1Q2025 CONSOLIDATED EARNINGS RESULTS CALL TRANSCRIPT

GRUPO AVAL ACCIONES Y VALORES S.A.

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Operator

Welcome to Grupo Aval's First Quarter 2025 Consolidated Results Conference Call. My name is Rob, and I will be your operator for today's call. Grupo Aval Acciones y Valores S.A. is an issuer of securities in Colombia and in the United States. As such, it is subject to compliance with securities regulations in Colombia and applicable U.S. securities regulation. Grupo Aval is also subject to the inspection and supervision of the Superintendency of Finance as holding company of the Aval Financial conglomerate.

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

This report includes forward-looking statements. In some cases, you may 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 inour filings with the Registro Nacional de Valores y Emisores and the SEC.

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With us today are Ms. Maria Lorena Gutierrez Botero, Chief Executive Officer; Mr. Diego Solano, Chief Financial Officer; Mrs. Paula Duran, Corporate VP of Sustainability and Strategic Products; and Mr. Camilo Perez, Banco de Bogota's Chief Economist.

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

Maria Lorena Gutierrez Botero (CEO)

Thank you very much. Good morning, everyone, and thank you for joining us for our first quarter 2025 conference call. I am here with Diego Solano, our CFO; Camilo Perez, Chief Economist of Banco de Bogota; and Paula Duran, Corporate VP of Sustainability and Strategic Projects.

I would like to start by highlighting this quarter's results. Our net income was COP 362 billion, a 28% increase compared to the fourth quarter of 2024 and 3.2x that of the first quarter of 2024. We gained market share in deposits and loans, reaching 25.3% share in loans and reaching 16.6% in mortgages, the highest level of our history. Core business trends evolved positively during the quarter despite a persistent high interest rate environment and a poor performance of the capital markets during March.

NIM on loans increased slightly during the quarter. NIM on investment recovered, asset quality continued improving. Our non-financial sector was stronger than in the 3 previous quarters and OpEx remained under control. During the quarter, NIM on retail loans of our banking services segment reached the highest level in 2 years.However, total NIM on loans remained flat due to pressures on commercial loans from a strong price competition in the corporate segment. Even though our profitability continues to increase, the pace of improvement was slightly slower than initially anticipated, explained by a lower-than-expected NIM on investments due to the poor performance of local fixed income. A deterioration of the country's fiscal outlook and the resignation of the Minister of Finance affected the local markets during the second half of the quarter.

This was clear in Porvenir’s results for the quarter. Returns on Porvenir’s stabilization reserve were suffered during the latter part of the quarter, negatively impacting profitability.

Corfi contributed strongly due to seasonal dividends, higher income from the infrastructure sector and a decrease in cost of funds, which reached single digits in the quarter.

Now, moving on to our corporate priorities, I would like to give you a brief update:

First, customer experience.

In terms of Customer Experience, we systematically measure the Net Promoter Score (NPS) across all our entities to assess customer satisfaction and loyalty. The consistent improvement in NPS results reflects our strong commitment to enhance the customer journey. As part of this effort, we have implemented a comprehensive loyalty program that includes TuPlus and Aval Experiences, which provides customers with privileged access to events and concerts. Additionally, we have developed Augusta, a robust and integrated customer database that enables us to gain deeper insights into our clients’ relationships across Aval entities and to serve them with greater precision and relevance.

This year, we established a Group-wide committee to promote the exchange of best practices in Customer Experience across our entities. As key steps in this effort, we are reviewing our entire Voice of the Customer model and standardizing Net Promoter Score (NPS) measurements in line with the highest industry standards. Additionally, we launched a comprehensive internal program to further embed a customer-centric culture throughout our entities, which includes dedicated training sessions, strategic communication content, and technological tools.

Second, financial diversification.

On this front we have been working over recent quarters on 3 fronts: 1) improve our commercial and marketing capabilities around retail deposits, 2) reduce balance sheet sensitivity to interest risk volatility, and 3) improve our non-banking fee generation capabilities.

As part of our focus on increasing our share of retail funding, we have made changes in the incentive structure of our sales forces. In addition, we are reviewing our product base to strengthen our value proposition for the retail customers.

