THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

GRUPOAVAL.BG - Q1 2015 Grupo Aval Acciones y Valores SA Earnings Call

EVENT DATE/TIME: JUNE 04, 2015 / 2:00PM GMT

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Saul Martinez *J.P. Morgan - Analyst*

Carlos Gomez *HSBC Global Research - Analyst*

Jose Restrepo *SERFINCO - Analyst*

Juan Dominguez *Credicorp Capital - Analyst*

Boris Molina *Santander - Analyst*

Natalia Casas *SERFINCO - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to today's conference call: first quarter 2015 consolidated results under Colombian Banking GAAP and comparative results under IFRS as applicable pursuant to Colombian regulation.

My name is Hilda, and I will be your Operator for today. (Operator Instructions)

Grupo Aval is an issuer of securities in Colombia and the United States, registered with Colombia's National Registry of Shares and Issuers, RNVE, and the United States Securities and Exchange Commission. As such, it is subject to 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. Although we are not a financial institution, until December 31, 2014, we prepared the consolidated financial information included in our quarterly reports in accordance with the regulations of the Superintendency of Finance for financial institutions and generally accepted accounting principles for banks to operate in Colombia, also known as Colombian Banking GAAP, because we believe that presentation on that basis most appropriately reflected our activities as a holdings 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 as applicable in Colombia.

Colombia Banking GAAP and IFRS as applicable under Colombian regulations differ in certain significant respects from US GAAP. IFRS as applicable under Colombian regulations also differs in certain aspects from IFRS as currently issued by the IASB. Our 20-F annual report filed with the SEC provides a description of the principal differences between Colombian Banking GAAP and US GAAP, as well as expected changes from our implementation of IFRS as applicable under Colombian regulations.

The unaudited consolidated financial information included in this webcast for the first quarter of 2015 is presented under Colombian Banking GAAP. And for comparative purposes, it is also presented in accordance with IFRS as currently issued by the [ISAB].

Unaudited consolidated financial information for the first and fourth quarter of 2014 is presented under Colombian Banking GAAP.

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 and currency rates; and other risk factors as evidenced in our Form 20-F available at the SEC's web page.

Recipients of this document are responsible for the assessment and use of the information provided herein. Grupo Aval should not be responsible for any decision taken by investors in connection with this document. The content of this document is not intended to provide full disclosure on Grupo Aval or its affiliates.

When applicable, in this webcast we refer 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, Hilda. Good morning and thank you very much for joining this call.

I would like to start by explaining how we will present today our results for the first quarter of 2015. As you know, Colombia is transitioning towards IFRS accounting and, in fact, we're now running our books under this standard.

However, the conversion of last year's Colombian GAAP standards to IFRS has taken longer than expected, as the industry is still absorbing the full effects of IFRS and as banks still have to make decisions and regulators still have to impart concise orders regarding the alternative that IFRS pose with respect to some of the more important balance sheet and income statement lines.

Consequently, the restatement of last year's quarterly financial statements is, in our case, a work in progress. More so, because of this circumstance, it is plausible that our March 31, 2015, IFRS financial statements may be subject to change.

Because of all this, we have decided for ease of comparison to present our first quarter financial statements in Colombian Banking GAAP, which as you know is the same accounting standard that we have used since we have been holding these quarterly calls. As such, this call will not differ from previous calls in content or scope.

However, we have also included our 2015 first quarter results under IFRS, highlighting the causes for changes between the two accounting standards.

Let me only anticipate that, as you will clearly see, one of the main reasons that explains most changes between the two accounting standards is the effect of consolidating Corficolombiana's largest investment, Promigas. Under Colombian GAAP, Promigas was accounted for at market value, while under IFRS this company must be accounted for on a fully consolidated basis. More on this as the presentation reaches the slides where this issue is addressed.

We hope that this decision regarding our presentation will meet with your approval.

During our last call, we addressed the profound shock that Colombia's economy was subjected to in the last quarter of 2014. We talked about the new, very onerous fiscal reform that was passed, the Colombian peso devaluation, the price of oil being cut in half, the acceleration of inflation, and the slowdown of GDP growth.

The aftermath of these macroeconomic shocks is now being felt. On the one hand, analysts have dropped their growth estimates of the Colombian economy to a consensus of 3.3%, in line with our own estimates of between 3% and 3.5%, as we expressed during our last call. Analysts also coincide in their expectation that the economy will once again pick up steam in 2016, as growth should increase to approximately 3.5%, an expectation that we also share.

Unemployment picked up a bit slightly, to 9.5%, in the last available measurement.

Foreign investment is still pouring into the country, and Colombia is effectively using it to deal with its fiscal deficit. But we have seen a larger percentage of investment going to portfolio investments and a resulting smaller percentage going into direct, long-term investments.

As we had anticipated, inflation has remained relatively high. In fact, on a 12-month basis, it peaked in March at approximately 4.6%, substantially over the central bank's target. Our expectation is that it will ease up during the last three quarters, approaching 4% at year's end and 3% in 2016.

It would appear, then, that the central bank will keep unchanged its monetary policy at least until the end of 2015, despite some pressure from the government for the central bank to apply a more expansionary policy.

The DTF continues stuck at the central bank's rate level of approximately 4.5%. We still believe that this rate will edge up as the year progresses, but we don't foresee that it will surpass 4.75%, unless the central bank makes a decision to change the way in which this reference rate is calculated.

We continued to experience Colombian peso devaluation during the first quarter of 2015. In fact, on average, during the first quarter the peso weakened a further 14%. This is especially relevant to our [stock in the] Banco de Bogota, as this devaluation results in the obvious reappraisal to pesos of its risk-weighted assets, while the bank's hedging strategy maintains constant its equity position.

