



3Q2024 CONSOLIDATED EARNINGS RESULTS CALL TRANSCRIPT

GRUPO AVAL ACCIONES Y VALORES S.A.

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Operator

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

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

With us today are Ms. Maria Lorena Gutierrez Botero, Chief Executive Officer; Mr. Diego Solano, Chief Financial Officer; Ms. Paula Durán, Corporate VP of Sustainability and Strategic Projects; Mr. Jorge Castaño, Corporate VP of Financial Assets and Efficiency; and Mr. Camilo Perez, Banco de Bogota's Chief Economist.

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

Maria Lorena Gutierrez Botero (CEO)

Thank you. Good morning, everyone, and thank you for joining us for our third quarter 2024 conference call. I am here with Diego Solano, our CFO; Camilo Perez, Chief Economist of Banco de Bogotá; Paula Durán, Corporate VP of Sustainability and Strategic Projects.

I will start by highlighting this quarter's results. Positive trends anticipated in previous calls continue to consolidate, leading to the positive results shown in some key business metrics. Return on average equity was 9.7%, back to levels comparable to the third quarter of 2022. Our banking segment is back to net income levels close to the continued net income of third and fourth quarters of 2022, driven by improvements in cost of risk, a stronger NIM on investment and cost control.

We continue to gain market share while growing at a prudent rate. Porvenir had the highest net income for a quarter in its history. Corfi recovered from last quarter and had a neutral contribution to net income.

Moving to another topic, as part of the coming of our corporate synergies and efficiency program, we have expanded ATHs role to reflect its prior scope; ATHs name has changed to Aval Valor Compartido, or AVC. AVC will as Grupo Aval Centralized platform for our subsidiaries' business support processes, looking to unlock value for our shareholders by capturing synergies, efficiencies and best practices.

We aim to leverage knowledge and technical and investment capabilities to improve our agility and time to market. To support this mandate, we strengthened our sales management team and raised the profile of its board. We appointed Isabel Cristina Martinez as CEO, Jorge Ivan Otalvaro as VP of Synergies and Andrea Arévalo as VP of Finance and Strategy. Isabel previously acted at Banco de Bogotá's administrative VP and has an outstanding trajectory in banking, IT, and telecoms with a strong track record of execution in businesses aforementioned.

Jorge Ivan more recently acted as Nequi's COO and has ample experience leading IT operations and administrative areas in banking institutions in Colombia. Andrea had various management roles in strategy and finance within Grupo Aval Banco de Bogotá and more recently acted as Tuya's CFO.

To support the execution of the strategy of AVC, we have a new Board of Directors as well. I am now the Chair of the Board, and this includes 4 top leader independent board members with extensive senior level experience in relevant areas, including IT, innovation, share services management and IT consulting and ESG.

On the payments front, we are supporting the Central Bank's initiative to create a real-time payment account to account system called Bre-B. We believe that this platform will benefit retail customers and increase financial inclusion by increasing interoperability and providing efficient instant payment. As a step in this direction, in October, we launched "Tag Aval" as a feature that enables payment interoperability enhancing the service offered by our banks. For over 30 years, Red Aval has offered interoperability between our banks, now Tag Aval is a numerical key assigned to each savings product in our banks and Dale! that enables instant payments between Aval accounts without the need for sharing personal information.

In other matters, we continue in our efforts to participate in relevant public and private dialogues

and events to support the reactivation of the country's economy. This has allowed us to play a starring role in our sector, and we continue convinced that, aligned with our purpose of creating sustainable conditions for progress, Grupo Aval's must continue actively promoting our efforts to reach maximum impact and visibility

Now I will invite Paula to go over our ESG achievements to release this quarter.

Paula Durán (Corporate VP of Sustainability and Strategic Projects):

Thank you, Maria Morena. To begin with, I would like to bring your attention to some of the most recent achievements that show the way we have enhanced and moved forward with our ESG commitment.

In the latest corporate sustainability assessment, the evaluation used to define the Dow Jones Sustainability Index composition, we reached our highest score so far, increasing 18 points in our previous quarter and placing us in the 90th percentile. We improved in all of the 3 dimensions: Environmental, social and governance measured by the CSA.

Our sustainable loan portfolio has become stronger, reaching COP 17.3 trillion financing sustainable construction, sustainable mobility, SME, sustainable agriculture, renewable energy, among other initiatives.