In addition, our banks, particularly those focused on retail lending, continue deploying their effort to reduce their sensitivity to interest rate risk. **First**, they have increased the mix of time deposits in their overall funding mix; **Second**, increasing the tenures on new time deposits to levels closer to the duration of their loans; and **Third**, using hedging strategies to swap fixed rate time deposits to IBR. The speed of deployment of this strategy has been mindful of the persistence of the “higher for longer” interest rate environment in Colombia.

We continue strengthening our services offering and nonbanking fee generation by improving our asset management and advisory services. As mentioned in our last call, Aval acquired the investments of Corfi in trust and brokerage business. In addition, we incorporated “Aval Banca de Inversion – Investment Banking” as a joint effort of the holding company and Corfi.

Third, synergies and efficiencies.

During the quarter we set ourselves to capture efficiencies in the following calendar year. The first wave of synergies will leverage on the centralization, through Aval Valor Compartido, of the Group’s procurement, facility and property management, accounting function, cybersecurity, payroll and recruitment.

During the first quarter we successfully migrated Banco de Bogotá’s processes into Aval Valor Compartido. Next semester, we will migrate these processes to Banco de Occidente, Banco Popular and AV Villas.

Fourth, digital transformation and innovation.

We aim to consolidate our culture of innovation and cutting-edge technology, capitalizing on the benefits of artificial intelligence, assuring technological stability and security and promoting digital transformation to improve our business and product and service offerings. On this front, I am proud to announce we partnered with Microsoft to boost the usage of AI in our everyday operations. This will leverage customer experience, operational efficiency and enhance data-driven decision-making.

We actively support the real-time payments system led by Banco de la República, achieving significant progress in the creation and use of our alphanumeric key known as "Tag Aval." As of today, we have enabled 8.9 million keys—an increase of 15% since December of last year—to receive near real-time transfers from other financial institutions. This has facilitated over 2.1 million transactions, a 70% increase compared to January.

Fifth, corporate culture.

To support the strategic priorities that I have mentioned, we continue to work on strengthening our performance and customer-oriented culture.

As part of this process, we have been working on promoting and improving the communication of our leadership across business units and throughout our organization around our strategic priorities as a Group and key initiatives.

In addition, we are well advanced in the process of refreshing part of the leadership teams on our banks combining bringing in new talent that adds to existing leaders. These changes, combined with the refreshment of our boards of directors and CEOs of our main business units, supports the alignment of our management teams to the new opportunities and challenges that we face.

And finally, sustainability. We recently published our Management and Sustainability Report, a document that reflects our economic results and progress in ESG terms. It reveals the impact we have on the millions of people who count in our endorsement to fulfill their dreams. I invite you to read it if you have not already done so.

The coming months will be key to consolidate an even more robust ESG strategy, aligned with the sustainability challenges facing the country and the world.

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

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

Thank you, Maria Lorena. This quarter we proudly received the results of the Merco ESG Responsibility ranking, which recognizes the companies with the best reputation for their ESG impact in Colombia. In the ranking, Grupo Aval rose to 71st place, climbing 17 positions and positioning itself as the third largest business conglomerate in the country. In the financial sector, Banco de Bogotá ranked 3rd. Banco de Occidente and Banco AV Villas were in the top 10. Corficolombiana ranked 8th and Porvenir reached 2nd place in the AFP sector.

One of our most significant social initiatives: Mision La Guajira advanced this quarter with registration and documentation programs with the National Registrar's Office and with Financial Education programs. During the quarter we completed water solutions for 45 communities and energy solutions for 81 communities in Manaure and Uribia.

Our commitment to diversity and inclusion continues to be an important driver for us. Today, 35% of our management positions are held by women and 55% of our employees are women. The percentage of women's participation in our boards increased from 24% to 31% after the Q1 assemblies in which Boards were elected. In addition, the percentage of independent members increased from 58% to 60%.

Regarding our progress in environmental issues, we continued to define our decarbonization route together with the group's entities, and we continued to implement eco-efficient projects such as the Banco Popular alliance with Promigas to generate solar energy for 13 of its branches. This initiative will allow us to generate more than 577,000 kilowatts per year and avoid the emission of close to 300 tons of CO_2.

