first payment to the financial sector in an amount equivalent to approximately 60% of the total debt owed by the company. Among those conditions, the two most important consist on the liquidation and payment of at least 70% of the 3,300 employees and payment of 70% of past due accounts payable to suppliers.

Total financial debt amounts to 800 million dollars and past due accounts payable, approximately 25 million dollars.

Although the process of executing these two condition has taken much longer than anticipated, due to the painstaking attention to detail, I´m satisfied to report that as of yesterday, we have accomplished the liquidation of almost 77% of all employees. Therefore, we have met our first objective.

As the company was not able to convince the [ANI] to allow both requirements to be met in parallel, the team will now devote all its attention to pay all the past due accounts payable. Under the terms of the agreement three labor days after this is accomplished, the banks will get their first payment.

Secondly, I will refer to Electricaribe government intervention. As you may already know, Gas Natural has sued the Colombian government over what Gas Natural believes was an illegal expropriation of their ownership in Electricaribe by the government. This is an issue that in the best of cases will take several years to be resolved. In the meantime, the company continues to operate and to bring electricity to the community it serves, albeit not that much better quality than before the intervention. However, the government, unilaterally, decided to stop any and all payments to the financial sector, a decision which, as expected, necessarily resolves in additional long last provisions. In our estimation (barring an out of court agreement between Gas Natural and the Colombian government and/or a sell the company), by year end, the financial sector will need to have booked provisions for up to 80% of the outstanding debt. This of course includes provision under 185 million dollars owed to Aval´s banks.

As of March 31st, provisions have been booked for only 13% of the obligations.

I will now refer to the current macro-economic environment.

Yet a big growth of only 1.1% in the first quarter of 2017, significantly below the 2.7% growth observed during 2016´s first quarter and 50 bases points below the

2016´s fourth quarter growth of 1.6% seems to indicate that the economic recovery will take longer than expected. There are several indications to support this, for example: during January, consumer confidence reached historic lows. Perhaps, suggesting that the increase in Value Added taxes from 16 to 19 percent, hit the consumer community harder than previously thought. Also, the fact that low demand has slowed down considerably. There are however, other indicators that would seem to validate our expectation of better economic performance in the not too distant future. For example: after an all-time low consumer confidence index during January, this index recovered, although slightly, In February and again in March, This might be the reason why retail sales improved in March. Additionally, although the increase in Value Added Taxes might have resulted in some spending readjustment on the part of consumers, it is also worth mentioning that household´s purchasing power (as a whole) increased as a result of the government´s minimum wage increase of 7% as compared to an inflation number that ended 2016 at 5.75% and is already at 4.66 % on a last 12 month basis as of April 2017. In fact, in line with receding inflation the Central Bank started to ease monetary policy in December of last year and has continued cutting expense benchmark rate throughout this year. Until May´s meeting, the board had decreased the rate a hundred bases points to 6 and a quarter percent.

We believe that other rate cuts, although at a much low-slower pace, will come before year end, when our estimation is at the Central Bank´s rate will be between 5 ¾ and 6% on inflation numbers for the year of 4 ½ %. Because of the speed at which the rate has been cut, the lower rate has not entirely been transferred onto the economy, especially with respect to consumer notes.

When this happens, we expect that deterioration and the quality of the consumer local portfolio will ease.

On the other hand, lower rates are transmitted much quicker to the commercial loan portfolio. In fact, the DTF is now approximately 15 Basis Points under the Central Bank´s rate and the 3 months IBR rate is currently 10 Basis point under DPF.

We also continue to see fairly positive unemployment numbers. In fact, on a national basis, unemployment decrease from 10.1% in March 2016, to 9.7% in March 2017.

This also bodes well for the quality of a consumer loan portfolio. As far as commercial activity, the dependence of imported raw materials, machinery and finished goods and services is largely influenced by the exchange rate. In turn, the exchange rate is still influenced, albeit not as much as it was before 2015 by the price of oil.

In terms of oil prices current forecasts, expect relative stability around 50 dollars per barrel and with a stable perspective for the oil market, our current expectation is that the price of dollar exchange rate should remain relatively steady between 2,900 and 3,000 pesos per dollar. In fact, this year started with an exchange rate of COP 3,000 per dollar, which had appreciated by 4% as of March 31st and is currently at COP 2,914 per dollar an appreciation of close to 3% versus December´s number.