In terms of governance, with the most recent appointments, female participation in the top management of our entities has increased considerably. At the group level, currently, 35% of top management positions are held by women and 43% of the largest companies are led by women. This adds up to female presence in boards, which in most of our companies is higher than 30%. This is a strong signal of our commitment to attracting the best talent and promoting diversity of gender, experience and abilities in our group.

This quarter, we had an active participation in the United Nations Biodiversity Conference, COP16, that took place in Cali, Colombia. In the COP 16, Grupo Aval played a leading role in over 40 events and high-level dialogues. Most of our entity CEOs participated actively as well as Grupo Aval CEO, Maria Lorena, who is the only representative of the Colombia Financial sector in the Blue Zone during the Global Finance Day organized by UNEPFI.

In addition, during the COP16 we signed a Mansion House Declaration of United for Wildlife with the British Embassy committing fight against the illegal trafficking of wildlife species. We also made strong presence in different venues throughout Cali with exhibitions of our biodiversity achievements as well as conservation and reforestation initiatives.

Banco de Occidente celebrated 30 years of the “Planeta Azul” award that recognizes projects that preserve and conserve the country's water sources. Banco de Bogota expanded the reach of the Amazonia debit card conserving mangroves in the Colombian Caribbean. Unipalma and Promigas, subsidiaries of Corficolombiana, launched an innovative energy project based on biogas captured from crude palm oil that powers more than 1,200 homes.

As per our social impact, “Misión La Guajira” celebrated a new stage of the project, delivering vital solutions in potable water, sustainable energy and food security to more than 4,500 people. I would like to highlight the relevance of these projects that is led and followed up directly by our

CEO, Maria Lorena; as well as the Chairman of Grupo Aval Board of Directors, Mr. Luis Carlos Sarmiento Gutierrez. Our aim is to benefit by mid-2025, more than 25,000 people in 81 communities. With this project, we have also inspired similar efforts from the private sector to work together with the government and communities in other regions of the country.

Our entities continued social progress and commitments in areas such as financial education, management capabilities for small businesses and entrepreneurs, productive projects in indigenous communities, and employment programs for senior citizens, among others.

During the quarter, we also received several recognitions on the ESG front. Grupo Aval was included in the list of the 25 leading companies in sustainability by Forbes. We were also ranked as the second conglomerate with the best reputation in Colombia and improved 18 positions in the general reputation survey of the country. In the MERCO líderes ranking, Maria Lorena Gutierrez and Luis Carlos Sarmiento reached top positions.

Great Place to Work recognized Banco de Occidente as the first company in Colombia. ADL, Coviandina and Promigas also ranked in top positions in the same ranking.

In the Global Compact Awards, Corficolombiana won in the category "fight against corruption" for its initiative "Building society through corporate transparency". Banco de Occidente also won in the "best business practices" category, for its UNICEF Credit Card, which contributes to communities in La Guajira.

Porvenir received also a recognition in the Colsubsidio Xposable Awards; for its contribution to the productive inclusion of senior citizens.

Finally, as we move forward, we remain steadfast in integrating ESG principles of growth across every aspect of our operation. We recognize sustainability not just as an obligation or commitment but as a value driver and catalyst for innovation, growth and shared value. This is the legacy we strive to create. Thank you.

Maria Lorena Gutierrez Botero (CEO)

Thank you, Paula. Now on the macro side, let me mention some relevant issues during this quarter.

As a positive evolution, inflation continued to trend down in October to 5.41%. Some challenges such as a near-term pressure due to climate events and a stronger dollar will most likely imply higher intervention rates during the remainder of this year. However, we believe that the positive evolution of inflation demands a more decisive action from the Central Bank for faster rate cuts to reduce the effect of the higher real interest rate levels.

Even though still low, economic growth continues to pick up, supporting a healthier environment for our businesses. Unemployment metrics remain under control, which will support internal demand dynamics.

Some obstacles for a strong recovery of Colombia remain and require the changes in fiscal and public policy and prompt government execution. Investment remains below historical levels, while private public partnership programs have not made progress over the past couple of years. The country's fiscal accounts remain under pressure even after a first spending cut program and the recently announced second wave of spending cuts for COP 33 trillion.

Camilo will further comment on this and will share our view on the economy.

Camilo Perez (Banco de Bogotá's Chief Economist)

Thank you, Maria Morena. Good morning to all attendees.

The Colombian economy registered annual growth of 1.9% in the year-to-date to August, amid a recovery in household consumption, our resilient export sector and some signs of improvement in investment.