It is also worth mentioning that under full IFRS standards the full effect of this year's equity tax must be absorbed as a one-time effect through P&L. In our case, this year's attributable equity tax amounted to approximately COP205 billion.

On a more positive note, Colombia's 4G infrastructure program is in full gear. The first wave of concessions has been awarded in its entirety. Nine government-sponsored projects and five additional private-public initiatives represented almost 1,000 miles of new and reconditioned roads and investments of approximately $9 billion that will require financing for a similar amount over a span of six years.

The second wave has already awarded its first two concessions, representing approximately 300 miles of new roads and investments of nearly $1.7 billion.

We expect that financing packages will be in place in the last quarter of this year for the first concessions to start construction early in 2016. Furthermore, we expect that Grupo Aval's banks will be very active participants in these financing packages.

We continue to be very active as concessionaires/constructors through our own Corficolombiana, which has been awarded four of the 4G projects, consolidating in this way its leadership in Colombia. Suffice it say that, including those 4G projects, Corficolombiana's portfolio of concessions will reach 14: 12 roads and two airports.

Banco de Bogota's Central American banking group continues to perform well, as Central American countries benefit from oil prices and a resurgence of the US economy. As usual, Diego Solano, our Chief Financial Officer, will speak in more detail of those results.

With regard to Aval's consolidated balance sheet, our assets grew year on year at 18.5% and 6.7% during the first quarter, while our gross loan portfolio grew year on year at 18.6% and 5.1% during the first quarter. After normalizing these growths for devaluation, the quarterly growth in assets was 4.4%, and in loans, 2.9%, both in line with our expectations.

At quarter-end, approximately 27% of our balance sheet is comprised of foreign assets, while 73% is locally originated, similar to the percentages that we saw at the end of 2014.

We continue to outpace the market in mortgage and credit card lending, and, in fact, our mortgage portfolio grew at 42% during the 12 months ended March 31.

The quality of our loan portfolios measured at 30-days past due loans to total loans remained constant, at 2.6%, during the quarter. This ratio continues to outperform the market.

Our cost of risk averaged 1.5%, an improvement of 30 basis points when compared to last year's fourth quarter and in line with the lower set of the range that we shared with you in our last call.

Our consolidated deposits grew year on year at 17.1%, and 6.8% during the first quarter. After normalizing these growths for devaluation, the quarterly growth in deposits was 4.6%. The mix of our deposits remains weighted towards checking and savings accounts, which represent approximately 61% of our deposit base.

As is usual during the first and third quarters of any year, which are the two quarters when we declare dividends, our tangible capital ratio was somewhat affected negatively. This quarter, however, was particularly stringent on our capital base as a result of at least three issues which caused our tangible capital ratio to decrease by 100 basis points, from 9.8% to 8.8%, between December 2014 and March 2015.

First, the equity tax, which consumed approximately COP205 billion. Second, the devaluation of the peso, which resulted in 230 basis points of additional growth during the quarter of our total asset base, led by our dollar-denominated assets. And third, our decision to pay full dividends to those shareholders that joined our investor base in September of last year, which amounted to an additional COP100 billion.

Notwithstanding the decrease in this ratio, our banks remain well capitalized.

Our loan net interest margin remained fairly constant, at 6.8%, while our total NIM increased slightly, to 5.8%, due largely to a good quarter for our fixed-income NIM.

Efficiency, measured as operating expenses over operating income, improved by 500 basis points versus the last quarter of last year and by 260 basis points versus the first quarter of 2014, in line with our efforts to control expenses and, as discussed in our last call, as a result of an unusually expensive last quarter of 2014.

Attributable net income for the quarter amounted to COP503 billion, 44% higher than the attributable net income during the first quarter of 2014 and 21% higher than the attributable net income during the last quarter of 2014.

Our earnings per share increased by 31% versus the first quarter of 2014. During the same time period, our shares outstanding increased almost 10%.

Finally, our return on average equity for the quarter was 13.2%, in line with our expectations.

Let me finish by referring briefly to our IFRS results. The main highlights when comparing this year's first quarter results in Colombian Banking GAAP versus IFRS can be summarized as follows.

First, a slight increase in total assets of 2%, mainly driven by: a decrease in our investment portfolio, as we no longer carry Promigas as an equity investment; an increase in our loan portfolio, mainly due to the reclassification of operating leases; the elimination of reappraisal of assets; and an increase in other assets, mainly driven by the impacts of the consolidation of Promigas as a result of the devaluation of Promigas' contracts to transport gas plus their own PP&E.

Second, a slight increase in total liabilities of 2.5%, mainly driven by: an increase in other funding, due to the consolidation of the financial obligations of Promigas; and an increase in other liabilities associated with the deferred tax liability under IFRS.

Third, a decrease in total equity attributable plus minority interest of 2%, principally the result of the elimination of reappraisals and the impact of the deferred tax liability.

Our P&L was affected as follows: slightly lower net interest income, as we include the debt cost of Promigas; lower provision expense, as under full IFRS provisions are the result of incurred losses rather than expected losses and the booking of countercyclical provisions is not required; less operating expenses, mainly due to the non-amortization of goodwill; and finally, the effect of a full year's worth of wealth tax flowing through P&L.

With that, I'll pass on the presentation to Diego, who will describe in detail our results. Thank you, and have a good day.

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

Thank you, Luis Carlos. I will now move to give some present detail on what Luis Carlos has just mentioned.