Finally, during the quarter, we enhanced our ESG management model by developing a comprehensive reporting system that enabled us to establish a baseline for more than 150 indicators across our entities. This foundation has allowed us to build dynamic dashboards to track progress in key ESG areas. We firmly believe that by working together with our entities, sharing best practices and monitoring progress we can amplify the impact of our efforts and drive meaningful, measurable change.

We will continue to strengthen our internal capabilities, advance our environmental goals, deepen our social impact programs, and more accurately measure the value we generate. Thank you.

Maria Lorena Gutierrez Botero (CEO)

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

The Colombian economy posted strong growth figures during the first quarter, driven by the public administration, entertainment and commerce sectors. For 2025, we forecast a GDP growth of 2.7%.

We anticipate a moderation in the following quarters due to the potential negative effects of tariffs on global trade. Thus, despite the recovery, global and local uncertainty will continue to take a toll on investment.

Annual inflation slowed to 5.09% in March 2025, down from 5.2% at the end of 2024, marking its lowest level since October 2021. This is a positive development, indicating that the Central Bank's efforts to stabilize prices are yielding results. However, regulated components and food prices continue pressuring inflation. Our forecast of inflation is 4.7% for the end of the year.

In this context, the Central Bank cut its policy rate by 25 basis points in its April meeting, balancing between the recovery of the economy and fiscal challenges. The deterioration of the fiscal front remains as the main stopper for a more dovish Central Bank.

We expect the Central Bank rate to end 2025 in 8.50%. The fiscal deficit for this year would exceed 6% of GDP, above the Government target of 5.1%. Confidence in the government's fiscal adjustment plan has diminished amid high global uncertainty. We anticipate that pressure on long-term rates will continue in the coming months.

Our belief is that the business sector must remain dedicated to executing their investments and strategies. As we enter the pre-electoral year, noise will continue to increase; however, we are confident in the resilience of the Colombian economy. Camilo will elaborate on our economic outlook. Camilo?

Camilo Perez (Banco de Bogotá's Chief Economist)

Thank you, Maria Lorena, and good morning. The improving trend in the Colombian economy recorded in 2024 extended into early 2025. We estimate economic growth of 2.8% for the first quarter. The economy we have experienced its highest annual expansion since mid-2022. Similar to the beginning of 2024, public spending and household consumption were the main drivers. According to the Autonomous Committee for the Fiscal Rule, in the first quarter, public spending grew 21% annually, supporting the recovery phase. In fact, the best performing sector was public administration.

On the other hand, the second most dynamic sector was trade, transportation, accommodation and food services, explained by higher private consumption of both goods and services. Without a doubt, the strength of the labor market, which at the end of the quarter recorded the lowest unemployment rate since May 2016 at 9.1% has been one of the major drivers of the Colombian increased purchasing power. Furthermore, annual growth of 24% in remittances in pesos during the first quarter also contributed to this. In this context, sectors such as manufacturing, finance and professional services also enjoyed an increase in their activity. Meanwhile, investment continues modest recovery, supported by an increase in import of capital goods for industry and agriculture as well as the execution of infrastructure projects in the country's main cities.

Thus, amid favorable domestic demand, but recognizing latent risks in the international front, growth of around 2.7% is expected for 2025, still below the country's potential. For its part, this inflationary process paused in the first quarter, dropping from an inflation rate of 5.2% at the end of 2024 to 5.1% in March.

The high indexation and the impact of the minimum wage on services, the increase in gas rates that pressure regulated prices, a slow but progressive transmission of the devaluation to prices of goods and a modest increase in food services explained the above. Inflation is expected to be around 4.7% by the end of 2025, once again outside the target range established by the Central Bank.

Amid the described economic outlook and accompanied by a deterioration of Colombia's country risk due to a complex fiscal situation, the Central Bank paused its easing cycle, leaving the interest rate by 9.50%.

New members appointed to the Central Bank's Board in February with an heterodox view of the economy have added uncertainty to the decisions.

In April, an ample consensus expected a third stability decision, but the Board unanimously opted to reduce the interest rate to 9.25%. Data dependence makes it difficult to forecast the interest rate. Despite this, it is expected to continue declining to around 8.50% at the end of the year, limited in part by a fiscal situation.