Aiding the recovery in commercial activity is our expectation that the first wave of 4G infrastructure project, included three of the four 4G projects that Corficolombiana was awarded, will start in earnest in consequently demand credit in the second half of this year. Taking this fact into account, we expect that the peak of its growth will become evident in the second half of the year, granted a quarter of two later than we had originally forecasted and that as a result GDP growth in 2017 will move in a range of between 2 and 2.2%.

We remain concerned with the fisco´s internal account deficit, but are moderately optimistic towards the near future´s expectations with regard to these indices.

Although the latest available current account deficit numbers for the fourth quarter of 2016 amounted to -3.2% of GDP, this number is significantly better than the deficit that -5.5% of GDP for the same period of 2016. We expect that this deficit will be further corrected, if slightly, during 2017.

We will understand better the validity of our expectations when first quarter numbers are released.

The main driver in the positive improvement of this deficit, is the trade balance deficit-correction which decreased from 3.1% at Dec 2016 to 2.8% of GDP as of March 2017, led by an increase in prices of traditional exports (such as oil), as well as the increase in exported quantities of non-traditional goods such as fruits, plastics and manufactured metals. Additionally, certain imports, including transportation equipment and all the [reverse] have decreased. Capital influence, which amount to 4.6 billion dollars between foreign direct investment and portfolio investment flows, continue to offset the deficit in current account. Through April roughly has a capital influence were from FDI and the other half came from portfolio investment flows.

As far as Fisco´s deficit, preliminary government reports suggest that foreign assets own but previously undeclared by Colombian nationals in amounts in excess of 5 billion dollars, have been normalized or in other words included in the 2016 tax returns: they can advantage of the special tax rate of 13% over the value of such assets, as a result of the 2014 and 2016 Fisco´s reforms.

We expect that this, as well as all the other provisions of the 2016 Fisco´sl reforms will produce a significant increase in the Fiscal revenues and thus a correction in the Fiscal deficit to levels closer to 3.3% or better for 2017.

With respect to our other major market, according to IMF estimates, the Central American economics' growth is expected to increase from 3.9% in 2016 to 4% in 2017. This growth is almost four times larger than the IMF projection for Latin America, which stands at 1.1%. The expectation that is for inflation in Central America to increase from 2.1% in 2016, to 3.4% at year-end 2017, mostly as a result of the increase of oil prices.

After stable monitoring policy in 2016 across the region, this year we have already seen an exception to this rule: In April, Costa Rica Central Bank increased its interest rates 2.5% as a preemptive measure to control the inflation. Despite the fact that current inflation is at 1.6% which is below its target range of 2 to 4% the Costa Rica´s Central bank is concerned that inflation expectation are hovering around 4%.

Also worth mentioning is the recent events in El Salvador, where last month the government did not pay upon their maturity, certain government issued fix rates obligations. This technical default rose as a result of the government assumption that the obligations will be automatically paid for with new obligations in the same amount, as authorized by existing regulations. Thus, the government had not made any specific provisions in it except a budget to pay the obligations upon maturity. However, earlier this year, the opposing political party got through congress a law, impeding the issuance of new paper without congress´s approval regardless of the purpose of the new obligation, even if it were to be used to replace outstanding debt. Therefore, when the mentioned obligations came due the minister of Finance, had its hands tied and had to wait for Congress to specifically authorize new debt. And such authorization only came a week or two after the obligations came due. This cost the country a further reduction in its rating. Frankly, is a result of a political rather that and a financial problem. In any case, only 2.7% of our consolidated assets reside in El Salvador and our exposure to government issued obligations in that country amounts to 30 million dollars. Finally, although remittances to Central America have in fact increased since Mr Trump became president, we remain observant of any new Fiscal laws or immigration regulations that might affect the flow of remittances to Central America.

Now, let's turn to our financial results. I will briefly run over the main highlights and then pass this over to Diego, who will refer in detail to our business results.

Attributable net income for the quarter was COP 587 billion or COP 26 per share, a 25.8% Higher than the first quarter 2016 result.

Excluding the one-time attributable wealth tax payment, attributable net income for the quarter was COP 661 billion or COP 29 per share.

As a result of the tax reform of 2016, this is the last quarter that corporations, including banks that pay Equity tax which in a consolidated basis amounted to COP 109.3 billion for 2017 and, as in previous years was paid entirely in the first quarter.

