3Q 2021 Results
Banco de Bogotá

Information reported in COP and under IFRS.

Tuesday, November 30th, 2021.

CORPORATE PARTICIPANTS

Alejandro Figueroa: Banco de Bogotá – CEO

Germán Salazar: Banco de Bogotá – Executive Vice-president

Javier Dorich Doig, CFA: Banco de Bogotá – Head of FP&A, Corporate Development and IR.

Operator:

Welcome to the 3Q 2021 consolidated results conference call. My name is Hilda and I'll be your operator during this conference call.

At this moment, all participants are in a listen-only mode. At the end of the presentation, we will conduct a question-and-answer session. Please note that this conference is being recorded. We now ask that you take your time to read the disclaimer included on page two.

When applicable, in this webcast we'll refer to trillions as millions of millions and to billions as thousands of millions.

Thank you for your attention. Mr. Alejandro Figueroa, CEO of Banco de Bogotá, will be the host and speaker today. Mr. Figueroa, you may begin your conference.

Alejandro Figueroa:

Thank you, Hilda.

Good morning ladies and gentlemen and welcome to Banco de Bogotá's Q3-2021 earnings call.

- I would like to start by highlighting the strong and positive performance of the Colombian and Central American economies, as most macroeconomic factors have reached pre-pandemic levels, providing favorable expectations for the region. This has resulted in our strongest quarter in recent years, in terms of our core business, with $2.2 trillion pesos in Net Interest Income.

- Attributable Net Income was $2.0 trillion pesos, including an extraordinary gain generated from Porvenir's deconsolidation, which added $1.3 trillion pesos. Excluding this one-time effect, Attributable Net Income would have been $710 billion pesos.

- Profitability ratios, excluding the extraordinary income generated from Porvenir's deconsolidation, were: 1.3% for ROAA and 12.2% for ROAE.

- Total NIM slightly increased to 5.0%, benefited by an enhanced Lending NIM which grew to 5.8% this quarter. Investment NIM, partially off-set this increase explained by the effect of excluding Porvenir's investment portfolio.

- Fee Income totaled $1 trillion pesos in the quarter, reflecting a decrease in Pension Fee income from Porvenir due to its deconsolidation. Starting this quarter, Porvenir's net income will be recognized via Equity Method.

- When excluding the one-time income generated from Porvenir, efficiency was near 52% for the quarter.

- Our Balance Sheet performance this quarter is summarized as follows:

    - Our Gross Loan Portfolio amounted to $149 trillion pesos.

    - Deposits reached $158.4 trillion pesos, remaining our main funding source, with an 81.5% share. Our Deposits to Net Loans ratio was 1.12x.

    - Moving to credit quality, our 90-days PDL ratio was 2.9%, decreasing 40 bps in the quarter as a result of improved payment performance in line with economic activity normalization. In a similar way, reactivation has reduced loan deterioration, leading to an annualized Net Cost of Risk of 1.8%, converging to historical operation levels.

    - Lastly, Capital Adequacy ratios increased around 100 bps, reaching 11.1% for Total Tier 1 and 13.5% for Total Solvency, benefiting from Porvenir's deconsolidation. This effect improves our solid capital position.

- I would like to take a moment to address BAC Credomatic's 75% spin-off to our shareholders. This transaction will result in a simpler corporate structure, allowing management from Aval, Banco de Bogotá and BAC to focus on strengthening their strategic positions. Banco de Bogotá will maintain sufficient geographical diversification as we will continue to consolidate our investment in Multi Financial Group and will retain a 25% stake in BAC. Consequently, complexities of multi-jurisdictional operations should be largely reduced, leading to less foreign exchange exposure on our financial statements and supporting a more efficient use of capital.

- Finally, I will summarize our guidance for 2021 and 2022. Figures for next year are based on the current corporate structure, that is, including 100% of BAC as Banco de Bogotá's subsidiary, given that current shareholders will retain ownership over both entities after the spin-off.

    - In terms of loan growth, we expect to close 2021 around 10% and at 9% for 2022.
    - NIM for 2021 is expected to close just below 5% and we expect a rebound to around 5.3% for 2022, in line with market interest rate increases.
    - Regarding Net Cost of Risk, we expect to be around 2.1% for 2021, lower than our previously guided range between 2.25% and 2.5%. For 2022 we expect further reductions to 1.9%.
    - Fee income ratio is expected to be around 28% for both years reflecting the impact of Porvenir's deconsolidation.
    - Efficiency ratio should be around 50% in the short term.

- Profitability for 2021 should be at 1.8% for ROAA and 18% for ROAE including the one-time income from Porvenir. Excluding this impact, ratios would be around 1.3% and 12%, respectively. For 2022, we expect similar levels.

Now, I will turn the presentation over to Germán Salazar, Executive Vice-President.

<u>Germán Salazar</u>: Thank you, Alejandro and good morning to everyone who has joined our call today.

Starting on ***slide 4***, I would like to take a moment to address the main highlights of the corporate transaction announced on September 15th, namely, our intention to spin-off 75% of BAC Credomatic's shares to our shareholders.

- In a nutshell, the main purpose of the transaction is to transfer 75% of BAC Credomatic's ownership directly to Banco de Bogota's and Grupo Aval's shareholders. Consequently, BAC Holding Corporation, BAC Credomatic's controller, will be listed in both, the Colombian and Panamanian stock exchanges. Once listed, we will proceed with the spin-off of 75% of BAC Holding Corp. As a result of the operation, Banco de Bogotá will retain a 25% equity stake in BAC Holding Corp. and will continue to consolidate Multi Financial Group, which will not be part of the transaction.

- The rationale behind this operation is to allow Grupo Aval, Banco de Bogotá and BAC to improve their strategic positions and capture future growth opportunities. Additionally, a simplified corporate structure will provide shareholders with pure play investment options in either Colombia, Central America or both.

- Moreover, the operation will ease capital restrictions related to the consolidation of BAC Credomatic, solidifying Banco de Bogotá's capital position. The transaction is subject to regulatory approval, currently underway.

- Following the announcement, rating agencies have confirmed the limited implications on Banco de Bogotá's credit rating as we will maintain a strong and diversified business position. Moody's Ratings Services affirmed our rating at Baa2, while for Fitch and Standard and Poor's the operation did not trigger a rating action, maintaining our BB+ level, in line with Colombia's sovereign rating.

Now, moving to ***slide 5***, we present our digital strategy results for this quarter.

- Banco de Bogotá's corporate strategy revolves around our clients and the added value we can provide to them and to our communities. Our digitalization process is a great example of a positive impact in customer experience as we continuously focus on improving our digital platforms and adding new features to our digital product portfolio.

- During Q3-2021 we implemented 11 new transactions in our digital channels. I would like to highlight the integration of Transfiya which allows real-time money transfers to cellphone numbers. Additionally, we have improved our interface in order to facilitate product self-management and we have emphasized financial-planning features, fostering programmed savings through our piggybank product which is available at our Mobile app.

- This initiative mirrors the app recently launched in Central America, Kash. It was fully developed by BAC Credomatic and is within the top 3 downloaded financial apps in Guatemala, Honduras and Costa Rica. Its implementation has led to exponential monthly growth in monetary transfers, exceeding 500,000 since its release.

- In Q3-2021 we also focused on improving the digital sales experience by optimizing product' onboarding times, through fine-tuning loan requests' parameters and streamlining our application forms. We have also concentrated in increasing conversion rates of more than 10 digital products by enhancing our personal banking authenticator with biometric solutions. Furthermore, our existing digital portfolio has a life insurance option available which can be customized according to our clients' coverage preferences.

- The aforementioned enhancements are supported on robust data analytics of our customer journey, which allows us to identify churn rate drivers and steer our digital strategy. As a result, we enjoy a highly competitive position to offer fast, relevant and 100% digitalized solutions to our existing and potential client base.

- Our digitalization efforts continue to support sustainable growth by attracting new customers, increasing our point-of-sale financing presence across marketplaces and creating synergies with existing ecosystems in order to tap into different customer segments. Aggregated digital sales from Banco de Bogotá and Bac Credomatic for Q3-2021 doubled those from one year ago leading to more than 1.5 million products sold year-to-date, representing annual growth rates of 57% in the past two years.

- Increased digital adoption is also driving growth as more than 300,000 customers were digitalized in the past quarter, reaching over 3 million active digital clients across our digital platforms. Ever growing adoption have further supported digital channels as our leading salespoint; digital sales represent 70% in Colombia and 30% in Central America.

- Adoption is also reflected in higher digital transactions, now surpassing 600 million, representing over 86% of total transactions.

- Lastly, regarding our omni-channel strategy we are plateauing on storefront reductions as we are closer to reaching an optimal level of our physical presence. Instead, we have focused on increasing on-site digital features and have reached 48 digital branches, with 9 additional locations currently under renovation in Colombia.

- Banco de Bogotá's strong digital leadership in the market was recently recognized by Global Finance, who named us the Best Digital Bank in Colombia in addition to the Best Consumer Digital Lending Bank in Latin America.

Continuing with our economic outlook, on ***slide 6*** we present the macroeconomic environment overview in Colombia:

- During Q3-2021 the Colombian economy continued to surprise positively as monthly activity indicators were repeatedly above pre-pandemic levels, confirming that shocks experienced in the second quarter had been overcome. Wider sector reopening and reduction in contagions' pace supported greater economic recovery, reaching pre-pandemic levels earlier than expected. The economy grew 13.2% annually in the third quarter, maintaining a double-digit result for the second consecutive period.

- Surprises in activity caused an upward revision of growth projections. Our Economic Research team adjusted its forecast to 9.7% annually for 2021 and 4.0% for 2022. Upward adjustments have been made by most analysts as well as by the central bank. Banco de la República expects GDP growth of 9.8% in 2021, 4.7% in 2022 and considers that the output gap would close next year. The International Monetary Fund also adjusted its growth projection upwards to 7.6%, from 5.1% for 2021.

- The labor market has also recovered, but at lower levels than those observed in the overall economy. Seasonally adjusted unemployment rate was 12.6% in September, while employed persons totaled 21.7 million, both figures still not reaching pre-pandemic levels. By September, 90% of the jobs lost due to the pandemic had been recovered, completing three consecutive months of recovery.

- Lower active COVID cases and progress on vaccination rollout have increased sectorial reactivation. Industry businesses and commerce sectors register the highest percentage of normalized operations reaching almost 100%, while construction presents the lowest percentage of normalization at 84%. Altogether, the country's business operations is at 96% and is expected to continue improving for Q4.

- Inflation has also surprised to the upside and has risen above the upper limit of the central bank's target range between 2% to 4%. In October, total inflation was 4.6%, driven mainly by food prices, with annual inflation just below 14%. Core metrics performed better, standing at 2.9% in October. Inflationary pressures have surprised market consensus. In addition, the central bank has constantly revised its inflation forecast upwards to 4.9% for 2021 and 3.6% for 2022, highlighting the upside risks due to the multiple shocks that impacted prices. Our Economic Research team forecasts inflation of 4.8% in 2021 and 3.4% in 2022.

- The accelerated recovery of the economy and the increase in inflation opened a benchmark rate increase cycle by the central bank in the third quarter. By the end of September, the bank decided on a 25-bps rate increase and accelerated the pace in October with an additional 50 bps, bringing the rate up to 2.50%. For the final part of the year, our Economic Research team expects an additional 50 bps increase to 3.0%, above market analysts' expectations, a scenario that is also considered by the central bank.

- Current account deficit has widened, and our Economic Research team forecasts a deficit of 5.0% of GDP for 2021, above the 2020 deficit of 3.3%. Deterioration reflects the recovery of local demand, which boosted imports to a 12-month total of almost $49 billion dollars. Meanwhile, exports have recovered, but at a slower pace, reflecting the weakness in production volumes of coal and oil. 12-month exports totaled $35 billion dollars, which resulted in a trade deficit of more than $13 billion dollars or 4.5% of GDP.

- In the third quarter, a tax reform was approved which supports fiscal income generation through an increased tax rate for companies. New tax collections are expected to be around $15 trillion pesos for the next few years, providing a temporary solution to the country's fiscal situation. In 2021, better economic growth and positive numbers in tax collection suggest that the fiscal deficit would close below the Government's projection included in the Medium-Term Fiscal Framework, at 8.6% of GDP. Our Economic Research team predicts that the fiscal deficit could fall to 7.6% of GDP, improving when compared to 2020 (7.8% of GDP). By 2022 the higher price of oil and coal would also generate additional fiscal revenue from taxes, dividends and royalties. For 2022 the Government expects a fiscal deficit of 7.0% of GDP.

- Higher GDP growth and the approval of the tax reform led to Moody's change to the sovereign outlook of Colombia, from negative to stable, and reaffirmation of its rating at Baa2, maintaining investment grade. Moody's distanced itself from the decisions made by Standard and Poor's and Fitch Ratings, both of which have rated the country at BB+.

- In the third quarter, the government's dollar funding increased significantly with the sale of ISA to Ecopetrol and the direct purchase of dollars from the central bank. This caused an increase in Government' sales of dollars in the FX market, reaching figures of up to $2.2 billion dollars per month. A more active Government in the market caused downward pressures on the exchange rate to below $3,800 pesos. However, in November, expectations for earlier than expected monetary policy adjustments by the Federal Reserve, caused upward pressure on the exchange rate, bringing it closer to $3,900 pesos.

- COVID-19 infections and deaths fell significantly in the third quarter, marking minimums since the first months of the pandemic. Indicators such as positivity and ICU occupation also decreased considerably, supporting sustained economic recovery. Vaccination process continues to evolve reaching over 55 million doses applied nationwide, equivalent to 24 million people with a complete vaccination scheme as of last Friday.

Moving to ***page 7***, we present the economic outlook in Central America:

- Like other regions, Central America continues to recover as the virus status improves and the reopening of activity continues, although there are differences between countries. In this context, the IMF adjusted upwards its growth forecasts for the region and now foresees an advance of 6.7% in 2021 and 4.2% in 2022, in both cases above the aggregate for Latin America and the Caribbean (6.3% and 3.0%, respectively). Although the good performance of the United States continues to favor trade and remittances, now with oil prices on the rise, the energy bill becomes more onerous for an importing region.

- After reaching maximum growth of almost 16% in May, driven largely by the base effect, but also by the reopening of activity, as of August the Central American economy grew above 13%. This result is quite favorable considering that a year ago the economy fell 10% and contracted more than 13% at the worst moment of the pandemic.

- The moderation in activity has been mostly generalized in recent months, with the exception of Costa Rica and Panama, which maintain relevant advances and still do not show a change in trend. Furthermore, the reopening of these two economies has been the slowest and longest, judging by mobility indicators, which also suggest that their growth could continue to be vigorous amid a still pending reopening. Additionally, together with El Salvador, these three countries register the best numbers in the vaccination process.

- Indeed, vaccination in Central American countries has been uneven. As of last week, in the regional aggregate, 38% of the population has the complete vaccination scheme, with El Salvador, Costa Rica and Panama leading, with 62%, 61% and 55%, respectively. Nicaragua and Guatemala are the least dynamic countries, with progress of 33% and 21%, respectively. The successful vaccination process will continue to be a differentiating factor in the recovery of the economies of the region, also reducing the risk of new restrictions in the reopening process.

- The strength of remittances continued to be a decisive factor in terms of activity and external financing, since the economies for which these flows are relevant: El Salvador (26% of GDP), Honduras (23%), Guatemala (15%) and Nicaragua (15%), presented annual growth in remittances of more than 25% on average. In 2019, before the pandemic, the average annual growth of these resources was only 5%. In terms of dollar flows, the increase in remittances has represented an additional $6 billion dollars so far this year for this group of countries, or the equivalent of 4.2% of their GDP. This situation has been more evident for El Salvador, with almost an additional $3 billion dollars in 2021, or 11% of GDP.

- Inflation results also show some differentiation, although not as much as in the case of activity. Two groups of countries can be identified, those that are dollarized and those that are not. In the first case, Panama and El Salvador have seen an acceleration in inflation in recent months, although in Panama the annual variation is still contained at 2.5%, while in El Salvador, it has already reached 5.0%. The second group of countries shows a more stable inflation behavior in recent months, with results between 2.5% and 4.7%. Although it is not yet evident in all countries, the rebound in oil prices will end up being passed on to local prices, which would soon be reflected in regional inflation. For now, inflation in Central America was 3.3% in September, a little more than double than a year ago and well above the minimum level of 0.3% registered a few months after the beginning of the pandemic.

- To the extent that inflation is not yet as widespread a problem, the central banks of the region that have an independent management of monetary policy kept their interest rates unchanged. Consequently, Costa Rica and Guatemala completed 16 months without changes in their interest rates, at 0.75% and 1.75%, respectively, while Honduras has remained almost a year with its reference rate at 3.00%. As in the rest of emerging economies, the macroeconomic balance has changed and with growth that has recovered well, rate increases are approaching.

Now, I will hand over the presentation over to our Head of Corporate Development, FP&A and IR, Mr. Javier Dorich, who will provide details on our financial results for the quarter.

<u>Javier Dorich Doig:</u>

Thank you, Germán and good morning everyone. I would like to start on ***slide 8*** which presents the consolidated asset structure in Q3-2021.

- Total Assets grew 2.1% on an annual basis and 1.3% quarterly, reaching $224.4 trillion pesos. Excluding the FX effect, growth was 2.8% and 0.4% respectively.

- Asset structure is led by the Net Loan portfolio with 63.8% of Total Assets, followed by Other Assets, with 20.0%, and Fixed Income and Equity investments, with 12.0% and 4.2%, respectively. Participation of Fixed income investments decreased 68 bps, given the effect of the exclusion of Porvenir's portfolio from our balance sheet.

- Zooming-in on our Consolidated Loan portfolio, it increased 4.1% annually and 2.5% quarterly, to a total of $149.5 trillion pesos. Without the effect of FX, increases were 4.9% and 1.6%.

- In terms of diversification, we continue to maintain a healthy balance across economic activities, favoring secured exposures such as mortgage, payroll and vehicle loans, all of which slightly increased their share during the quarter.

- Breaking down our loan book by segments, the Commercial portfolio leads with 57.0% of our consolidated loans. In Q3-2021 Consumer and Mortgage loans continued increasing their share to 28.1% and 14.7%, respectively, targeting a more balanced portfolio between corporate and retail clients.

- Excluding FX impacts, the Commercial portfolio grew 2.5% and 1.0%, annually and quarterly, reflecting slower reactivation than in retail segments. This is also the result of our preference for long-term profitable business, instead of engaging in aggressive pricing strategies.

- On the other hand, demand for Consumer and Mortgage loans retains momentum as shown by dynamic annual growth rates of 8.8% and 7.6%, respectively, when isolating FX impacts. Quarterly growth without the effect of FX, came in at 2.5% for Consumer lending and 2.2% for the Mortgage portfolio.

For 2021 we are targeting loan growth around 10%, leveraged on strong retail lending demand and increased financing needs from the corporate book.

On ***slide 9***, we present our consolidated loan portfolio quality metrics.

- Starting with quality ratios, both 30-day and 90-day PDLs decreased 40 bps during Q3-2021, to 4.4% and 2.9%, respectively. Improved performance echoes economic reactivation which has supported payment' resumption. Additionally, they incorporate the effect of Avianca's exposure normalization.

- To elaborate further, Banco de Bogotá and Avianca reached an agreement regarding outstanding credit exposure. At the end of Q3-2021, consolidated loan exposure to this name was $619 billion pesos as follows:

    - 16.2% of the exposure is collateralized by the company's headquarters and is recognized as 100% secured. This loan has always been performing as the trust owns the building and the loan is serviced by Avianca's rental payments.

    - 74.3% of the exposure relates to a syndicated loan granted by Banco de Bogotá, Banco de Occidente and BAC Credomatic, which is guaranteed by ticket sales' receivables in Central America. 90% of this exposure was recognized as secured, while 10% will be paid in kind with frequent travel miles. A payment close to $5.8 million dollars was received in September, when authorization was granted to use funds held in the reserve account for debt service.

    - An additional 7.2% will receive the same settlement as the syndicated loan in terms of secured recognition and guarantees.

    - The remaining 2.3% of the exposure is unsecured and will be repaid with Avianca's shares. This exposure is fully provisioned.

- On the top right, we observe a quarterly reduction of 41 bps in our Net Cost of Risk, to 1.8%. This represents a 15.7% net provision expense contraction to $651 billion pesos. Cost of Risk evolution reflects limited pressures on provision expense as the loan portfolio continues to recover and our reserve build-up in 2020 has proved adequate to support loan deterioration materialized in 2021.

- Year-to-date Net Cost of Risk is 2.0%, which is in line with our 2021 guidance for Cost of Risk of 2.1%, converging to historical levels.

- Charge-offs reached 0.74x of average 90 day-PDLs in Q3-2021 as a result of charge-off activity returning to normalized levels; they now represent 2.3% of average loans. Charge-off activity was mainly on the unsecured retail portfolio, namely credit cards and personal loans.

- As a result of improved loan quality on our consolidated loan portfolio, coverage metrics increased to 1.16x over 30 day PDLs and 1.73x over 90 day PDLs. For Q3-2021, allowances represent 5.1% of gross loan balance. We consider these levels to be atypical, as provisions related to recently normalized exposures are being evaluated. As a reminder, our rule of thumb is to be around 1.0x consolidated coverage over 30-day PDLs and 1.5x over 90-days'.

Continuing on ***slide 10***, we present regional performance of our loan quality ratios.

Starting with Colombia:

- