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

Earnings Call

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Call Participants

EXECUTIVES

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President

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Presentation

Operator

Welcome to Grupo Aval's First Quarter 2024 Consolidated Results Conference Call. My name is Regina, and I will be your operator for today's call.

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

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

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

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I will now turn the call over to Ms. Maria Lorena Gutierrez Botero, Chief Executive Officer; Ms. Maria Lorena Gutierrez Botero, you may begin.

Maria Lorena Gutierrez Botero
President

Good morning to you all. I'm delighted to be hosting this First Quarter 2024 Conference Call. Before we begin, let me introduce myself. My name is Maria Lorena Gutierrez Botero. I joined Aval in 2018, having the privilege of leading Corficolombiana. With its extraordinary team, and in addition to financial results, I'm proud to have managed to position Corfi as one of the Colombia's leading companies in terms of sustainability.

Last year, we generated COP 883 billion in net earnings as part of the over COP 13.5 trillion in value generated to our stakeholders. I'm passionate about contributing to Colombia's growth. Before coming to Aval, I served several leadership roles in the Colombian government between 2010 and 2016 and previously, I was dean of the Business School at Universidad de los Andes.

I want to take this opportunity to acknowledge Luis Carlos Sarmiento Gutierrez and Luis Carlos Sarmiento Angulo for their outstanding leadership over the years. They served as CEO and Chairman of Grupo Aval and want to congratulate Mr. Sarmiento Gutierrez for his new role as Chairman of Grupo Aval. It is an honor to succeed him as CEO and to work beside him. I expect to consolidate Grupo Aval's position as the leading financial conglomerate in the Colombian market, recognized for its sound profitability, sustainability, innovation and its contribution to key economic sectors, maximizing value for our investors and our stakeholders.

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Before Diego goes over our numbers for the quarter, I will summarize my view of Colombia's macro scenario, refer some key events on the ESG front and finish with some highlights of our financial performance and our overall view for 2024. The global economy has performed better than anticipated. Fears of a recessionary scenario for developed countries have dissipated and now seem unlikely. Resilient economic data in the United States sustained a soft landing scenario, consistent with a higher for longer interest rate stance. U.S. inflation accelerated to 3.5% in March, is still far from the short-term target of 2%. The Federal Reserve plans on lowering rates later in the year with a maximum of two 25 basic point cut this year, down from the 6 cuts previously anticipated by the end of 2023.

Commodity prices are and are projected to stay high due to ongoing geopolitical tensions and supply chain disruptions, benefiting commodity exporting nations in Latin America, Colombia included. On the domestic front, we maintain Colombia's growth projections of 0.75% to 1.25%. The economic activity index increased by 2.5% year-on-year in February 2024, surpassing consensus projections. Figures suggest that the Colombian economy dipped at the end of 2023 and has since started to rebound, fueled by the momentum in agriculture and mining sector and public administration. Nevertheless, a primary challenge persists in maintaining the trajectory of recovering the secondary sectors to ensure positive annual growth in the months ahead.

Inflation has decelerated from 9.3% in December 2023 to 7.16% in April and is expected to continue declining to the 5.75% area by the end of 2024. This disinflationary process may face headwinds in the second quarter due to transitory effects like El Niño on prices of perishable foods and electricity. However, a significant portion of expected disinflation, particularly in service and regulated sectors, has already taken place and core inflation is anticipated to continue trending downward in the coming months.

Moving to the monetary policy. The Central Bank's Board has cut its policy rate from 13% to 11.75%, with decreases of 25 basis points in January and 50 basis points in the subsequent two meetings. The Central Bank might have been too cautious in the magnitude of its rate cuts considering the observed and expected disinflation, imposing a toll on economic speed. The real interest rates have remained contractionary through this year, standing at 7% at the end of April when considering a 4.7% year-ahead expected inflation.

We, as does the market, see room for a more decisive interest rate reduction pace, in line with the positive evolution of inflation. We estimate our year-end rate of to 8.5% area by the end of 2024. There has been a substantial weakening since 2022 of gross fixed capital investment in infrastructure, building construction and mining, sectors that have a considerable contribution on the supply side of GDP. We expect that these trends will continue to underpin a sluggish economic performance in 2024. The recovery of GDP growth in Colombia that followed the COVID-19 pandemic was driven by household consumption. Even though a still strong household consumption is the key driver to GDP dynamics over the last 2 years, it has moderated significantly and is forecast to experience modest growth into 2024.