Regarding the exchange rate, in line with global developments and prior to the burst of uncertainty, the Colombian peso strengthened against the U.S. dollar in the first quarter. Compared to the end of 2024, while the dollar lost 4% against G7 currencies to March, the devaluation against the Colombian peso was 5% as the exchange rate fell from COP 4,405 to COP 4,181 per dollar.

However, the Colombian pesos performance was mixed. Standard & Poor's notification of the country's BB+ rating with a negative outlook and the upward adjustment of the rate expectations of the Central Bank supported the currency with the exchange rate hitting a low of COP 4,060 in mid-February. However, the deterioration in the fiscal outlook following the publication of the government's financial plan questioned the compliance with the Fiscal Rule in 2024 and put upward pressure on the currency.

By 2025, the exchange rate is expected to average COP 4,300 against the dollar, amid high global volatility, a challenging fiscal balance and a widening of Colombia's external deficit. Indeed, we expect the current account deficit to fall from minus 1.8% of GDP in 2024 to minus 2.6% of GDP in 2025 due to a stronger recovery in imports than exports, both of goods and services, where the terms of trade would be affected by lower commodity prices.

Finally, the fiscal situation in 2025 does not appear far removed from that observed in the previous year. In the first quarter, spending far exceeded revenue, resulting in record fiscal deficits and low cash flow levels. Unfortunately, the strategy for increased tax collection is not entirely clear, and the option of cutting spending has been postponed to a point where if it takes place, it could be insufficient and too late.

Given this scenario and considering that the 3 major rating agencies of Fitch, Standard & Poor's and Moody's have a negative outlook for the country, the likelihood of a rating downgrade is increasingly likely.

Thank you. Back to you, Maria Lorena.

Maria Lorena Gutierrez Botero (CEO)

Thank you, Camilo.

Since our last call, we have continued to see positive trends in the consumer credit cycle, which have translated into lower cost of risk in the system and higher profitability in the Colombian financial system. As of February, 7 banks out of 29 banks accumulated net losses compared with 12 banks on February 2024.

Although the system's profitability has improved, there is still a long way to go, even more so as they incorporate during the first and second quarters of 2025 the reconstitution of countercyclical provisions that were released during 2023 and 2024. However, the system has sufficient solvency to absorb this cycle.

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

Diego Fernando Solano Saravia (CFO)

Thank you, Maria Lorena. I will start on pages 9 and 10 with a few charts showing 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 of Colombia.

Starting on page 9:

Over the twelve months ending in February 2025, commercial loans and mortgages for the system grew 0.5% and 3.4% in real terms, while consumer loans contracted 7.4% in real terms.

We continue to outgrow our competitors in total loans and retail loans and have grown slightly slower in commercial loans. This yielded year-on-year market share gains of 32 basis points in total loans, 156 basis points in consumer loans, and 199 basis points in mortgages, while our share of commercial loans fell 48 basis points.

Over the last three months loans grew 1.0% in the system. Even though dynamics continue to show signs of recovery, real growth was week considering the 2.6% quarterly inflation. Mortgages grew 3.0% and commercial loans 1.4% in nominal terms over the quarter, while consumer loans contracted 0.9%.

On page 10:

Loan quality for both the system and Aval banks showed an improvement during the quarter for all loan categories. Our banks continue to exhibit better loan portfolio quality than the system in all main categories. I will now move to the consolidated results of Grupo Aval under IFRS.

On page 11:

Assets grew 7.5% over the year and 0.6% over the quarter to COP 330 trillion. Gross loans, our main asset, reached COP 199 trillion, growing 5.4% year-on-year and decreasing 0.3% over the quarter. Mortgages and consumer loans drove our year-on-year growth. Aggressive pricing competition for corporate clients remained the main challenge to achieve stronger growth in commercial loans. This has taken a toll on our share of commercial loans considering our pricing discipline.