Our ROAE and our ROAA for the quarter were 15.4% and 1.6% respectively. We expect that this year we turn an average approximately… will approximate 14-14.5% primarily due to additional provisions in reference to Electricaribe as I explained before.

Gross loans grew by 6.8% as of March 31, 2017 when compared to March 31, 2016 and were virtually flat in the first quarter. It is obvious that the slow growth of the Colombian economy has taken a toll in consolidated loan growth and therefore we only expect a real pickup in growth in the second semester. Which leads us to believe that growth for 2017 (absent FX movement) will approximate 8-9%.

Deposit growth outpaced the growth of our loans during the last 12 months and during the quarter as well and consequently our deposit-to-loan ratio improved to 97% as of March 31st 2017 to 95% as of December 31st 2016.

We do continue to emphasize a strongly quiddity position, particular in Central America, where central banks are, for the most part, not lenders of last resort. As a result, our consolidated ratio of cash and cash equivalent to deposits improved from 15.4% as of December 31st 2016 to 16.7% as of March 31st 2017.

The NIM of our consolidated operation improved by 40 basis point during the first quarter of this year when compared to the same period last year, which in 5.9% mostly as a result of flat yields In our consolidated loan portfolios, which in turn resulted from decreasing yields on our bank's loan portfolio in line with the central bank rate movement offset by a sharp increase in our non-financial sector loans driven by the entry into service of Promigas´s Natural gas liquefaction facility whose associated concession contract is accounted for as a financial lease.

The effect of this non-financial sector earning asset will be felt throughout this year when compared to last. In conjunction with this effect, our cost to funds was significantly lower and our NIM on investments was significantly higher. We expect an average total NIM for 2017 of approximately 5.7%, assuming the central bank cuts rate a further 50 basis point and as lower rates are transmitted to the consumer loan portfolio.

The quality of our loan portfolios suffered as 30 days PDLs and NPLs deteriorated by 60 basis points and 20 basis point respectively, during the quarter, primarily driven by our exposure to Electricaribe.

We also saw a 40-basis point deterioration in consumer loan PDLs, driven by the current low economic cycle and the still high, yet decreasing interest rate scenario.

Our cost of risk was 2.1% before recoveries and 1.9% after recovery provisions, of [fruitions], an improvement versus the last quarter of 2016 of 20 basis points and 10 basis points respectively. This number will be negatively affected in the next few months as the Electricaribbean provision is increased.

Because of this, we expect that cost of risk, net of recoveries for the year will run somewhere between 2 and 2.1%.

Growth fee of income has grown satisfactorily somewhat above the growth in our total loan portfolio and more in line with the growth in our consumer loan portfolio. We expect this trend to continue throughout this year.

We will continue to focus on efficiency and our current actuation is to keep these ratio at the same level as 2016. As of for March 31st 2017 all our banks continue to show strong Tier 1 and full solvency levels, between 9.2% and 11.3% and between 11.3% and 13.9% respectively.

With the expected growth for 2017, these levels of capitalization should proof to be more than adequate. Finally, as of this year, we have switched from two shareholder's meetings per year, to only one, in line with industry practices. Consequently, on the March 2017 shareholder´s meeting we declared dividends for a 12 month period rather than a 6 month period. Therefore, our consolidated attributable equity temporarily decreased during the quarter.

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

Diego Solano Saravia,
Chief Financial Officer

Thank you Luis Carlos. I will begin with a consolidated results of group Aval under IFRS, starting on page 10 with our asset evolution.

Total assets increased by 5.7% during the last 12 months and by 1.4 during the last quarter.

In absence of the effect of the Colombian Peso fluctuation and Central America, assets would have grown 6.9% and 2.5% respectively. Asset growth was driven by an increase in liquidity reflected in the cash and cash equivalent that fixed income securities growth.

Broken down by regions: over the past 12 months our Colombian assets grew by 5.8 while our Central American assets grew at 9.2% in dollar terms. A 5% increase when translated into Colombian Pesos.

For the first quarter of 2017 our Colombian assets increased by 2.5% while our Central American assets grew at 2.3% in dollar terms, a 1.7 decrease when translated into Colombian Pesos.