Looking beyond 2024, there are concerns that if the current low fixed investment rate persists, Colombia's potential growth could decline to a range between 2.2%, 2.5%, down from 3% and 3.5% before the pandemic. Total investment that includes inventories, fell close to 25% in 2023. Reaching the investment levels of 2022 will require substantial growth in gross fixed capital formation. Immediate and decisive public action intended to stimulate investment in critical sectors such as infrastructure and energy is of the essence. In this context, we highlight the government's role as the orchestrator of Colombia's economic reactivation. As such, efficient public spending will be crucial in boosting its multiplier and the counter-cyclical effects. However, public investment reached an underwhelming 14% of execution, the lowest in at least 8 years.

In addition, low gross domestic savings hinders a substantial pickup in investment and GDP growth over the following years. The post-COVID-19 consumption rebound in Colombia that contributed to inflationary pressures, is connected to an increase in the financial burden of households both through higher indebtedness and higher interest rates. The postponed consumption of durable goods and services was encompassed by a marked improvement in employment figures well below pre-pandemic levels, leaving households well positioned to consume.

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Consistent with the contraction of retail lending in the Colombian banking system observed since the beginning of 2022, the financial burden on households reported by the Superintendency of Finance has already receded to pre-pandemic levels. This behavior favors an improvement in the delinquency of our consumer loan portfolio. However, the sharp economic slowdown since the last quarter of 2022 and a weaker labor market since mid-2023 have contributed to an increase in delinquency across the banking system. We expect the yearly average national unemployment rate to be 11% in 2024, up from 10.2% in 2023.

In the fiscal front without additional spending cuts, it is projected that Colombian central government deficit will rise to 5.6% of GDP, exceeding the 5.3% allowed by the fiscal rule. This shortfall is attributed to lower economic growth, impacting tax revenue and adjustments in expected revenues due to enhanced tax administration and litigation efficiency. To meet the fiscal rule, an additional cut in primary spending of COP 14.2 trillion will be necessary. We are watchful on the recent discussions regarding eventual changes to the fiscal rule, given its signaling regarding future fiscal discipline with an eventual implication on interest rate levels, investor confidence and country risk premiums.

The reduction in currency demand due to a weak domestic demand has led to a substantial appreciation of the exchange rate, with the dollar falling below COP 3,750 in early April, its lowest level since June 2022. Nonetheless, the Colombian peso has not fully adjusted in the recent decline in macroeconomic fundamentals. Risks associated with fiscal accounts, long-term growth projections, oil production and a narrower interest rate gap compared to the United States could potentially trigger a depreciation of the U.S. dollar Colombian peso exchange rate to a level above the COP 4,000 in the latter half of the year.

On the social front, we launched the "Misión La Guajira" project in December 2023. This is a joint effort between ourselves, the government and the communities intended to bring potable water, food security and energy to over 80 communities in this extremely poor region in the country. We expect this to be an initial phase of a project that we aspire will have a broader long-lasting impact in this region. This project will impact 5 of the sustainable development goals, including no poverty, good health and well-being, clean water and sanitation, affordable and clean energy and reduced inequalities.

Regarding our talent among several Aval subsidiaries that were certified by Great Place to Work, I am proud to highlight that Banco de Occidente was recognized as the best place to work for women in 2023 in companies with over 1,500 employees. On the governance front, changes were implemented throughout the group's Board of Directors intended to refresh them and to adhere to international standards. We increased the proportion of independent members and the number of women in our Boards. At Grupo Aval, the General Shareholder Meeting approved the Board to be reduced from 14 members, 7 principals and 7 alternates to only 9 principals and increase the ratio of independent Board members to 2/3.

In the environmental front, Banco de Bogotá and Corficolombiana are carbon neutral, and we will continue working to achieve this status in the remaining direct subsidiaries between 2024 and 2025. In addition, our most relevant financial subsidiaries are currently working on building their respective climate change risk matrixes in accordance with the TCFC principles.