In 2024, Colombia's purchasing power has benefited from lower interest rates, real wage gains due to falling inflation, the resilience of the labor market and higher income from remittances, government monetary transfers and financial returns.

The improvement in domestic demand has supported activities such as entertainment services, commerce, lodging, food services and transportation. The arrival of more tourists has also helped growth.

Higher agricultural production due to improved weather conditions and lower fertilizer prices has not only fulfilled domestic consumption, but has also helped sales abroad, where coffee has positioned itself as one of the most dynamic sectors in exports.

In construction, housing sales bottomed out and progress is evident in some infrastructure projects other than roads. However, the recovery of the sector is still tepid.

With this scenario, we maintained the growth projection for 2024 around 1.75%, with the consensus of analysts slightly about this level. For us, the adjustment of public spending to honor the fiscal rule is the main downside risk.

It should be remembered that economic growth in the first half of the year was 1.5%, but excluding public administration, it would have been just 0.8%.

Unemployment has behaved better than most feared, as sector activity has reshuffled hiring towards services and the government contributed to job creation, at least in the first half of the year. More recently, expenditure cuts have taken a toll on public hiring.

National unemployment fell to 9.8% in September, its lowest level in 2 years.

The disinflation process deepened at the beginning of the fourth quarter and the annual increase in prices went from 7.2% in June to 5.4% in October, the latter being the lowest level since the end of 2021.

While inflation in goods reached a new low, services remain elevated due to high indexation.

For the remainder of 2024 and much of 2025, we anticipate an extension of the downward trend in inflation, albeit at a lesser pace than that seen recently, ending 2024 around 5.4%.

On the external front, the country reached in second quarter, the lowest current account deficit in the last 15 years, standing at 1.6% of GDP. However, for the second half of 2024, the recovery of domestic demand, especially private consumption, would increase imports and deteriorate the external deficit. In fact, the positive numbers of imports, mainly in consumer goods and raw

materials already confirm this situation.

However, the arrival of dollars from remittances, coffee and non-traditional exports, as well as from tourism, would partially offset the outflow from imports. With this, Colombia would have its second year with low financing needs in dollars, a situation that would be reversed by 2025 with a more dynamic economy.

Passing on to the fiscal stance, the situation has become more challenging. On the one hand, tax collection would again surprise the government's estimates on the downside, making a deeper cut in spending necessary to honor the fiscal rule in 2024.

In fact, local media has been reporting on an expenditure cut of around COP 33 trillion, which together with an under execution of the budget could help comply with fiscal rule.

On the other hand, Congress did not approve the government's budget for the following year. If approved by decree as it stands, there is a high probability of underfunding, as the tax reform going to Congress has a low probability of passing.

Finally, the reform to the General Participation System compromises the sustainability of public finances in the medium term. In fact, the Autonomous Committee of the fiscal rule highlighted that the proposal is not consistent with the compliance of the group in the coming years.

The higher country risk premium partly explains the recent devaluation of the exchange rate, which has surpassed the barrier of COP 4,500 per dollar.

From the international front, the good results of the United States economy and the victory of Donald Trump generate expectations of higher inflation and a shallower reduction in interest rates, supporting a stronger dollar.

There is also a risk of diplomatic backlash as Colombia's government could clash with that of the United States on topics such as drugs and security.

Putten together, this explains the cautionary approach of Banco de la República in its process of interest rate cuts. In September and October, despite some expectations of deeper cuts, the rate adjustment continues at a multiple 50 basis points to 9.75%.

For 2024, we project an interest rate of 9.25%.

To sum it up, growth, unemployment, and inflation have fared better than expected, while the fiscal situation has become the biggest challenge for the country, limiting the space for a more ample monetary policy.

For 2025, we expect growth to improve to 2.6%, while inflation will keep on trending downward to 3.6% and the Central Bank could reduce its policy rate further to around 6%. Uncertainty on the political front and in foreign relations could hinder the economic recovery.

That sums up, our economic view. Thank you. Back to you, Maria Lorena.

Maria Lorena Gutierrez Botero (CEO)

Thank you, Camilo. Our financial system has remained solid while facing the challenging

headwinds coming from the current context. We believe that the consumer credit cycle has already entered the recovery phase. However, loan growth is still in negative ground in real terms and margins are still under pressure due to the shy action from the Central Bank and regulatory pressures such as changes in interest rate caps and high liquidity and solvency requirements.