Consolidated balance sheet structure as of March 2017 was similar to that, in place at the end of March 2016 and of December 2016 with our net loans accounting for 66% of our assets as of March 31st 2017, up from 65.2% twelve months before and down from 67.3% on the previous quarter.

Fixed income investments accounted for 10% of our total assets as of March 31st 2017, down from 11.5 as of a year before and down from 10% on the previous quarter.

Colombian assets accounted for 71.9% of our balance sheet as of March, slightly down from 72% as of a year before and up from 71% compared to the last quarter.

Our Central America operation accounted for the remaining 28.1% This Mix has been relatively stable during the last 12 months.

On page 11 present our loan portfolio evolution.

Growth loans increase by 6.8% during the last 12 month. In absence of the effect of the Colombian peso depreciation on our Central American operation, 12-month growth would have been 8%. Over this period our Colombian book grew at 7.1% and our Central American book grew at 10.4% in dollar terms or 6.2% when translated into Pesos.

Consumer mortgage and commercial loans grew at 11%, 9.6% and 4.3% respectively during the same period.

Broken down by region, mortgage loans grew at 17.9% in Colombia and [8.8%] in dollar terms in Central America. Consumer loans grew 12.5% in Colombia and a similar figure in US dollar terms in Central America. Commercial loans grew 4.2% in Colombia and 9.3% in dollar terms in Central America.

The growth of our commercial book in Colombia was driven by the slow growth of the economy during the first quarter of this year. For the first quarter of 2017 growth loans slightly decreased by 0.7%. In absence of the effect of the Colombian Peso appreciation in our Central American operation, three-month growth would have been 0.4%. This decrease resulted from the Colombian operation growing at 0.4% and the Central American operation decreasing at 3.3% in Colombian Peso terms, or an increase of 0.6% in dollar terms.

The structure of our growth loans portfolio remains stable in compared to the previous quarter. Our commercial loans account for 58.9% of our portfolio, while our consumer and mortgage loans account for 31.1% and 9.7% respectively.

Loans to individuals, which include consumer mortgage and microcredit loans were 1.4% higher than 12 months earlier and 0.2% points higher than the last quarter.
Colombia accounted for 72% of our loan portfolio, materially maintaining the same level compared to 3 months early and 12 months before. The variation in weight of the Central American operation has been mainly due to the Colombian Peso fluctuation. We expect 2017 loan growth in absence of FX movements to be in the 8-9% area.

On page 12 we present several loan portfolio quality ratios.

At the top left of the page you will find the evolution of our Loans-past-due more than 30 days and our Non-performing loans. Both as a percentage of total loans, including interest accounts receivables.
During this quarter, our delinquency ratio measured as 30 days PDLs to loans, increased by 57 basis points to 3.5%. Delinquency measured as NPLs to total loans deteriorated by 27 basis points from 2% on the last quarter of 2016, 2.2% as for the first quarter of 2017. Electricaribe was the main driver of this soft performance accounting for 33 basis points of the increasing of 30 days PDLs and for 26 basis points of the increase of our NPL ratio during the quarter. The soft economic performance implied additional deterioration of quality of the consumer and corporate portfolios. We expect NPLs to increase to 2.4-2.5% range as this ratio fully incorporates the impact of Electricaribe later during this year.

Moving to the right, annualized net provision expense, net of recoveries of charged-off assets for the quarter were 2.1% of average loans, improving from 2.3% three months earlier and slightly deteriorating from the 2% recorded twelve months before.

As previously mentioned, the situation of Electricaribe deteriorating during to the quarter. Given the uncertainties surrounding its evolution, we have increased our expectation of provisions from our exposure to the company. We expect our gross cost of risk to increase from the current levels to the 2.2-2.3% area for the full year, or 2% to 2.1% when considering recoveries.

At bottom left, you´ll find the annualized ratio of charge-offs as a share of average NPLs. This ratio was .8 times during the first quarter of 2017.

Finally, on the bottom right, you will see several loan loss reserve coverage ratios. Our allowances were 2.9% of our total loans and cover 1.3 times our Non-Performing Loans and 0.8 times our 30 days PDLs. Coverage ratio should improve as we record the provision expense previously described.

On page 13, you will find further detail on the quality of our loan portfolio.