Regarding our financial results, Diego will refer next in detail to our financial performance during the first quarter of 2024. However, I will highlight the following. This quarter's lackluster performance was driven by a pickup in cost of risk. Other key business metrics such as growth, net interest margin and cost to asset efficiency fell largely in line with our expectations and last quarter's guidance. Despite the challenging environment for our banking activities and stricter credit origination policies that those in place in 2021, we increased our market share in all main lending categories.

During this quarter, we gained 32 basis points in total loans, 39 basis points in commercial loans, 42 basis points in consumer loans and 17 basis points in mortgages. In the first quarter of the year, 10 banks out of a total of 28 posted net losses. When excluding equity methods, dividends and non-recurring income from reorganizations, this number increases to 13 banks. On a consolidated basis, although still depressed, we have begun to see a recovery of the net interest margin on loans and expect this to continue as the Central Bank maintains its rate cut cycle through the year.

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The slower-than-anticipated decrease in the benchmark rate has delayed the recovery path than what we had initially anticipated. In addition, price competition has increased in the corporate segment in an environment of lower-than-expected growth of the banking system. Cost of risk in the system remains high despite having shown signs of stabilization in new vintages. Notwithstanding a high ratio of charge-offs from some of our competitors, delinquency metrics remain well above historical levels. Our lower-risk consumer loan mix differentiates us from our main competitors with a higher ratio of payroll lending, a lower share of unsecured consumer lending and has favored us in this credit cycle relative to the rest of the banking system.

Finally, we expect that the risk management actions taken throughout this credit cycle, the review of our bank's strategies and cost control initiatives deployed throughout our bank will reflect on our results in the latter part of the year. The speed of improvement will be determined by the decisiveness of the Central Bank to reduce rates and the actions taken by the government to stimulate recovery of economic activity. Headwinds from higher cost of risk and a still depressed net interest margin will continue to undermine our performance during the following quarters.

I thank you for your attention. And now I pass the presentation to Diego, who will explain in detail our business results and provide guidance for 2024.

Diego Fernando Solano Saravia
Chief Financial Officer

Thank you, Maria Lorena.

Before moving into our results, I would like to take a moment to highlight some aspects that characterize our banking operation that differentiate us from others in the Colombian banking system and explain our performance throughout the post-pandemic cycle.

On pages 9 and 10, you can find several charts regarding the quality and growth rate of our loan portfolio. For comparability reasons, these figures are unconsolidated under Colombian IFRS as published by the Superintendency of Finance. As mentioned in the past, Aval's portfolio composition is skewed towards lower-risk consumer lending products and in line with our underwriting standards, grew at a more cautious pace during the boom that followed the post-pandemic rebound.

Consistent with this risk profile, our banks have experienced a milder impact of the credit cycle and despite tight underwriting policies, we have been in a better position to grow in this challenging environment. As a result, our banks in Colombia have gained market share in all major loan categories over the 12-month period ending in February while experiencing a better evolution of the credit quality of the consumer portfolio and total loans.

I will now move to the consolidated results of Grupo Aval under IFRS. Starting on Page 11, assets grew 2.7% over the year and 1.9% over the quarter to COP 307 trillion. The year marked a 17.3% year-on-year appreciation of the Colombian peso that had a negative effect on year-end growth metrics, particularly of net loans and leases. Over the quarter, the peso depreciated 0.5% and had no material impact on growth metrics. Our dollar denominated loans account for 16.6% of our total portfolio. These are contributed mainly by MFH in Panama, by the US agencies of Banco de Bogotá, our trade finance activities, and offshore subsidiaries of Banco de Bogotá and Banco de Occidente.

On the bottom of the page, gross loans grew 2.2% over the year and 1.5% in the quarter. Our peso-denominated loans increased 5.1% and 1.3%, respectively, while U.S. dollar-denominated loans grew 8.6% and 2% in dollar terms, respectively. We continued to outgrow our peers across all loan categories despite having tightened our origination policy several times over the cycle. This yielded, at the end of February, year-on-year market share gains of 89 basis points in total loans, 138 basis points in commercial loans, 110 basis points in consumer and 28 basis points in mortgages.