We'll start on page 5, where we present the evolution of some key macro drivers of our industry. As Mr. Sarmiento just mentioned, on our previous call we presented the new macro landscape in which we are operating now. I'll focus this time on what has changed over the recent months.

In the last couple of months, GDP growth expectations for Colombia have settled at a range between 3% and 3.5% for 2015, and somewhat stronger for 2016, both similar to our previous guidance.

Regarding unemployment, the last data point available is that for April 2015. This figure reported 9.5%, a figure somewhat softer than the 9% reported a year earlier.

Finally, on the bottom right of this page, we include the evolution of foreign direct investment. Direct investment fell during 2014, while portfolio investment more than doubled.

Moving to page 6, we present inflation and some interest rate benchmarks. Cumulative 12-month inflation as of April 2015 was 4.64%. [As a] result, we now have three consecutive months of above central bank's upper limit of 4%. Market consensus is showing an expected inflation of close to the upper limit of 2015 and more acceptable figures for 2016, as we previously mentioned in our calls.

The central bank has kept its rate flat for a while now, at 4.5%, and DTF, our benchmark rate, has not been able to sustainably surpass this limit. Even though we still see some room for DTF expansion, we believe the magnitude of this shift to be lower than previously foreseen.

On page 7, we present one of the key shocks to the Colombian economy: oil price's effects on foreign exchange. As we have said before, as a result of the relevance of oil prices to the Colombian peso market, a strong negative correlation exists to the Colombian peso-US dollar exchange rate. It is important to note, however, that the recent movements in FX have been mainly driven by news of Isagen's sale by the government to be postponed to an uncertain date.

At current levels of depreciation, Colombia remains one of the most depreciated currencies among the emerging markets. As Mr. Sarmiento mentioned, average depreciation for the quarter was 14%, while end-of-period depreciation was 8.6%.

On page 8, we present our chart on Central American macroeconomic drivers. As mentioned in the past, we see positively the forecast of GDP for the Central American region. We expect this region to be positively impacted by lower oil prices, as these countries are net importers. In addition, we foresee a positive effect in the region of the strengthening of the US economy.

I will now move to the results of Grupo Aval. I will start on page 9, with our asset evolution. Total assets grew 18.5%, as compared to the first quarter of 2014, and 6.7% during this quarter.

Consolidated balance sheet structure was similar to that existing at end of December 2014, with loans accounting for close to 61% of our assets, and investments for over 16% of those.

Finally, Colombian assets account for 73% of our balance sheet. The Central American assets increased their weight due to the Colombian peso depreciation, given the relevance of the US dollar in the region.

On page 10, we present our loan portfolio evolution. Gross loans increased 18.6%, as compared to the first quarter of 2014. This growth resulted from Colombia's loans growing at 12.3% and Central America at 40.3%; 6.4% in dollar terms.

During the first quarter of 2015, gross loans grew 5.1%, mostly driven by our Colombian operation. Mortgages continued to be our most dynamic portfolio, growing at 41.9% during the last 12 months. Consumer and commercial loans grew at 22.5% and 15.6%, respectively, during the same period.

The structure of our gross loan portfolio suggests, as in the past, a slight shift towards a higher component of personal loans. Loans to companies, defined as commercial loans plus financial leases, accounts for 62.1% of our loans, down from 62.3% three months earlier and 64.4% one year earlier.

As a complement -- on the flip side, loans to individuals, defined as consumer loans plus mortgages plus microcredit loans, account for 37.9% of total loans, up from 36.7% (sic - see slide 10, "37.7%") three months earlier and 35.6% one year earlier.

Colombia accounted for 74.4% of our loan portfolio, down from 75.4% three months earlier. The slight increase in weight of our Central American operation during this quarter was mainly due to the appreciation of the US dollar relative to the Colombian peso. Given recent results which incorporate peso depreciation, year-end loan growth could exceed our previous guidance.

On page 11, 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 of our non-performing loans, both as a percentage of total loans. During this quarter, our delinquency ratio was stable when measured as 30 days past due loans to total loans, and showed an improvement when measured as NPLs to total loans.

Delinquency measured as NPLs to total loans was 1.8%, versus 1.9% for the fourth quarter of 2014. NPLs in Colombia were 1.9% of total loans, the same level as reported at the end of December 2014. NPLs in Central America were 1.4% of total loans, improving from 1.7% recorded three months earlier.

Delinquency measured as 30 days past due loans to total loans was 2.6%, both as of the end of the first quarter of 2015 [and] as of the end of 2014. The 30-days past due loans ratio of Colombia was 2.7% of total loans for this period, showing a slight deterioration from 2.6% three months earlier. Central American ratio was 2.3% at the end of period, improving from 2.6% three months earlier.

Moving to the right, annualized net provision expenses to average loans for the quarter is shown at 1.5%, lower than the 1.8% recorded three months earlier, but higher than 1.3% recorded 12 months earlier. As explained on our last call, the high expense during the last quarter of 2014 was partially explained by one-time charges linked to the adjustments in the loan portfolio of the Central American acquisitions of 2013 and certain financial lease portfolios. Provision expenses to average loans during the quarter was 1.6% in Colombia and 1.1% in Central America for the first quarter 2015.

At the bottom left, you will find the annualized ratio of charge-offs as share of average NPLs. This ratio was 0.71-times during the first quarter of 2015, materially at the same level as the 0.73-times recorded during the fourth quarter of 2014.

Finally, on the bottom right, you will see several loan loss reserve coverage ratios. Our allowance are 3% of total loans and cover 1.69% (sic - see slide 11, "1.69 times") of NPLs and 1.15% (sic - see slide 11, "1.15 times") of PDLs.