On this page, you´ll find the evolution of our loans past due more than 30 days and our NPLs as a percentage of total loans. As previously mentioned, our overall end-of-period delinquency ratio measured as 30 days PDLs to total loans increased by 57 basis points to 3.6%. During the quarter, our NPLs to Total Loans deteriorated by 27 basis points to 2.2%. Both ratios calculated as a percent of Total Loans including interest account receivables.

Broken down by type of loan, on a quarterly basis:

Commercial loans experienced an 82-basis points deterioration to 2.9 when measured as 30 days PDLs and a 45 points deterioration to 2.2 when measured as NPLs. Electricaribe accounted for 56 and 44 basis points of the increase of our commercial 30 days PDLs and our NPL ratio respected.

Consumer loans experienced a 37-basis points deterioration when measured as 30 days PDLs and remain stable at 2.3% when measured as NPLs Mortgage loans decreased their quality from 3.1% to 3.4% when measured as 30 days PDLs and remain stable at 1.7% when measured based on NPLs.
Electricaribe was responsible for half a trillion COP at new PDLs during this quarter.

On page 14, we present funding and deposit evolution.

Total funding grew 6.1% for the last 12 months and by 1.5% from the last quarter. In absence of the effect of the Colombian peso exchange rate fluctuations on Central America, 12-month and three months' growth would have been 7.2% and 2.6%, respectively.

Broken down by geography:
Colombian funding grew 6.3% over the last 12 months and increased by 2.5% during the quarter.

Central American funding grew 9.6% in dollar terms or 5.4% in Colombian peso terms for the last 12 months. First quarter of 2017 Central American funding grew by 2.6% in dollar terms, or 1.4% decrease in Colombian peso terms over the last quarter.

Deposits increased at 7.2% during the last twelve months and 2% during the last quarter. In the absence of the effect of the peso depreciation on Central America, 12-month and three-month growths would have been 8.3 and 3.1, respectively.

Broken down by geography:
Colombia accounted for 72.8% of deposits. Colombian

deposits grew at 7.3% over the last 12 months and 2.8% during the last quarter.

Central American deposits grew at 11.1% in dollar terms, or 6.8% in Colombian peso terms, over the last twelve months and increased 3.9% in dollar terms (0.1% decrease in Colombian peso terms over the quarter)

Our funding and deposit structure slightly strengthen during the quarter:
Our deposits accounted for 76.4% of our total funding at the end of period, up from 75.6% a year earlier and 76% during the last quarter. Our deposits covered 97% of our net loans.

On page 15 we present the evolution of our total capitalization, our attributable shareholders equity and the capital adequacy ratios of our banks.

Our total equity defined as attributable equity plus minority interest was COP 23.7 trillion as of the end of the first quarter 2017. This implies a 3.6% increase over the last twelve months and a 3.8% decrease during the last quarter. Having declared dividends in March 2017, [explains] a decrease versus the previous quarter. As mentioned by Luis Carlos starting this year we switched to a single shareholder´s meeting per year at Aval and at the level of most of our subsidiaries.

Attributable equity accounted for 62.8% of total equity as of March 2017, and was COP 14.9 trillion as of the end of March 2017, increasing 3.5% during the last twelve months and decreasing 4.6% during the last quarter.

At the bottom of the chart, we show the consolidated solvencies for our banks. All of them show strong Tier 1 and solvency ratios. Tier 1 end of period ratios ranged from 9.2% to 11.3%. The solvency ratio at end of period were 13.9% for Banco de Bogota, 12.9% for Banco de Occidente, 11.3% for Banco Popular, and 12.4% for Banco AV Villas.

Moving to page 16, we present the evolution of our net interest margin.

In the past, we have mentioned that our numbers are influenced by our structure that includes in addition to our financial institutions, the impact of our investments in the non-financial companies and of our holding company.

On the top of the page, we present the evolution of our average interest-earning assets. Our financial sector entities hold over 98.8% of interest-earning assets. As mentioned during our last call our Promigas operation contributes to the interest-earning from the financial sector. These assets are mainly items that under IFRS are considered financial leases provided by the Company. The main item that is accounted in this manner is Liquefied Natural Gas regasification plant that entered into long term capacity contracts with Thermoelectric generation plants. This plant was recorded in our balance sheet late last year. This is the first quarter where the contribution of this asset to our income on loans is relevant.

On the bottom of page, we present the evolution of our average interest-bearing liabilities. 4.9% of those are held on the balance sheets of our non-financial sector entities and our holding company.