Commercial loans grew 3.1% year-on-year and 2.3% over the quarter. Peso-denominated commercial loans grew 7.1% and 2% year-on-year and quarter-on-quarter, while U.S. dollar-denominated commercial loans grew 10.5% and 2.5% in dollar terms, respectively. Consumer loans contracted 0.2% year-on-year and grew 0.1% over the quarter. Peso-denominated consumer loans grew 0.6% year-on-year and

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remained flat quarter-on-quarter, while U.S. dollar-denominated consumer loans grew 6.4% and 1.7% in dollar terms, respectively. The sluggish dynamics of consumer loans have been driven by high interest rate environment and tighter underwriting policies in line with the slow economic activity and softer macro-outlook.

Consumer loan growth was slow across all main products. Payroll loans that account for 55% of our consumer loans contracted 1.7% year-on-year and grew 0.6% over the quarter. Demand for this product has gained traction as the reduction in incoming rates allows for lower interest rates and new disbursements. Personal loans that account for 24% of our consumer book grew 1.7% over the year and contracted 0.1% during the quarter. Credit cards that account for 12% grew 4% year-on-year and contracted 1.6% quarter-on-quarter. Automobile loans that account for 9% of our consumer loans decreased 1.5% year-on-year and grew 0.4% quarter-on-quarter.

Finally, mortgages grew 4.6% year-on-year and 2% over the quarter. Peso-denominated loans grew 11.1% and 2.4%, respectively, while dollar-denominated mortgage loans booked by MFH grew 2.5% and decreased 0.8%, respectively, in dollar terms. We expect our 2024 loan growth to continue exceeding the banking system albeit remaining soft across products and sectors. Dynamics in the system will fall largely in line with sluggish domestic demand and investment dynamics. Loan growth rates in the system are expected to pick up later during the year and into 2025, driven by the normalization of the monetary policy and its positive effects on GDP growth.

On Page 12, we present funding and deposit evolution. Total funding increased 2.8% year-on-year and 3.1% during the quarter. Peso-denominated funding grew 11.5% year-on-year and 3.6% during the quarter. U.S. denominated funding decreased 1.4% in dollar terms year-on-year and increased 1% in the quarter. Deposits accounted for 74.1% of our funding, growing 4% quarter-on-quarter and 6.1% year-on-year. Peso-denominated deposits increased 8.9% year-on-year and 3.9% quarter-on-quarter. U.S.-denominated deposits increased 11.7% and 4.1% in dollar terms, respectively, over 12 and 3 months. Time deposits that remain the most sought-after type of funding continue driving overall deposit performance and gained share in our mix. Time deposits grew 7.1% year-on-year and 5.3% during the quarter. Our deposits to net loans ratio stood at 106%.

On Page 13, we present the evolution of our total capitalization, our attributable shareholders' equity and the capital equity ratios of our banks. Our total equity decreased 1.4% over the quarter and increased 2.8% year-on-year. Our attributable equity decreased 2% over the quarter and increased 1.7% year-on-year. Dividends of COP 570 billion were declared to our shareholders during the quarter. In addition, minorities at our subsidiaries received dividends of COP 623 billion. Lower core equity Tier 1 ratio in Banco de Bogota and Banco del Occidente correspond to dividends declared during the quarter. Lower Tier 2 ratios in these banks reflect the decrease in capital contribution of subordinated debt in accordance with the regulatory amortization schedules. As a recent event, not yet reflected in these figures on May 7, Banco de Occidente issued its inaugural $175 million Tier 2 notes with a maturity of 10.25NC5 which we estimate could add approximately 150 basis points to total solvency. Banco Popular unconsolidated ratios were 12.7% for total solvency and 11% for core equity Tier 1.

On Page 14, we present our yield on loans, cost of funds, spreads and NIM. The consolidated NIM on loans expanded 16 basis points quarter-on-quarter to 4.3%. NIM on commercial loans predominantly floated over IBR decreased 14 basis points to 3.9%, while NIM on retail loans predominantly priced at fixed rates expanded 58 basis points to 4.9%. Despite of the above-mentioned positive results in NIM on loans, total NIM fell 49 basis points to 3.4% quarter-on-quarter due to a sharp contraction in our NIM on investments to minus 0.2%.