On page 12, you will find further detail on the quality of our loan portfolio. At 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 2.6% as of March 2015, remaining stable as compared to December 2014.

PDLs to total loans for our commercial and mortgage portfolios improved during the first quarter of 2015, from 1.7% to 1.6% and from 2.9% to 2.7%, respectively. PDLs to total loans for consumer portfolio remained stable, at 4%, while PDLs to total loans for our financial lease portfolio deteriorated from 3.2% to 4%.

PDL formation, seen at the bottom of the chart, shows results in line with historical performance, as well as charge-offs due. Charge-offs for the period were COP376 billion.

Funding and deposit evolution is presented on page 13. Total funding grew 17.7% during the last 12 months and 7.7% during the last quarter. Deposits grew at 17.1% during the last 12 months and 6.8% during the last quarter. Our funding and deposit structure remained substantially stable during the quarter, with our deposits accounting for 78% of total funding and fully (technical difficulty) deposit to loan ratio stands at 106%.

Our checking accounts represent over 23% of our deposits.

On page 14, we present the evolution of our total capitalization: our attributable shareholders equity and the capital adequacy ratio of our banks. Our total equity, defined as attributable equity plus minority interest, grew at 18.3% during the last 12 months and decreased 1.9% during the last quarter.

Attributable equity accounted for 66.8% of total equity as of March 2015, up from 65.1% a year earlier. Attributable equity grew 22.1% during the last 12 months and decreased 2.5% compared to December 2014. This decrease in attributable equity was already discussed by Mr. Sarmiento.

On this chart, we also show the consolidated solvency of our banks. Bear in mind that the solvency presented for the first quarter of 2015 is already calculated under IFRS.

On page 15, we present our net interest margins. Our net interest margin for the first quarter of 2015 was 5.8%, improving 12 basis points, from 5.7% for the last quarter of 2014. During the quarter, net interest margin on loans was 6.8%, slightly down from 6.9% during the previous quarter, but in line with the last 12 months' average. This lower net interest margin had a positive tradeoff in market share gain in Colombia.

On the other hand, net interest margin of fixed-income investments was 2.7%, up from 1.3% a quarter earlier. The yield on fixed-income investments increased as a result of rates on government bonds decreasing.

Our net interest margin excluding equity investments was [6.6%], up 19 basis points from 5.8% a quarter earlier.

Quarterly net interest income grew 13.6%, compared to the same period one year earlier, increasing from COP1.86 trillion to COP2.12 trillion during the quarter. Net interest income for this quarter grew 8.4% relative to that for the previous quarter.

On page 16, we present fee income and other operating expenses (sic - see slide 16, "income"). Fee income is presented on the top of the page. Fee income grew 16.9% compared to the same period a year earlier. Fees for this quarter increased 2.8% with those received during the fourth quarter of 2014.

On the bottom of the page, we present other operating income. Other operating income decreased 6.5% (sic - see slide 16, "15.7%") compared to the previous quarter. This decrease was mainly driven by a decrease in income from the non-financial sector, particularly from our toll road concessions. Dividends accounted for COP83 billion, out of a total of COP259 billion of other operating income recorded during this quarter.

On page 17, we present efficiency and non-operating income. On the top of the -- on page [17], we present our operating expenses as a share of operating income and average assets.

Our efficiency, measured as operating expenses divided by operating income, was 47.9% during this quarter, improving from 50.5% during the same period a year earlier and 52.9% during the previous quarter. Our efficiency, measured as operating expense divided by average assets, was

3.4% during the quarter, improving from 3.7% during the same period a year earlier and 3.8% during the previous quarter. We have increased our focus on operational efficiency as part of adjusting to a more challenging environment in Colombia.

In the bottom of the page, you will find the contribution of net non-operating income. Non-operating income mainly includes income from the sale of property, plant, and equipment and foreclosed assets and the recovery of other provisions. Net non-operating income as a percentage of operating income before net provisions was 2.7% for the quarter, in line with our historic average.

On page 18, we present our net income and profitability ratios. Net income for the quarter was COP503 billion, or COP23 per share. Return on average assets and return on average equity for this quarter were 1.7% and 13.2%, respectively.

I will now move to the results of Grupo Aval under IFRS. Before moving into numbers, I would like to remind you that the figures presented are preliminary in nature and might be subject to changes and amendments.

As Mr. Sarmiento mentioned at the beginning, financial information for 2014 under IFRS is still being reprocessed and as we apply regulation and policies recently dictated by our local Financial Superintendency and Ministry of Finance. Accounting policies are also subject to review up to the date at which our first IFRS audited figures are presented. As such, figures that we present for first quarter 2015 might also change slightly.

In addition, to ease comparability, IFRS numbers have been classified in a manner compatible with our Colombian Banking GAAP account structure. The final format in which our figures will be audited and presented will imply reclassifying certain accounts based on IFRS account structure.

The figures that we will present on this page and the following have been prepared under full IFRS. These figures differ from that that would be presented under Colombian IFRS in certain material aspects.

In particular, Colombian IFRS allows the wealth tax to be accounted directly against reserves, with no effect on income statement. In addition, as of today, Colombian IFRS does not include [the fair value] with impact on OCI investment category. And finally, lower loan loss provisions than those recorded under the Superintendencia Financiera principles are expected to be recorded as part of the OCI rather than a lower provision expense.

I will now start on page 19, with our balance sheet. With regards to the balance sheet, we see an increase of 2% in our total assets, when expressed in IFRS compared to Colombian Banking GAAP. This is the net result of the following: a slight increase of 2.2% in cash and cash equivalents due to reclassification of certain accounts, in particular fixed-income investments due within 90 days.