In general terms, this financing has a longer maturity and carries a higher interest rate than the funding used by our financial operation. The share of our liabilities has remained relatively stable over the past five quarters. However, we expect it to grow over the coming years due to the impact of our financial closings in the upcoming fourth-generation infrastructure products.

On page 17, we present our yields on loans, cost of funds, and spreads.

The average consolidated yield on loans for the first quarter increased 79 basis points compared to the same period of 2016 and remained unchanged at 11.7% compared to fourth quarter of 2016.

Average yield on loans for the financial sector increased by 76 basis points relative to the same quarter of 2016 and decreased by 24 basis points relative to the last quarter. The evolution of the yield and loans of our financial sector is influenced by the Central Bank intervention rate.

The average cost of funds for our consolidated operation was 4.6% for the first quarter of 2017 compared to 4.1% a year earlier and 5% in the fourth quarter of 2016. Cost of funds for the financial sector increased by 56 basis points when compared to a year earlier and decreased by 34 basis points when compared to a quarter earlier.

Our consolidated spreads increased by 38 basis points from the last quarter to 7.1% and by 25 basis points compared to the same quarter a year earlier. As for the financial sector entities, the spread between yields on loans and cost of funds increased by 10 basis points over the quarter and 19 basis points to 7.2% compared to a year earlier.

On page 18 we present our NIMs, our Net Interest Margins for the financial sector, a group of our consolidated operations.

Including net trading income from investments held for trading through profit and loss of our consolidated operation, expanded during the first quarter 36 basis points from 5.5% to 5.9%. This increase resulted from an expansion on both: our NIM on loans and our NIM in investments.

Consolidated NIM increased by 39 basis points compared to a quarter earlier.

Net Interest Margin for the financial sector expanded to 6.1% versus 5.9% reported a quarter earlier. Compared to the previous quarter, total NIM had a 20-basis points expansion driven by the recovery of NIM on investments.

On a quarterly basis, Net interest income grew 9.6% from COP 2.4 trillion in the first quarter of 2016 to COP 2.6 trillion during the first quarter 2017. It increased by 9.4% versus the last quarter of 2016.

We expanded our Net Interest Margin and loans to conduct as the year progress, correlated with the Central Bank intervention rate. We expect for the year Net Interest Margin to be in the 5.7 area and NIM on loans to be in the 6.6 to 6.7 range.

On page 19, we present net fees and other income. We present fee income on the top of the page.

Gross fee income grew by 7.2% compared to the same period a year earlier and decreased by 0.2% compared to previous quarter. When excluding the effect of FX movements on our Central American operation, fees grew by 12% and 1.1% respectively.

Pension and severance response management had a strong performance among the fee generating activities.

Broken down by geography, Colombia accounted for 63% of total gross fees. Domestic fees grew 15.2% over the last four quarters, while Central American fees grew by 6.9% in dollar terms a 4.1% decrease in Colombian peso terms over the same period.

And the bottom of the page, we present other income. Other income for the quarter was COP 533 billion. This quarter had no contribution from Ruta del Sol, while previous quarters included sales and valuation of investments.

On page 20, we present some efficiency ratios.

Our efficiency ratio measured as operating expenses to total income was 45.9% during the quarter, down from 52.2 recorded during the previous quarter and up from 44.1 recorder twelve months earlier.
In Colombia, this ratio improved from 49.8 % during the last quarter of 2016 to 42.4% during this quarter.
Central America, this ratio improved from 56.5% during the last quarter of 2016 to 53.4% during this quarter.
Our efficiency measured as operating expense-to-average assets, decreased from 3.8% during the last quarter of 2016 to 3.4 during the first quarter of 2017 and remained unchanged compared to the first quarter of 2016.

In Colombia, this ratio improved from 3.1% during the last quarter of 2016 to 3% for this quarter.
In Central America the ratio improved 74 basis points to 4.4% in Colombian peso terms.
We expect 2017 efficiency ratio measured as cost-to-income to be stable compared to 2016 at 47%
This results from compensating headwinds from salary adjustments due to unit agreements that were well in excess of inflation and other factors. We expect fully operation expenses to grow close to 9%

Finally on page 21, we present our net income and profitability ratios.