Focusing on our banking segment, NIM on loans of our banking segment improved 8 basis points quarter-over-quarter to 5.1%, still substantially lower than historical levels. This incorporates a NIM on commercial loans that decreased 16 basis points to 4.7% and the NIM on retail loans that expanded 41 basis points to 5.6%. The total NIM of our banking segment contracted 21 basis points to 4.2% due to the same dynamics that affected our consolidated NIM.

The decrease of our NIM on investments is explained by 2 drivers. First, a softer quarter-on-quarter, yet still double-digit NIM on investments from our pension and severance fund management segments;

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and second, a negative result in our banking and merchant banking segments that mitigated by strong results in FX and derivatives under other income in connection with hedging strategies. Interest rating dynamics of our loans and funding are driven by the movements in the average benchmark rate in Colombia.

On a consolidated basis, the average yield on loans for the quarter decreased 54 basis points to 13.7% over 3 months, while the average Central Bank rate decreased 42 basis points to 12.8% in first quarter 2024. And average 3-month IBR decreased 64 basis points to 12.3%. Commercial portfolios reduced their yield by 84 basis points to 13.3% over the quarter. In addition to lower IBR, a preference for low-risk sectors has implied lower spreads on new loans. The average yield on consumer loans decreased 22 basis points over the quarter due to a sharp decrease in Colombia's lending rate cap after changes in calculation methodologies implemented by the regulators. This change reduced the rates of some unsecured lending products, mainly credit cards. It was partially offset by a continued repricing of loans with longer maturity, such as payrolls.

On the cost of funding side, our banks recorded a 68 basis points quarter-on-quarter decrease in cost of funds. Average rates on time deposits and saving accounts fell 53 basis points and 88 basis points quarterly, respectively. As we have mentioned in previous calls, last year, time deposits were issued at abnormally high spread to a sovereign triggered by changes in the net stable funding regulation. A portion of those will mature over the following months, contributing to the downward trend in cost of funds.

On Pages 15 through 17, we present several loan portfolio quality ratios. On Page 15, 90-day PDLs were 4.15%, a 17 basis points deterioration relative to last quarter and 70 basis points deterioration over 12 months. 30-day PDLs increased to 5.85%, a 39 basis points change over 3 months and 99 basis points deterioration over 12 months. Loan rates between 30 days and 90-day PDLs remain contained as a result of the collection strategies developed by our banks. 90-day PDLs formation increased 5% quarter-on-quarter after an 18% increase in 30-day PDL formation a quarter earlier.

Commercial 30-day PDLs were 5.1% and 33 basis points increase over 3 months. 90-day PDLs were 4.48%, 8 basis points deterioration over the quarter. We recorded a 53 basis points increase in consumers 30-day PDLs to 6.81%, while 90-day PDLs decreased 35 basis points to 3.91%. Mortgages 30-day PDLs and 90-day PDLs increased 33 basis points and 8 basis points, respectively, and 120-day metrics PDLs were 3.5% or 11 basis points higher during the quarter. Finally, the ratio of charge-offs to average 90-day PDLs was 0.62x.

On Page 16, the share of our loan portfolio classified as Stage 1 portfolio fell slightly over the quarter, mostly driven by a mild deterioration in retail loans. Regarding coverage, the allowance for Stage 2 and Stage 3 as a percentage of loans classified as Stage 2 and Stage 3 was materially stable during the quarter for total loans. The coverage for commercial loans continued increasing during the quarter. The allowance ratio for consumer loans and mortgages slightly decreased over the quarter, reflecting an improvement in the mix of probabilities of defaults inside Stage 2 loans.

On Page 17, as we anticipated in our last earnings call, the cost of risk remained high during the quarter, driven by a high cost of risk for consumer loans. Cost of risk, net for consumer loans improved 4 basis points to 7.5% despite a slight contraction in average balances. The cost of risk of credit cards and personal loans improved quarter-on-quarter, falling 63 basis points to 15.2% and 237 basis points to 15.4%, respectively. The increase in cost of risk on commercial loans is mainly explained by strong end-of-period loan growth in the quarter.