Second, a slight net decrease of 1.8% in investments, mainly driven by the elimination of the cost portion of our investment in Promigas. Partially offsetting this adjustment, this account is affected as well by adjustments in the value of investments accounted for at fair value.

Third, a 1.6% increase in loans and financial leases, as they now include operating leases and interest account receivables which were previously classified as other assets. In addition, a positive adjustment to the lower provisions is recorded.

Fourth, COP220 billion increase in goodwill, mainly driven by the effect of consolidating Promigas. Also affecting this account, we have ceased to amortize goodwill starting at January 2014, as demanded by IFRS.

Fifth, 46.4%, or COP5.6 trillion, increase in other assets, resulting from the recognition of the Promigas assets, recognition as well of a higher tax asset, and the resetting of the price of certain fixed assets. Offsetting these effects, accounts such as interest account receivables and operating leases that were reclassified, as well as eliminating certain deferred assets and other assets that are not recognized under IFRS, reduces these accounts.

Last on the asset side, the elimination of the reappraisal of assets under IFRS affects the value of our total assets. Only a part of this value is reclassified into investments recorded at fair value and fixed assets.

Moving now to the liability side, you can observe the following. First, deposits show a very similar figure under both accounting standards. Changes are explained by incorporating interest accounts payable.

Second, other funding increased by 7.3%, or COP2.6 trillion, mainly driven by the recognition of the financial obligations of Promigas and the deferred income tax liability.

Third, a slight change in derivatives due to counterparty risk recognition.

Last on the liability side, a 13.8%, or COP1.1 trillion, increase in other liabilities, mainly explained by our deferred tax liabilities under IFRS and the Promigas consolidation. These effects are partially offset by accounts reclassified, as explained before, and the accounting of toll road concessions.

Finally, total equity under IFRS totals COP21.6 trillion, which compares to COP22.0 trillion under Banking GAAP. The approximate 2% (technical difficulty) in the net effect of all of the changes [in our subsidiaries] is equities under IFRS, the consolidation of Promigas, and the impact of our deferred tax liability.

Finally, on page 20, we present our income statement under IFRS compared to that under Colombian Banking GAAP. The net interest income decreased by 3.6%, or COP76.2 billion, mainly driven by the recognition of the cost of debt of Promigas.

Moving down to provisions, total provisions net decreased by 8.2%, or COP35.6 billion, since under IFRS provisions requires us to change from expected-loss model to the incurred-loss model. In addition, there is no recognition for the countercyclical provision expense. Adjustments to record provisions for certain adjustments and loans have a minor offsetting impact.

Third, fees and other service income show practically no change.

Fourth, other operating income decreased for this period by 9.1%, or COP23.5 billion, as a result of eliminating the dividends from Promigas for a six-month period and changing them with the operating results of the same company for three months.

Fifth, OpEx decreased by 4.8%, or COP82.9 billion, mainly due to the elimination of the goodwill amortization, changes in depreciation of operating leases and fixed assets, and the effect of eliminating certain deferred assets from our balance sheet.

Non-operating income or expense, net, increased by COP99.5 billion as a result of the recognition of some non-operating results from Promigas.

As a result of the above, our income before taxes increased by 10% compared to that under Colombian Banking GAAP, or COP122 billion, to COP1,324 billion under IFRS, versus COP1,202 billion under Banking GAAP.

Income tax expense increased as a result of recalculation of deferred taxes.

Minority interest changes in line with the previous items.

Net income attributable to our shareholders before the attributable wealth tax totals COP553.7 billion, showing an increase of 10%, or COP50 billion, versus Banking GAAP results.

Finally, and because of the early payment of the wealth tax, as explained before, full IFRS demands for equity tax to be expensed. This unfortunate expense will not reappear in the next quarters and will diminish in the first quarter of 2016 by 13%, to approximately COP182 billion, and by 60% in the first quarter of 2017, to approximately COP72 billion, and finally expected to disappear thereafter.

Net of the wealth tax, our results under IFRS for the first quarter of 2015 were COP345 billion, a figure very similar to that obtained one year earlier under Banking GAAP, but this time with the full effect of higher wealth tax and IFRS.

THOMSON REUTERS

With this, I open it to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Saul Martinez, J.P. Morgan.

Saul Martinez - *J.P. Morgan - Analyst*

Two questions. Well, actually, first of all I wanted to thank you for the presentation in IFRS and Colombian GAAP. I think the way you guys presented was very helpful, at least in my view, from the standpoint of having some continuity with the historical results and understanding how it translates into IFRS and keeping our models the way they are. So, I do want to thank you for that. I think it was, in my opinion at least, a good presentation of the adjustment.

Two questions. One on IFRS. 10% earnings higher in IFRS than in Colombian GAAP, adjusting for the wealth tax. But if I look at non-operating income and I strip that out, it was only 2% higher. I know it's maybe a tough question to ask, but how do you think about that over time, on average? How different do you see the bottom line? It seems like provisions may be lower for many of the reasons you specified, but this quarter, for example, NII was lower. Do you think there is, over time and on average, a noticeable difference in terms of earnings? I know -- other than the obvious of goodwill amortization. Or, do they tend to trend towards each other?

Secondly, on 2015 guidance, you gave some very specific detailed guidance on your earnings call in early April, I suppose. ROE of 13% to 13.5%. You're kind of in the middle of that range now. Loan growth of 10% to 12%. Cost of risk of 1.5% to 1.7%. And a few other items.