Attributable net income for the quarter was COP 587 billion or COP 26 per share. This includes COP 73.7 billion, or COP 3.3 per share,attributable effect of the wealth tax. Return in average assets and return in average equity for the quarter were 1.6 and 15.4% respectively, when assumed the wealth tax payments recorded during the quarter, such numbers would have been 1.8 and 17.3 as of March 2017.

Before moving to Questions and Answers, I will now summarize a general guidance on 2017.

We expect loan growth in absence of FX effects to be in the 8-9% range for 2017.
We expect 2017 cost of risk to be 10-20 basis points higher than 2016 given a 24 basis points impact of Electricaribe. This is 2% to 2.1% cost of risk net of recoveries.
We expect the full year of 2017 NIM on loans to be similar to that of 2016 resulting from a stronger first half and a lower second half, the reduction of central bank rates is [pricing] to our corporate loan portfolio.
Net Interest Margin and loan is expected to be in the 6.6% to 6.7% and the total NIM to be in the 5.7% area
We expect efficiency ratios to be stable in the 47% area and a cost to income basis
Taxes are expected to be in the 36% area given the positive results of the first quarter
Finally, we expect 2017 return in equity to be in the 14 to 14.5% carrying incorporating the negative effect of Electricaribbean.

With this, I open it for questions

QUESTION AND ANSWER PERIOD

Operator

We have a question from Carlos Macedo from Goldman Sachs.

Carlos Macedo (Goldman Sachs)

Hi, good morning Gentleman, thanks for taking up questions Diego and Luis Carlos. One question on the Elctricaribe. First: were there any provisions in the first quarter, I think this is a follow on… the math that I did here saying… you said that around 80% - 85% had to be provision and you had provision 13. Over the next three quarters would it imply something like 40 million dollars in provisions per quarter? Is that a good kind of estimate for that or should we expect a different number? Thanks.

Luis Carlos Sarmiento Gutiérrez, Chief Executive Officer

Thanks Carlos, Yeah, we had make provisions to about to 13% at the end of last year. This first quarter didn't require any substantial addition of provisions and, so you are right: we need 67% on a 185 million dollars at most, but we want to be conservative with the number, so that´s about 67% of 185 million dollars until the end of this year and in accordance with the superintendence… what the superintendence has said for now, is to book I believe, up to 55% of provisions between May and August and then the rest between August and December. And I think what our banks are doing is just doing it in equal amounts per months from here on out to December. So, that´s the way we are going to provision it. But you´re numbers are right

Operator

Our next question comes from Frederick de Mariz, from UBS.

Frederick de Mariz (UBS)

Thank you, good morning everyone, thank you for the call. Can you just remind us your guidance for margins and what you expect in terms of trends for the funding costs and the assets side. If you could please repeat that part, please. Thank you.

Diego Solano Saravia, Chief Financial Officer

Ok, regarding margins, we expect our Net Interest Margin to be in the 5.7% area and our NIM on loans to be in the 6.6-6.7% area

Frederick de Mariz (UBS)

Per year average?

Diego Solano Saravia, Chief Financial Officer

Yes, this is per year average

Operator

Our next question comes from Juan Pablo Pedraza, Corredor de Alta Vivienda.

Juan Pablo Pedraza (Alta Vivienda)

Good morning. Thank you very much for the call. My question is regarding if there will be more [punch-all] cases that cause a [gray] area commercial loan portfolio deterioration during the year. For example, regarding the exposure to that integrated transportation system.

Diego Solano Saravia, Chief Financial Officer

Yeah, well that´s the other area that we´ve been following closely and as we mentioned in our last call, our exposure there is around 150 million dollars. The profile of the customers that we have there are relatively stronger than what the average of the system looks like.

Over half of our exposure there is to a group that is led by an industrial group in Colombia called [Panalca] which has a quite strong provision and we have also exposure to other transportation companies that also participate in the other Transmilenio projects that have been quite healthy. So, yes: we do have an exposure there, our profile is quite better than what the average looks like but that's the other area we´re looking into

Operator

We show no further questions at this time. I would like to turn the call over to Mr Sarmiento for final remarks.

Luis Carlos Sarmiento Gutiérrez, Chief Executive Officer

Thank you very much Hilda, and thank you all for attending the call, we hope to see you next quarter and in the main time our phones are always open, so thank you very much and have a great day

Operator

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