On Page 18, we present net fees and other income. Gross fee income grew 5.6% quarter-on-quarter and 3.9% year-on-year. Net fee income increased 16.3% and 5.9%, respectively. Net pension and severance fees grew quarter-on-quarter and year-on-year, driven by performance-based fees that incorporates a strong capital market performance at the end of 2023. As guided, income from the nonfinancial sector was around 70% of that recorded in the first quarter of 2023 as some toll road concessions transitioned from the construction to the operations phase. In contrast, the energy and gas sector outperformed during the quarter due to the favorable effect of the El Niño phenomenon and Promigas' businesses due to the higher natural gas consumption. Finally, on the bottom of the page, the quarterly increase in other operating income is mainly explained by higher derivatives and FX gains that, as mentioned before,

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partially compensate lower results in NIM on investments. In addition, dividend seasonality further adds to the improvement relative to fourth quarter of 2023.

On Page 19, we present some efficiency ratios. The result of our cost control initiatives, total other expenses increased 0.8% year-on-year and fell 3.8% quarter-on-quarter. General and administrative expenses grew 0.2% year-on-year and contracted 7.9% quarter-on-quarter. General and administrative expenses are determined by operating taxes and deposit insurance that now account for 41% of these expenses. These line items grew 8.1% and 9%, respectively, year-on-year. Other general and administrative expenses decreased 4.8% year-on-year. Cost to assets for the quarter was 2.76%, improving 15 basis points quarter-on-quarter and 4 basis points year-on-year. Our quarterly cost-to-income improved to 50.4% over the quarter and deteriorated year-on-year, mainly due to a lower NIM on investments and income from the non-financial sector.

Finally, on Page 20, we present our net income and profitability ratios. Attributable net income for the quarter was COP 114 billion or COP 4.8 per share. Return on average assets and return on average equity for the quarter were 0.6% and 2.7%, respectively.

Before we move into questions and answers, I will now summarize our general guidance for 2024. We expect loan growth between 7.5% and 8% with commercial loans growing between 9% and 9.5% and retail loans growing between 5% and 6%. NIM in the 4% area with NIM on loans in the 4.75% area. NIM of our banking segment in the 4.75% area with NIM on loans between 5.25% and 5.5%. Cost of risk net of recoveries in the 2.3% area. Cost to assets in the 2.7% area. Income from the non-financial sector of 70% of that for 2023. A fee income ratio between 20% and 25%. Finally, we expect our 2024 return on average equity to be in the 6.5% area. We are now available to address your questions.

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Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Nicolas Riva with Bank of America.

Nicolas Alejandro Riva
BofA Securities, Research Division

Diego and Maria Lorena. A few questions. So the first one on provisions for loan losses, which were up 72% year-on-year and 10% quarter-on-quarter, cost of risk at 2.9% in the quarter. If you can discuss any thoughts in terms of the outlook for provisions for loan losses for the rest of the year? That's my first question.

And then I have a few questions on your stand-alone balance sheet for the holding company. Diego, you mentioned the Tier 2 raise from Banco de Occidente after the end of the quarter, the $175 million. I want to confirm that transaction is not going to have any impact on the stand-alone balance sheet of the holding company. I assume that Grupo Aval, in this case, did not buy any of the Tier 2 issue, but if you can confirm that.

And also, if you can tell us what's the amount of the AT1 issue from Bank in Central America that is owned by Aval and that is included in the double leverage that the holding company reports of 123% at the end of the quarter.

And finally, Diego, you gave us guidance for 2024 on a consolidated basis. Can you share your projection for double leverage for the holding company by the end of the year?

Diego Fernando Solano Saravia
Chief Financial Officer

Okay, Nicolas. Let me take each one of those. Regarding provision expenses, cost of risk, you might have noticed that we raised our expectation cost of risk for the year. Basically, what we are reflecting here is the credit cycle has been longer than what we expected. If you look at what has happened, you will find that there's been improvement as we had guided into before, but we haven't yet seen a turning point, particularly for consumer loans.