How confident are you with those guidance items? Have they changed at all? Are you more optimistic about ROEs? Any update in terms of how you think the financial outlook is going to look right now, based on what you've seen so far?

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

I think your second question is a catch-all question, but I will tackle it. Regarding IFRS, it is our expectation that there might be a slight increase in net income, due particularly to the things you just mentioned: not amortizing goodwill, lower provision expenses. However, we do not foresee a substantial change, something perhaps in the line of what we mentioned.

You highlighted the non-operating income and, in fact, there are some items there that might be non- -- that might not be stable in time, as the nature of non-operating income is. However, those are not items that will totally go away as you might have seen in the past.

This is a line item that is short of 3% of our income, and we might see it at a similar level. We can't really forecast this line differently. What I can tell you is this is not a line that should disappear, based on past history.

The kind of increase that you saw has, say, the combination of these effects. So, it's a pretty good predictor of what to see in the future. Perhaps 5% to 10% higher income could be seen, but given that this is the first quarter we run under IFRS, I would prefer to just keep this with a grain of salt.

Now, regarding guidance, I believe that's a very large question that you made. What we are seeing slightly changes our guidance. As you heard from Luis Carlos and myself, it is tough to be as optimistic with DTF as we were before. We have made our expectation milder.

We still see some room for DTF increase, even though from the econometric, theoretical standpoint DTF should go to a much higher level, we do think now that rather than trending towards a 5%, it might trend towards a 4.75% over the rest of the year.

This will depend very much on inflation data and central bank data. It might also be affected by changes in liquidity in the system. But we can't really disregard what we're seeing in the historic numbers that even though it was not what was predicted by models it is what is coming out to happen.

Under this scenario, what we are seeing is perhaps a lower net interest margin expansion. Last time, we said we were looking into something in the area of 20 basis points. It could be half of that, as DTF is half of that.

But on the flip side, what we are seeing is a higher loan portfolio growth and also what appears to be perhaps a more permanent impact, the depreciation of peso. In that scenario, we could have fallen short in our guidance of something close to the 12% area. We could be a couple of [percentage] points higher than that.

I would say those two elements of perhaps a lower net interest margin and a slightly higher asset growth, or loan portfolio growth, could be offsetting each other.

Regarding provision expenses, we are having a lower cost of risk at this point. We had a range of 1.5% to 1.7%. We could be -- at this point we're on the lower side of that range. We could end up the year somewhere at the middle side of that range. We are cautious to be more positive given only a quarter of results, but anyway, there's some positive news there.

Just to bear in mind, all this that I'm saying is under Colombian Banking GAAP. Obviously, if we were to mix accounting systems, you would end up with a lower cost of risk. But I'm trying to keep an apples-to-apples comparison here.

Regarding the growth of other line items, income line items, I would say they would continue to be tied to what happens with asset growth, as has been in the past.

Efficiency, you have also noticed that we have exceeded what our expectation was. Last time, the guidance that we gave was --. We run last year at 51%. We said we expected to continue our trend of 100 basis points improvement on annual basis.

But we are doing what is within our reach to adjust to the macro environment, and we have highlighted the importance to our banks of the efficiency as a way to level numbers back.

We might be exceeding what we said in our previous guidance. We obviously have exceeded it during this quarter, and these numbers are to remain in a relevant portion as savings. So, we could expect what our improvement in efficiency was.

Regarding taxes, there is no changes there. We continue to believe we would be somewhere close to the regulatory or statutory rate, which stands at 39% nowadays.

So, I think with that, I might have answered more than the question. But well, bottom line, back to what you said, we have 13% to 13.5% ROE range was what we mentioned last time. We might be closer to what we saw this quarter, given, as I mentioned, that we are less optimistic on NIM expansion now, even though we see offsetting items. We would be cautious there. And we should be more on the lower side of that range, given the horizon that we're looking into.

ROA should also be something similar to what you saw for the quarter. It will very much depend on what we do with some accounts that affect ROE without really affecting net income, such as, as you might have noticed, we have a very substantial portion of cash and investments, something perhaps above industry average. That might slightly affect that result.

However, I would say the results in that sense for return on equity and return of assets for this quarter could be a preview of what we would see for the full year.

Obviously, under IFRS we would see some improvement there. But as I said before, I would prefer to wait another quarter to perhaps be more direct on my answer.

Operator

Carlos Gomez, HSBC New York.

Carlos Gomez - *HSBC Global Research - Analyst*

Also, thank you for the very clear accounting. I have a couple of questions, also about IFRS. The first one refers to what happens to your anticyclical provisioning? You mentioned that it does not appear under IFRS. You still have it under the Banking GAAP, but are you making the provisions? Or, are you not? How should we consider that, going forward?

And the second one is regarding Promigas, the business that you now consolidate. It might be helpful if you could give us the balance sheet and the income statement of that business so that we can segregate it from the banking activities.

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

To answer your questions, the numbers that we're presenting here are under full IFRS. However, we have compared those under Banking GAAP that have the full effect of not only of the countercyclical provisions but also of the differences that are temporary differences between expected loss and incurred losses.

What you can observe in the comparison is something in the order of magnitude of COP35,000 million was the difference for this quarter. That is the net effect of something in the low COP40,000 million on the loan provision expense plus the increase in some provisions, given that we have brought some assets into the loan portfolio. That's the kind of number you should expect to see over the year.

We have said it before, a good crosscheck to see what to expect there is to look at our reconciliation. Our historic reconciliation to US GAAP for last year is a figure of adjusting from the Superintendency provisions to US GAAP provisions was slightly above COP100 billion. What you are seeing here is very much in line with what we saw for the previous years plus the growth loans.