Nonetheless, Colombian financial system has delivered on its commitment to the country's economic recovery. As part of this effort, Colombian banks committed in August to the "Pacto por el Crédito". This aims to divert COP 55 trillion at competitive rates to clients in 6 prioritized sectors. As of September, banks have already disbursed COP 10.6 trillion as part of this program.

In addition, to promote housing construction, banks lowered mortgage rates earlier this year. The spread between new credits and Central Bank rate is now at its lowest level in history at around 2%. This has already resulted in a rebound in new credits.

Finally, banks have efficiently transferred the Central Bank rate cuts to corporate and consumer clients.

Let me go over the highlights of our financial results. Loan disbursements increased in the system during the quarter, even though loan and deposit growth continued to be soft. In this context, we continue to outgrow our peers and increase our market share. Over the quarter, our bank's combined gross loans grew 0.7%, reaching at 25.2% market share by September of this year. Cost of risk and asset quality improved relative to the previous quarter and operating expenses remain under control. Regarding asset quality, cost of risk and delinquency for consumer loans and mortgages continue improving. A strong result in NIM on investments resulting from positive market conditions helped profitability over the quarter.

Finally, NIM on loans continue to be pressed by a conservative monetary policy, interest rate caps affecting consumer loans and our concentration in higher-quality segments and products. As a result, net income

to our shareholders was COP 415 billion and return on average equity was 9.7%, the best we saw for our third quarter in 3 years.

Now I would like to pass the call to Diego, who will give details of our results.

Diego Fernando Solano Saravia (CFO)

Thank you, Maria Lorena. I'll start on Pages 8 and 9 with a few charts regarding the growth rate and quality of our loan portfolio relative to the rest of the Colombian banking system. For comparability reasons, these are unconsolidated figures under Colombian IFRS as published by the Superintendency of Finance.

On Page 8, we continue to outgrow our competitors in all loan categories. This yielded by end of August year-on-year market share gains of 65 basis points in total loans. 65 basis points in commercial, 138 basis points in consumer loans and 100 basis points in mortgages. Banco de Bogota's exit from the microcredit slightly shifted our market share in total loans.

We are starting to see an increase in disbursements across all categories in the banking system. As rates have gone down and credit risk has decreased. As mentioned by Camilo, leverage for

households has continued receding. Quarterly total loans disbursements for the period ended August increased 18% over 3 months and 23% over the year, up from 5% and 13% contraction a quarter earlier. The most notable recovery was in consumer loans for disbursements grew 18% over the quarter and 28% year-

on-year, reaching COP 19 trillion. Even though a strong rebound, this is still 3/4 of what was dispersed 8 quarters earlier.

On Page 9, the quality of consumer loans continued improving in the Colombian banking system for commercial loans and mortgages slightly deteriorate. Our banks continue to exhibit a better loan portfolio quality than the system in all main categories.

I will now move to the consolidated results of Grupo Aval under IFRS. Starting on Page 10. Assets grew 1.3% over the quarter to COP 321 trillion, accumulating 7.3% increase year-on-year. Gross loans, our main asset, reached COP 195 trillion, growing 0.7% during the quarter and 4.3% year-on-year.

Commercial loans and mortgages continued driving our year-on-year growth, while consumer loans resumed quarter-on-quarter growth following 2 consecutive quarters of contraction. Commercial loans expanded 5% year-on-year and 0.1% over the quarter. Consumer loan growth even though still at a soft 0.8% year-on-year grew 0.9% during the quarter, with payroll loans and auto loans growing 1.4% and 2.1%, respectively, during the quarter, personal loans growing for the first time in 3 quarters at 0.8%, credit cards continuing to contract at 1.8% during the quarter, and finally, mortgages growing 4.8% for the quarter and 13.7% year-on-year.

We anticipate loan growth rates to pick up in 2025, due to the normalization of monetary policy, stronger GDP growth and improvements in consumer loan quality. We expect to continue outpacing the banking systems loan growth.

On Page 11, we present funding and deposit evolution. Total funding increased 1.2% during the quarter, accumulating 7.3% year-on-year. Deposits account for 73.4% of our funding growing 8.7% year-on-year and decreasing 1.2% quarter-on-quarter. Our deposit to net loans ratio closed at 106%.