Commercial loans expanded 3.6% year-on-year and contracted 1.8% over the quarter. Consumer loans grew 3.9% year-on-year and 0.7% during the quarter, with:

- Payroll loans growth continuing to recover, increasing 5.8% year-on-year and 1.6% during the quarter.
- Auto loans grew 7.7% year-on-year and contracted 1.2% during the quarter.
- Personal loans grew 3.0% year-on-year and 1.4% during the quarter.
- Credit cards contracted 5.8% year-on-year and 3.1% during the quarter.

Finally, mortgages grew 21.8% year-on-year and 4.2% during the quarter.

We expect our 2025 loan growth to be slightly lower than formerly estimated, in line with a tighter monetary policy and a more volatile local and global environment.

On Page 12, we present the evolution of Funding and Deposits:

- Total funding increased 8.3% year-on-year and 1.0% during the quarter.
- Deposits, that account for 75.2% of our funding, grew 9.8% year-on-year and 3.5% quarter-on-quarter.
- Our deposit-to-net loans ratio closed at 109%.

On Page 13, we present the evolution of our total capitalization, our attributable shareholders' equity, and the capital adequacy ratios of our banks:

- Our "Total Equity" decreased 1.6% over the quarter and increased 5.0% year-on-year. Our "Attributable Equity" decreased 1.6% over the quarter and increased 4.4% year-on-year.
- Dividends of 655 billion pesos were declared to our shareholders during the quarter. In addition, minorities at our subsidiaries received dividends of 693 billion pesos.
- Banco de Bogotá and Banco de Occidente declared dividends during the quarter.

On page 14, we present our yield on loans, cost of funds, spreads, and NIMs:

- Total NIM increased 64 bps to 3.5% quarter-on-quarter mainly driven by an improvement in NIM on investments to a still soft 0.3%.
- Our consolidated NIM on loans expanded 12 bps year-on-year to 4.4% and was flat for the quarter. Over the year, NIM on retail loans expanded 96 bps to 5.8% and NIM on commercial loans decreased 51 bps to

3.4%. Over the quarter, NIM on retail loans expanded 19 bps and NIM on commercial loans contracted 14 bps.

- Aggressive price competition on commercial loans, especially in the corporate segment, continue to press our NIM on commercial loans down.
- The benchmark rate for Colombia was flat at 9.5% during the first quarter. However, as mentioned by Camilo, the Central Bank unanimously cut its rate by 25 bps to 9.25% in its April meeting.
- Focusing on our banking segment, NIM on loans of our banking segment was materially stable over the quarter at 4.9%. This incorporates a 13 bps increase in NIM on retail loans to 6.4% and a 13 bps decrease in NIM on commercial loans to 3.9%. The total NIM of our banking segment expanded 53 bps over the quarter to 4.2%, due to the same dynamics that affected our consolidated NIM.
- On a consolidated basis, the average yield on loans for the quarter decreased 38 basis points over the 3-month period to 11.6%, while the average 3-month IBR decreased 5 bps to 9.3%.
- Our consolidated cost of funds fell 37-bps quarter-on-quarter to 6.8%. Average rates on time deposits and savings accounts fell 43 bps and 52 bps quarterly, respectively.

The modest rate reduction pace of the Central Bank implies a longer adjustment period to that initially anticipated. In this scenario, our NIM will continue to expand, though at a slower pace.

<u>On pages 15 through 16, we present several Loan Portfolio Quality ratios:</u>

<u>Starting on page 15:</u>

- PDL metrics continue to improve in all categories.
- 30-day PDLs were 5.18% (a 13-bps improvement over 3 months and a 68-bps improvement over 12 months). 90-day PDLs were 3.74% (a 26-bps improvement relative to last quarter and a 41-bps improvement over 12 months).
- Commercial 30-day PDLs were 4.79%, a 16-bps improvement over 3 months and 31-bps year-on-year. 90-day PDLs were 4.06%, a 37-bps improvement over the quarter.
- 90-day PDL formation reached the lowest level of the last 2 years and continues to show a positive trend. 30-day PDL formation for the quarter was the lowest for a first quarter since 2022.
- We recorded a 14-bps decrease in consumer 30-day PDLs to 5.46%, and 90-day PDLs decreased 10 bps to 3.14%.
- Mortgages 30-day PDLs and 90-day PDLs decreased 2 bps and 14 bps, respectively.
- Finally, the ratio of charge-offs to average 90-day PDLs was 0.88 times.