Regarding Promigas, Promigas does publish numbers, but I'm going to give you some highlights of what you should find there. Promigas assets are of around COP7.2 trillion. Liabilities, COP4.8 trillion. And net income for the first quarter was short of COP100 billion, around -- and I'm telling you this from the top of my head -- of around COP90 billion for the first quarter of last year.

So, even though that was not what you had asked, what we saw there in Promigas was that, given that Promigas paid a dividend for six months but we only were able to bring a quarter of income, Promigas actually was a negative for this quarter, [a thing] that we do not expect to see happening when you take the year around.

You can go into the public figures. Promigas has published already figures for the first quarter.

Operator

Jose Restrepo, SERFINCO.

Jose Restrepo - *SERFINCO - Analyst*

Thank you for the presentation. I have two questions. One is, which will be the effect on the loan growth or the bank's participation in the infrastructure projects that are being, let's say, close in the financing side?

And the second is, do you already achieve the footprint that you want in Central America? We can expect more acquisitions? Or, these years to come will be, like, consolidation years?

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

Well, regarding loan growth, I am not sure you are aware that, but we actually publicly announced in the Bolsa Valores de Colombia event that was held in New York a couple of weeks ago, a few weeks ago, that it is our intent to get our fair share of loans to the 4G projects. The number based on public information released by the government would take us up to around -- COP12 billion would be the kind of figure that we expect to lend to the current plan as stated by the government.

Regarding footprint, just to make sure that that's not implicit in your question, we're not looking into something immediately to do in Central America beyond organic growth. However, given the market share that we have in the region, we do have a higher chance to get also into inorganic growth in the region.

We do aspire to increase our share, mainly by increase through organic growth, but we do not disregard opportunities on the inorganic growth side, as well. Nothing that we have in the making now.

Operator

Juan Dominguez, Credicorp Capital.

Juan Dominguez - *Credicorp Capital - Analyst*

Thanks for hosting this earnings call. Most of my questions have been answered, but I have a couple left. First, a bit of a follow-up on the previous question on infrastructure. You mentioned that there are COP12 billion -- COP12 trillion that are publicly disclosed that will be lent into the 4G projects. I wonder if you can give us some guidance on the timing of the disbursements, in order to have a sense of what will be the effect on loan growth for the next five years? That's one question.

The second one is regarding Central America. Now that the macro outlook (inaudible) is getting a bit better, what are your specific targets in terms of growth there?

And finally, on IFRS and actually in the Colombian implementation of IFRS that we know right now, you mentioned that there is -- it's not clear and still not clear what is going to happen in the loss provision side in the income statement. So, I don't know if I'm getting it right, but the main difference between the Colombian IFRS and the Colombian GAAP that we previously saw is going to be Promigas cost of debt and goodwill amortization, isn't it?

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

I'm sorry. Could you repeat that? I'm not sure I understood you, Juan, the last one, the (multiple speakers).

Juan Dominguez - *Credicorp Capital - Analyst*

The last question? Yes. It's just that under the Colombian adaptation of IFRS you will have some difference in the loss provision side to compare to the pure version of IFRS. So, I wonder if the main difference between the actual implementation of IFRS, not this full implementation, and Colombian GAAP will be just the cost of debt of Promigas and the goodwill amortization?

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

Okay. I'm going to take two of those questions, and I will let Mr. Sarmiento talk about infrastructure. Regarding the outlook of Central America, we see the region not only progressing as a region, but we also have seen that the process of integrating our acquisitions of late 2013 into Central America into our back operation less of a burden that they were during last year. So, we should expect to see our growth in Central America in dollar terms taking back the kind of rhythm they had previous to 2014.

Regarding IFRS, you mentioned there is a difference in the loan loss provision. That is true and that's going to be a permanent difference, because even though temporary differences from expected losses and incurred losses in time should even out, the countercyclical provision in Colombia will not be included over time under IFRS.

But then, there is a number of other items that are relevant. You mentioned some of those. Goodwill amortization, but there's also amortization of deferred assets. One of the reasons of a negative items on our asset was stripping out the deferred assets that we had built over time, particularly when investing in software and other assets that can be taken into -- can be accounted for in that manner. As that amount was already stripped out from our initial balance sheet, the amortization associated with that will not happen.

There is also changes in depreciation. Rules of depreciation are also relevant. Perhaps I'm getting into some other minor items, but when you add those up, there are also permanent effects that will be beneficial for us.

But in summary, I think you went over the Q1. It's loan loss reserves, amortization of goodwill, amortization of deferred assets, as well. Those are some of the main impacts.

Something that is not accounting with that, but that we have mentioned in the past, [or not a] rule of IFRS, is that now we are able to bring income from Central America through the equity method, rather than having to bring dividends. We have mentioned in the past this was pretty inefficient from the tax perspective. And some of the improvement you might have seen compared to what could have been expected if we only took into account the tax reform has been not bringing those dividends and getting that benefit of being able to use the equity methods.

I would say those are the key items.

Now, I'll pass it to Mr. Sarmiento for your fourth generation concessions question.

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

Thanks, Daniel. Very quickly and to try to be as specific as I can, Juan, 4G is going to take up about COP45 billion of investment, and it's going to require about a similar amount, COP40 billion to COP40-something billion, of financing.

The way I see it, we ought to participate with our fair market share, what we understand to be our fair market share, which is about 30% of the total financing that will be required. That's about the COP12 billion that you mentioned.