On Page 12, we present the evolution of our total capitalization, our attributable shareholders' equity and the capital adequacy ratio of our banks. Our total equity grew 3.5% over the quarter and 6.6% year-

on-year, while our attributable equity increased 4% over the quarter and 6.1% year-on-year. During the quarter, Banco Av Villas issued COP 150 billion due to subordinated bonds that added around 130 basis points to its solvency.

On Page 13, we present our yield on loans, cost of funds, spreads and NIMs. Total NIM increased 47 basis points quarter-on-quarter and 3.9% year-on-year, driven by an improvement in NIM on investments to 2.8% during the quarter. Our consolidated NIM on loans was 7 basis points lower at 4.2%. NIM on retail loans predominantly priced at fixed rates expanded 22 basis points to 5.3%, while NIM on commercial loans predominantly floated over IBR fell 28 basis points to 3.4%.

Regarding our banking segment, its NIM on loan contracted 6 basis points quarter-on-quarter to 4.9%, still far below historic levels. This incorporates a NIM on retail loans that expanded 28 basis

points to 6% and the NIM on commercial loans that fell 30 basis points to 4.1%. The total NIM of our banking segment expanded 35 basis points to 4.6%, driven by the same trends impacting our consolidated NIM. NIM on loans expansion has continued to be elusive to high funding costs resulting from a shy Central Bank intervention rate reduction pace and regulatory pressures, such as changes in interest rate caps formulas that forced additional reductions in products such as credit cards and personal loans.

In addition, loan spreads and new loans have been lower given the concentration of growth in higher quality, lower rate assets. We expect that the Central Bank will have room to accelerate its space in rate cuts during 2025, given the positive evolution of inflation and the current high forward-looking real interest rate level. This scenario supports our view of NIM expansion over the following quarters.

On Pages 14 through 16, we present several loan portfolio quality ratios. Starting on Page 15, 30-day PDLs decreased 3 basis points to 5.8%, while 90-day PDLs increased 5 basis points to 4.3%. Consumer loans and mortgages PDL formation improved both on a 30-day and 90-day basis. The evolution of asset quality points to the end of the consumer loans credit cycle with PDL ratios and PDL formation taken during first quarter 2024 across all products. PDL formation for credit cards and personal loans was the lowest in 7 quarters.

In line with our expectation, commercial loans deteriorated over the quarter. As will be presented in a couple of pages, this behavior partially offsets the favorable effect on cost of risk of improvement in consumer loans quality.

Finally, the annualized ratio of charge-offs to average 90 day PDLs was 0.67x. On Page 15, the share of our portfolio classified as Stage 1 portfolio remained stable over the quarter driven by a better performance in consumer loans and mortgages that was offset by commercial loans. Coverage measured as allowances for Stages 2 and 3 as a percentage of stages 2 and 3 loans slightly fell during the quarter to 36.5%, with coverage for consumer and commercial loans at 44.6% and 34.9%, respectively. On Page 16, as anticipated, the cost of risk improved during the quarter, we expect cost of risk to hover around the 2% area over the following quarters, looking at a more favorable local macro scenario.

Cost of risk net of consumer loans improved by 125 basis points to 4.3%. This is the first quarter yielding a positive risk-adjusted NIM on loans for consumer loans in 6 quarters. Cost of risk net for commercial loans was 0.9%.

On Page 17, we present net fees and other income. Gross fee income grew 4.7% year-on-year and decreased 0.5% quarter-on-quarter. Net fee income increased 2.6% and decreased 2.1%, respectively, during this period. Gross pension and severance fees grew 15.7% year-on-year and 0.8% quarter-on-quarter due to higher mandatory pension fund management fees. Gross banking fees decreased 0.3% year-on-year and 2.8% quarter-on-quarter due to lower transactional volume and a system-wide decrease in active outstanding credit cards.

Income from the nonfinancial sector contracted 18% year-on-year and 15.8% during the quarter. As mentioned in past calls, our year-on-year performance has been driven by some concessions that are transitioning from the construction to the operation phase. Finally, on the bottom of the page, the quarterly performance and other operating income was similar to that for previous quarters with a higher contribution of net gain on sales of investments and OTI realization and a

weaker result in derivatives and FX.

On Page 18, we present some efficiency ratios. Our efficiency metrics reflect our operational efficiency initiatives. Total expenses decreased 2.3% quarter-on-quarter and increased 3.1% year-on-year. General and administrative expenses decreased 10.8% quarter-on-quarter and 0.9% year-on-year with operating taxes and deposit insurance accounting for 37%. Cost to assets for the quarter was 2.6%, improving 12 basis points quarter-on-quarter and 9 basis points year-on-year. Quarterly cost to income improved to 50.7%.