On page 16:

- The share of our portfolio classified as Stage 1 remained stable at 88.5%, while Stage 3 fell slightly over the quarter to 6.3%, driven by commercial and consumer loans.
- During the quarter, we reclassified a portion of our Stage 1 commercial loans to Stage 2 due to an increase in expected credit losses (ECL), following rating updates that incorporated these companies 2024 financial performance information.
- As a result, coverage measured as allowances for Stages 2 and 3 as a percentage of Stages 2 and 3 loans slightly fell during the quarter to 33.3%.

On page 17:

- Cost of risk, net of recoveries, increased 21 basis points to 2.0%. We expect 2025 cost of risk to be slightly below this level.
- Cost of risk net for commercial loans increased by 50 basis points to 0.9% for the quarter, reflecting the reclassification to stage 2 previously described.
- Cost of risk net for consumer loans improved 32 basis points to 4.5%. The cost of risk for credit cards and auto loans improved quarter-on-quarter, falling 89 bps to 6.1% and 75 bps to 3.0%, respectively.

On Page 18, we present net fees and other income:

- Gross fee income grew 6.2% year-on-year and 0.6% quarter-on-quarter. Net fee income increased 0.9% and decreased 1.0%, respectively over these time periods.
- Net pension and severance fees grew 9.1% over the year, mainly due to higher performance-based fees and higher collection on mandatory contributions related to the increase in the minimum wage at the beginning of the year.
- Annual gross banking fees grew 1.4%. This incorporates a 3.9% growth of commissions on banking services, that was offset by a 2.1% annual decrease in credit card and debit card fees.
- Our income from the non-financial sector was around 83% of that recorded in the same period for 2024.
- Finally, at the bottom of the page, the year-on-year increase in other operating income is mainly explained by higher derivatives and FX gains.

On Page 19, we present some efficiency ratios:

- Total expenses decreased 5.2% quarter-on-quarter and increased 7.6% y-o-y.
- General and administrative expenses decreased 8.0% quarter-on-quarter and increased 6.7% year-on-year, with operating taxes and deposit insurance accounting for 37% of this category.
- Cost to assets for the quarter was 2.7%, improving 19 bps quarter-on-quarter.

- Our quarterly cost-to-income improved to 50.8% over the quarter.

Finally, on Page 20 we present our net income and profitability ratios.

- Attributable net income for the quarter was COP 362 billion or COP 15.2 per share, increasing 28.5% relative to 4Q24, and was 3.2 times that of 1Q24.

- Our return on average assets and return on average equity for the quarter were 1.0% and 8.4%, respectively.

Before we move into Questions & Answers, I will now summarize our general guidance for 2025. We expect:

- Loan growth in the 9% area, with Commercial loans growing in the 7% area and retail loans growing in the 11% area, slightly lower than our previous guidance.
- Our Consolidated NIM in the 4.0% area, with NIM on loans in the 4.5% area.
- NIM of our banking segment in the 4.7% area, with NIM on loans in the 5.3% area, affected by the central bank intervention rate expectations.
- Cost of risk, net of recoveries, at the 1.95% area, better than our previous guidance.
- Cost to assets in the 2.75% area.
- Income from the non-financial sector of 85% of that for 2024, slightly improving from our previous guidance.
- A fee income ratio at the 21% area, better than our previous guidance.

With this, our expectation for 2025 return on equity is expected to be in the 10 - 11% range.

Maria Lorena Gutierrez Botero (CEO)

Okay. Thank you, Diego. Before moving into questions and answers, I would like to share some final thoughts of Colombia and Grupo Aval in 2025.

The trend of improvement of our net income and ROAE will continue in the upcoming quarters. Despite the challenging economic conditions due to an increase in local and global uncertainty, we are focused on returning to double-digit profitability in 2025.

Positive drivers for our results incorporate a stable cost of risk, higher operational effectiveness, and a strong fee income generation from non-banking segments of operations will contribute positively to the results.

The main headwind for a more solid improvement of ROAE continues to be our NIM on loans. The persistently high real interest rate environment has slowed the recovery pace of our NIM on loans. As I mentioned earlier, one of our corporate priorities consists in financial diversification. Achievements on this front will allow us to strengthen the mix of our deposits toward low-cost and stable funding and reduce cost of funding, better managing the impact of interest rate cycles.

A looser monetary policy will support the recovery of NIM on loans. However, the speed we initially anticipated is now softer than before, given the speed at which rates will be cut. In addition, our guidance incorporates stable spreads on commercial loans, which will support the persistent recovery already happening in NIM on retail loans.

So we are now open for questions. Thank you very much

Q&A

Operator

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

Brian Flores (Citigroup Inc)

I have 2 on my side. The first one is a bit on your guidance. So from what I understand, the new ROE range is 10% to 11%. I think it was closer to 11% in the previous quarter. So I just wanted to understand if this is a correct reading, which is ROE could be weaker than you were expecting in the last quarter. And then as you mentioned, asset quality is perhaps a bit better than you were anticipating. But then as you mentioned, the key downside risk here seems to be NIM. So should we understand that at some point, you need to accelerate in origination to kind of compensate what is happening with pricing? That is the first question.

And then the second one is more on the macro side. We know the pension reform starts implementation in July. If you could elaborate any impacts you're seeing in Porvenir and also if this is already reflected in the guidance? Thank you

Diego Fernando Solano Saravia (CFO)

Yes. Let me start with -- your reading on ROE is right. Last time, we had guided into 11% area. Now we're guiding slightly lower than that in the 10% to 11% range. The reason, as I tried to highlight when going line by line is we've experienced 2 negative things and some positives. The positive, you're absolutely on the spot. It is a better performance and evolution of the quality of the loan portfolio. So that's going to be a positive one. Then there's another one, and it is Corficolombiana, we had guided to a lower performance this year, and it has already performed better during the quarter.

And then on the negative side, the slower pace of the Central Bank does affect our NIM on loans, particularly of consumer loans specifically. So that's what we're bringing into this guidance. And then, we had a slower first quarter in loan growth than what we were initially foreseeing. Then you said, should you guys be accelerating origination? I think that's something we're evaluating very carefully because part of the reason why we didn't grow as fast as we expected was that we saw very aggressive pricing from some of our peers in particularly large corporate loans. We've been very disciplined with pricing to ensure that we're growing, but we're growing in a profitable way so that those are the kind of things we need to evaluate.

However, we continue to work on origination and high-quality and high profitability origination very hard.

Maria Lorena Gutierrez Botero (CEO)

Regarding the question about the pension reform, as you maybe know, given the bill that was approved in the Congress -- the date for the implementation of the reform is the 1st of July. So we are waiting for the constitutional court because they are analyzing if the reform is okay with the constitution. So -- but we are prepared in Porvenir, the government has published a decree with the main issue for us that is the commissions and the commissions are set in the way that we were expecting. So I think we are waiting for the constitutional court, but Porvenir is prepared for both scenarios, with reform or without reform.

Diego Fernando Solano Saravia (CFO)

And then you also asked about our guidance. Our guidance is basically taking up a neutral scenario. The pension reform would be positive on our results if effective as planned. We've gone for our guidance on the prudent side.

Brian Flores (Citigroup Inc)

No, perfect. Super clear. And then if I can just follow up on that last comment. So if it goes as you, let's say, the positive expectation that you have on the pension reform, do you have an estimate on the impact particularly or not yet?

Diego Fernando Solano Saravia (CFO)

We need to see how regulation comes out before we get into those numbers. We would prefer to wait for that.

Operator

Your next question comes from the line of Yuri Fernandes from JPMorgan

Yuri Rocha Fernandes (JP Morgan)

Just a follow-up on Porvenir. Just to see if I understood correctly, it's positive in the short term, but as the flows change in the future, it's negative, right, in the long run on Porvenir. And then I have a question on cost of risk. And I think Diego already mentioned this in the presentation regarding the increase in Stage 2. Just checking if this was one company or 2 or more companies, which sector are those companies from? And if this increase in Stage 2 should become Stage 3 at some point, like how you are seeing this or if you are comfortable with those? And if you plan to rebuild the coverage in the commercial Stage 2 and Stage 3 portfolio if your guidance somewhat reflects this?