The disbursements will come starting the year 2016, and they will take up about six or seven years, if you consider that first wave which was awarded this year will only start being constructed around the first quarter of next year. And then, constructions usually take, on average, about five to six years. And then, second wave will start being built between 2016 and 2017. And that's why I'm saying that total disbursements are going to take between five and seven years, to be precise.

In terms of impact, if you take into consideration that our total loan portfolio is about COP118 billion and we're talking about 10% of that based on 2015's loan portfolio balance, then what you're talking about is adding to our loan portfolio about 10% over five to seven years.

So, you're talking about adding about between 1.5% and 2% per year. And once you take into account the rest of the growth, it's going to be closer to an impact of about 1.5% marginal growth of our loan portfolio per year, going forward.

So, I think that that covers what you asked, the impact on the loan portfolio and where the figure comes from and when it's going to be disbursed.

Operator

Boris Molina, Santander.

Boris Molina - *Santander - Analyst*

Can you please give us a little bit more color about the drivers of growth in Central America and in Colombia, excluding the 4G projects? In Central America, there was a push towards commercial lending, which seems to have run out of steam in the last year, or so, with the traditional consumer lines being the largest drivers of growth.

So, when we talk about Central America and you mentioned that you would expect to go back to the pre-2014 levels, what type of US dollar loan growth could we expect? And should we expect the growth to be more driven by consumer, rather than commercial, lending? Or, do you expect this to balance?

And a similar discussion in Colombia. We know that growth in Colombia has been slower. What will we expect in terms of sustainable growth ex-4G for the loan portfolio in Colombia? And whether do you expect any changes in the mix of growth?

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

Regarding what to expect from Central America in dollar terms, the kind of expectation there is in the 10% to 12% area, similar to what our previous guidance was to Colombia. That process will be driven by a combination of growth in commercial and our more traditional credit card and consumer business.

On the commercial side, part of what has affected our results over the last five quarters has been adjusting our risk appetite to what used to be the risk appetite of the previous owners of the banks. That has happened particularly in certain commercial portfolios, and that's the main reason why we've seen some slowing down of growth there compared to what you were to expect.

Particularly on the Guatemala side, we wanted some loans, not to take them out (technical difficulty) but to try to extinguish or minimize some of those in time. This was more of a risk profile preference.

As I mentioned before, what we have begun to feel over the past couple of quarters is some of the weight of adjusting our portfolio -- most of the weight of adjusting our portfolio is now over. Therefore, we should be able to pick up once again on that area.

Looking into the longer term, not the next couple of quarters, we have mentioned that the opportunity in Central America to increase our share in commercial banks is very substantial. The bank has been a premier bank on the credit card and consumer lending side, historically. They have been able to strengthen their corporate lending franchise, but there is still room to do much more there, in addition to what the region as a whole should offer given the growth that we are seeing and the formalization of many businesses in the region.

So, this piece is -- I know that's a much longer piece than what you might be interested in, to looking for short-term projections, but that's one of the drivers of having acquired [BAC] and one of the expectations that we have to create value in the long term for that investment.

Moving into Colombia, this quarter has had a combination of growth [on the] corporate side, particularly at Banco de Bogota. But we're also growing very strongly on the consumer in all of our banks. We're actually exceeding what our guidance was there, and this is in our Colombian operations. So, it's clean of any FX impact.

So, we continue to see that, I would say, harmonic growth between consumer and commercial lending.

Perhaps the only segment of commercial that we have been downplaying, and you can see that in our numbers for already around three quarters, has been the leasing side. And the leasing product has been one that we have de-emphasized, and the reason is that some of the riskier industries are high users of that product, particularly, as we have mentioned before, some of these service industries to the oil and mining industry.

Operator

Natalia Casas, SERFINCO.

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

Before Natalia asks her question, I missed one piece and it's mortgages, Boris, that you have seen growing substantially. And there is no reason to believe that this will change. The pace is obviously slower than it was a couple of years ago, because the base from which we're growing is much higher than it was before, but we continue to see a lot of room in mortgages.

Sorry, Natalia, for interrupting, but I just wanted to close my answer.

Natalia Casas - *SERFINCO - Analyst*

Thank you for the conference. You just answered part of my question. I will like to know what are your expectations about the increase in mortgages here in Colombia?

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

So, it almost seems that I was already answering your question. But the key to mortgages, I would say there's a different discussion for the market as a whole than for Aval.

We see mortgages being very relevant. There is a lot of stimulus to mortgages from the government side. The cycle has been slightly lower for the market as a whole over the past few months, as the economy has slowed down.

However, that's a different discussion from the Aval growth in mortgages. The Aval growth in mortgages is being driven over these past years, and is expected to continue so for some time, by market share gain rather than from market growth.

So, trying to be more concrete on the answer, we see some slowdown in the market as a whole. However, we see the opportunity of increasing our market share still to be very present and expect to see our growth continue into this front.

Operator

Juan Dominguez, Credicorp.

Juan Dominguez - *Credicorp Capital - Analyst*

Sorry for asking again, and this may sound a bit of a repetition. But regarding mortgages, do you have an estimation of the marginal growth that the industry and Grupo Aval could achieve from the recent [BeepaTrue] plan that was released a couple of weeks ago?

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

Sorry, Juan, but I can't really give you an estimate there. I don't have it handy, and I would prefer to analyze that before I answer it.

Operator

Thank you very much. We have no further questions at this time. I would like to turn the call back over to you for any final remarks.

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

Well, thank you very much for attending the call. And we're very grateful for your questions and your attendance and hope to see you in our next call. We're open to any follow-up questions you might have on a day-to-day basis.

Operator

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