From the macro side, there is a number of positives going on. We see the numbers reported by the Superintendency of Finance of household leverage improving. So that correlates to the contraction in consumer and retail loans that we've seen before. But we still have some caution on what is going to happen with unemployment. So that's perhaps the main change in the guidance for this call is a higher cost of risk with an expectation to trend to better numbers as the economy recovers. Even though it's data-dependent, we see positives going on, on the inflation front. We see positives on the Central Bank front and also from the growth -- the GDP growth perspective. So even though cautious, we see an improvement in that area, and that would help us to trend back to a sub 2% cost of risk that we are more familiar with.

Regarding the -- our stand-alone balance sheet, yes, Aval didn't buy bonds from Banco de Occidente. It was a particularly small issue, and we wanted this to be the inaugural bond for Banco de Occidente. It was not a benchmark-sized transaction because of the needs of the bank. But still, they were able to tap the market.

Regarding the AT1, we are -- we will be looking at the call of the bond during next year. At this point, I would say the probability of that call is relevant given the trend of rates going on. And we have to wait a few months to see that happening, but it is a possible scenario that it will be called. And then you had a few other questions.

Nicolas Alejandro Riva
BofA Securities, Research Division

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And in that case, Diego, so again, assuming it's called, what would be the -- so right now, what's the amount of the AT1 issue from...

Diego Fernando Solano Saravia
Chief Financial Officer

It's a -- yes, no -- yes, your question on double leverage. It's a very relevant event. What we are working on is trending down that to 120%. That is basically a ratio that rating agencies have pointed to. And the AT1 represents close to 11 percentage points of double leverage. So if the bond is called and we doing nothing else, we would be around 110% or under that number.

Operator

[Operator Instructions] And your next question will come from the line of Julian Ausique with Davivienda Corredores.

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

I have several questions. The first one if you can maybe repeat the guidance because I couldn't get the line when you were giving the guidance. And my other 2 questions are regarding -- the first one is regarding the corporate deterioration segment. Like how are you looking the deteriorations for this year in terms of the corporate because here in Davivienda Corredores we are seeing some deterioration in the corporate sector. So what are your expectations? And if you have some like sensitivities or sensibilities about the NPLs, both in 30 and 90 days for this segment?

And my second question is regarding the NIM on investment. I was looking like the P&L and I saw that during the quarter, you have an increase on interest and investments in debt securities of 11%. So I couldn't understand why the NIM on investments had a negative performance during the quarter? And also, to understand why the NIM on loans have some decrease -- like some increase because when I saw P&L I saw a deterioration on the income of loan portfolio of 4% and also -- but I saw a decrease in the cost of funds. So I would like to understand a little bit more about the NIM on investment and the NIM of loans.

Diego Fernando Solano Saravia
Chief Financial Officer

I'm not sure I understood fully your questions. Could you repeat what part of the guidance you need?

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

Like if you can give the loan NIM, cost of risk and ROE. That's the first one.

Diego Fernando Solano Saravia
Chief Financial Officer

Okay. Okay. So cost of risk of 2.3% and ROE in the 6.5% area might have some upward bias, but at this point, we are cautious on the cost of risk side. Regarding commercial loans, the segments in which Aval is concentrated are much more of the larger commercial companies and corporates. Therefore, we've seen some slight deterioration, but it's quite mild at this point. If you look at that through stages, on the stages front, you even hear some bias to an improvement there. So we are watchful of the deterioration on commercial, but it hasn't really shown up in numbers yet, and it is related to the kind of customers that we have. There might be more concern if you go to smaller commercial loans and SME loans. But in our case, we are more at the point of making sure that everything keeps under control. You might imagine that we've been looking into segments that are more sensitive than others. And perhaps at this point, something to mention is we're very well diversified across sectors and inside sectors across customers. So we are not expecting any large surprise.

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On the NIM on investment front, yes, it was perhaps one of the things that affected our overall NIM. We saw improvement in NIM on loans. However, a lower NIM on investments still affect us. Part of that, as I mentioned through the call, is offset with derivatives in the other income line. Having said so, the end of March was not that positive for the market. We've seen a better evolution during the second quarter on returns on fixed income investments. Therefore, we are expecting to see a better result over the year than what we saw for the quarter.

Operator

There are no further questions at this time. Ms. Maria Lorena Gutierrez Botero, I turn the call back over to you.

Maria Lorena Gutierrez Botero
President

Okay. Thank you to you all, and see you soon in the next call. Good day.

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

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