Diego Fernando Solano Saravia (CFO)

Let me start with your last one. This is actually a seasonal kind of review. So there is no reason to have any concern because of that, but there is a mechanic process where if companies didn't perform as well last year, then the rating falls. And even though they might be up to date and well performing with their loans, we need to change the rating, and that implies moving to the lower slice of Stage 2.

The implication of that is we move from expected loss for 12 months to lifetime. Therefore, we increased the level of provisions, but it's more of an updating process that reflects how last year was rather than not how 2025, 2026 would look like. So not really a concern nor is this a change in trend.

We obviously continue to be careful of other portfolios as we've done throughout the cycle, and we need to see the economy to continue to pick up to feel fully comfortable, but we are well on that track.

Then you asked on Porvenir, the concise answer is it is a positive in the short term. In the long term, not the medium, but quite long term, we see a change because the volume that will go to the private sector will decrease. However, a substantial portion of current customers are part of the transition process. So the process of reducing the level of assets under management will take some time to offset the advantage of a better fee system

Yuri Rocha Fernandes (JP Morgan)

Super clear. If I may, just a final one. If you can provide some comments, and sorry if you already did before, regarding the political outlook in Colombia, I know probably it's too soon to have a view. But whatever you can comment like for us to have some expectations, it's interesting for us here.

Maria Lorena Gutierrez Botero (CEO)

I think, Diego, he doesn't want to answer that question. But I would say that the political outlook is uncertainty because you know that we have President Petro with the -- say, I don't know how to say “Consulta Popular”

Unknown Executive

Sort of a referendum.

Maria Lorena Gutierrez Botero (CEO)

Like a referendum that the Congress is -- will discuss next week. And we are waiting for that, and they are with the reforms, the labor reform and the health reform. And we have, I don't know, 40 candidates for next year in the Presidential election. So what you will see in the following months is uncertainty about that and more uncertainty that President Petro will create.

Operator

Your next question comes from the line of Juan Dauder from Bank of Colombia

Juan Dauder (Bancolombia)

I have a couple of questions. The first one is in regards to provisions. What is your expectation and especially how do you read the balance of risk at this moment of the juncture in perspective of the changes of the onetime policy part of rate cuts, also the country risk and the initiation of a trade war internationally. And if that reading of the environment could lead you to change your expectations towards provisions, which seem to have bottomed in the previous quarter. If you can give us some guidance in regards to that, I appreciate it. The other question is about commissions. We saw a decrease in the fee income ratio in this quarter. I would like to hear you elaborating a little bit on that decrease and on your expectations on the ratio for 2025. Also, you mentioned as an strategic pillar improving the fees. So what could be your initiatives in that regard?

Diego Fernando Solano Saravia (CFO)

Yes. Well, regarding provisions, I think that something that differentiates Aval from other peers in the system is the structure of our portfolio. So our guidance is tied more to that than other products. For example, we are much more concentrated in the payroll loans that even though they do carry the effect that we've seen on NIM are substantially better than some of the unsecured consumer lending and credit card products that are also part of the system, so we are in a position to have a better view on that.

And then on the mix of industries, we have a slightly lower exposure to SMEs than some of our peers, and that also helps us. So that's the rationale behind why our performance has been substantially better than the rest of the system throughout this cycle and why we are able to have a more positive view.

Then regarding fees, there's a mixture of effects here. If you've seen what we did was we raised our fee ratio because we saw the NIM slightly falling. We are pointing basically to the same guidance that we had before. We are thinking in peso-denominated fees, something that did affect us during the first quarter is you might have seen that Colombia had a pretty tough March due to market volatility, and we've seen some months affecting performance-related fees.

However, we're seeing a pickup in retail activity that allows us to expect also an improvement on that side. Then there's something that is Aval-specific, and it is, as you well highlighted, that's one of our pillars because we feel we're not doing enough on the fee side. And given that we're actively working on that, that's also part of our source of being much more constructive on what we can achieve on fees moving forward.

Operator

And 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)

No. Thank you. Thank you to everyone to be with us in this call and see you in 3 months.

Operator

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