Finally, on Page 19, we present our net income and profitability ratios. Attributable net income for the quarter was COP 416 billion or COP 17.5 per share. Our return on average assets and return on average equity for the quarter were 0.9% and 9.7%, respectively.

Before passing the call back to Maria Lorena, I will now summarize our general guidance for 2024 and our initial view on 2025. For 2024, we expect loan growth between 6.5% and 7%, with commercial loans growing between 7.5% and 8% and retail loans growing between 5% and 6%. NIM in the 3.6% area with NIM on loans in the 4.35% area. NIM of our banking segment in the 4.4% area with NIM on loans in the 5.1% area. Cost of risk net of recoveries in the 2.2% area, cost to assets in the 2.7% area, income from the nonfinancial sector of 80% of that for 2023 and the income ratio between 23% and 25%. Finally, we expect our 2024 ROE to be in the 6.25% area.

Moving to our initial view for 2025, we expect loan growth in the 10% area with commercial loans growing at 9% and retail loans growing at 11%. NIM in the 4.4% area with NIM on loans in the 4.75% area. NIM of our banking segment in the 5% area with NIM on loans in the 5.5% area. Cost of risk net of recoveries in the 2.15% area. Cost to assets in the 2.8% area, income from the non-financial sector of 80% of that for 2024. A fee income ratio in the 20% area. And finally, we expect 2025 ROE to be in the 11% area.

Maria Lorena Gutierrez Botero (CEO)

Okay. Thank you, Diego. Before moving into questions and answers, I would like to share some thoughts of Colombia and Grupo Aval in the upcoming year. Even though the economic conditions have been challenged over the last couple of years our recovery trend continues to consolidate. In 2025, we expect GDP growth to return to levels exceeding 2.5%. We view a more predictable and lower inflation that is expected to fall within the Central Bank's target range allowing for a lower interest rate environment to consolidate. This will favor investment as well as businesses and consumer confidence and will support the end of the consumer credit and interest rate cycle.

In this context, we expect to return to double-digit profitability and benefit from stronger growth in real terms of the banking segment. Our increase in profitability will be driven by an improvement of risk-adjusted NIM on loans, lower cost of funding of our nonfinancial business, commercial and operational effectiveness and higher net fee income relating to an increase in origination and transactional activity.

So we are now open for questions.

Q&A

Operator

Our first question comes from the line of Brian Flores with Citi.

Brian Flores (Citigroup Inc)

Thank you for the presentation and the guidance. Just wanted to ask you a bit on mortgages, right, because you're gaining market share. It seems that the market is a bit complicated in terms of delinquency still. So just wanted to think about your strategy for 2025. Should we continue to see you gaining share in this market? Do you think the market will improve and that will fuel your growth? Just to have maybe a better vision here. And also, if I can ask second just very quick. Just to confirm, you're seeing ROE trends going to 11%. Just thinking if this is more coming from NIM, which I think it could be the case, or a betterment in terms of cost of risk?

Diego Fernando Solano Saravia (CFO)

Okay, Brian, for your 2 questions regarding mortgages, yes, we do expect to outpace the system. The reason for that is we are widely under-weighted in mortgages compared to our peers. Therefore, we are having a chance to better pick what our customers are. We are standing at around 15% with our, let's call it, narrow share being somewhere above 1/4 of the market. So yes, we do expect to continue seeing that trend into the future.

Then regarding the ROE trend, you basically touched on the point. When you look at our numbers, our numbers have improvement in cost of risk. We have cost control. And we have 2 headwinds that we need to overcome. Number one, the system is growing at a low rate, and we do expect the market to help us in the process. Plus we do expect to continue outpacing the system gaining some market share. The other part of the equation is the Central Bank is yet due to reduce over 300 basis points its rate that will benefit very strongly our portfolios that had contracted previously in the cycle. Therefore, the key driver of recovery will be a combination of those 2 going back to real growth rates in Colombia, and then expansion of NIM on loans as mentioned by Maria Lorena. We do expect ROE to improve throughout the year, and this implies, obviously, going back to numbers closer to what a long-term ROE rate should be by the end of the quarter or into 2026.

Operator

Our next question will come from the line of Daniel Mora with CrediCorp Capital.

Daniel Mora (CrediCorp Capital)

I have 3 questions from my side. I would like to understand the first one. We have a clear downward trend in the consumer segment, but commercial segment continues deteriorating. Why is the commercial segment taking longer than expected when compared to the consumer one? And I would like to understand if there is a particular sector showing even a more challenging scenario? And when do you expect to see an improvement in this segment? That will be my first question.

The second one is regarding NIM. I would like to understand if you can provide further color regarding the NIM with and without the trading income. What was the strategy taken during this quarter that showed strong improvement in the NIM of investments and should we consider this to be a one-off or can we expect a better performance going forward?

And the last one in this question is, can you repeat the guidance of the NIM for 2024 and 2025. And the last one is regarding the loan program with the government. Can you repeat how much you have disbursed under this program? And what are the conditions of these loans? Do they have a guarantee attached or a subsidy of interest rates?

Diego Fernando Solano Saravia (CFO)

Well, regarding your first question on the cycle. The reason why you see commercial still lagging and the reason why we have guided into that kind of behavior is that what you usually see in the cycle is that the consumer cycle anticipates what happens with the commercial cycle, given that households start to suffer and with some lag companies see the impact of their sales dropping and margins starting to feel pressure. Therefore, what is happening was expected and is what you usually see and it has commercial cycle goes after the consumer side.

Regarding your question on the sectors, you have to realize that Grupo Aval has 1 quarter of the market, therefore, we're exposed to all sectors. And in all parts of the cycle, even in the boom parts of the cycle, we do have sectors that we have to look into that are affected by the macro conditions. Therefore, obviously, we've gone for over several years already looking into different sectors that are sensitive either to increase on inflation, increase in rates, changes in exchange rate and you can go down the list, therefore, we do have all the time, different sectors we're looking into. So I'm not going to stop in any of those to point them out as a special segment. I would say at this point, we are not anticipating any large single event coming on. So this is more how the economy is reacting, what gets reflected into our numbers.

Then regarding your question on NIM on trading income, that's a tricky one because this depends on how interest rates are falling down, so I think you have to look beyond the cycle and look into how averages of our numbers behave. Part of the offset in our numbers, obviously, is what happens in the FX and derivatives line, well, what you can see into our numbers is you usually have some sort of offset in those numbers. The quarters where we have good results in NIM on investments are quarters where we have poor results and FX and derivatives, given the hedging activity around our trading portfolio.

Then repeating the guidance on NIM. I'll start with the NIM on bank for the banking sector that is more comparable to banks that do not have the nonfinancial sector. What we're seeing for this year 2024,

is total NIM for the banking segment in the 4.4% area with NIM on loans in the 5.1% area. For 2025, those same numbers are for the banking segment, total NIM in the 5% area, so 60 basis points roughly improvement and NIM on loans in the 5.5% area, 40 basis points improvement, yet below what historic averages look like.

Our guidance for total NIM, that includes the interest expenses from our nonfinancial sector that pulled the numbers down. Total NIM for this year in the 3.6% area and NIM on loans in the 4.35% area. For next year, 4.4% of total NIM and NIM on loans 4.75%.

Maria Lorena Gutierrez Botero (CEO)

I can answer. Regarding the "Pacto por el Crédito" all the financial sector, our commitment in the financial sector, was COP 55 trillion in 18 months. Now, so after 1 month, the results that the Superintendencia Financiera de Colombia published about the results of this "Pacto por el

Crédito”, we disbursed COP 10.6 trillion especially in industry, renewable energies, housing, tourism and the only sector that is not according to our goals is what the government calls a popular economy. So we have to find a way that we can go to find the demand for these credits in the country.

(Daniel Mora CrediCorp Capital)

Perfect. Just one last question regarding the COP 10.6 trillion that you already disbursed what are the conditions of these loans? Do they have a guarantee attached or there is a subsidy to the interest rates? Or are they under normal conditions?

Maria Lorena Gutierrez Botero (CEO)

As you know, and as Diego and the I mentioned the housing credit, we have special conditions because lower rates. With the renewable energies, we have some guarantees and we are working for agri business and economy -- a popular economy with some entities in the government like in Findeter, Finagro, and Fondo Nacional de Garantías. This is the way we are working this “Pacto por el Crédito”.

Operator

Our next question will come from the line of Marlon Medina with JPMorgan.

Marlon Medina Robles (JPMorgan Chase & Co)

And yes, a follow-up on the loan growth outlook. I would like to ask -- like first, I think you mentioned in the guidance, but I can't get the numbers. So if you can repeat the breakdown of loan growth between commercial and consumer. And number two, the competitive environment like you mentioned you want to keep outgrowing the system. But how is competition in your view, reacting?

Diego Fernando Solano Saravia (CFO)

Marlon, perhaps the main change that we're already seeing is a pickup in growth for consumer. There are many reasons for that on the supply and demand side, from the demand side, rates have fallen substantially, and we're looking into over 300 basis points reduction next year. So from the demand side, you do see that. Then unemployment hasn't deteriorated, said in a different way, the employment market continues to be healthy.

And finally, from the supply side, we've already begun to see an improvement in quality that allows us to be more determinant in lending in those segments in certain products that we have shied away for some time. Therefore, it's a good mixture from the demand and supply side to see that increase for one

of the drivers that is coming into the scene here is we are returning to see much better growth, real terms growth for most consumer products.

You had a last question, you were -- our competitive landscape. The Colombian market is very competitive. And we've mentioned it as well our costs, for example, we are concentrated in disbursing in the higher quality loan rate segments, therefore, we see a lot of competition there because the market does behave in that manner. We have very strong competitors that we

respect in not only the larger players, but also other players in certain products. So that's the dynamics of the Colombian market. We are ready to be part of that, and we're ready to as well part of what generates competition in the system.

Marlon Medina Robles (JPMorgan Chase & Co)

Perfect. Very clear. And just can you repeat the loan growth you're expecting for commercial and consumer specifically?

Diego Fernando Solano Saravia (CFO)

Yes, loan growth for this year for commercial would be 7.5% to 8%, with retail growing at 5% to 6%, retail, including consumer and mortgages. And then for next year, we're looking into commercial at 9%. That is a slight pickup compared to this year, but retail growing at 11% that is very substantial compared to this year. So overall, this year would be between 6.5% to 7% and next year in 10%, area.

Operator

Our next question will come from the line of Julian Ausique with Davivienda

Julian Felipe Ausique Chacon (Corredores Davivienda S.A)

First of all, I would like to -- I don't know if you already talked about that, I entered late in the call, but I don't know if you mentioned something about the ordinary bond that you are trying to issue for COP 400,000 million. And if you can give us a little bit color of the uses of that and what is the purpose to acquire shares of some subsidiary financial entities. So just to have a little bit color on that.

The other question is related Porvenir and Corficolombiana, I don't know if you can tell us a little bit about the operation. What are you expecting for 2025, and what was the main positive impact of those companies in the results of Grupo Aval during this quarter?

And then finally, just to know what are the expectations, like in the long term in terms of ROE? You mentioned that the projection for 2025 is 11%. I don't know if you are looking for a higher ROE for the next years? Or that is the long-term ROE that you are trying to get?

Diego Fernando Solano Saravia (CFO)

Okay. So let me start top bottom. Regarding ROE, we expect our ROE long term or medium term to return back to north of 15%. That's where we believe we should be heading by the end of next year and into the following year. Regarding Porvenir and Corficolombiana, Porvenir has been a very relevant operation throughout this year. We expect it to continue to add to Grupo Aval. Obviously, there's many scenarios there. Business as usual, there's no -- if there's not any change with the pension reform where the numbers will be similar to what we've seen in the past. And then if the reform pose as expected, we might see a pickup in net income for the following years, but perhaps lower growth longer term.

Regarding Corficolombiana, Corficolombiana, you've heard our last calls, we'll be guiding into a reduction in income from the nonfinancial sector over time, and the reason that we have given is we've seen our projects moving from the construction to the operations phase. Once we have the information to disclose on the new projects that we are trying to build the pipeline that we're

building, you will get that information, but that's where we are focused at this point.

Short term, Corficolombiana will strongly benefit from a lower interest rate even that there are projects have a relevant portion of impact of interest rate expense. And as interest goes down, you'll see Corficolombiana picking back up.

Then regarding our local bond, it's a small bond. It's a bond that should be, let's say, somewhere around \$70 million, where the -- one of the main uses is we have year-end during this week and in a few weeks, we have some ones coming due, let's say, short of \$40 million, and we want to continue being present in the market. Therefore, that's the reason why we're going back to the market.

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 (CEO)

Thank you very much for being with us in this call and see you in the next call. Have a good day.

Operator

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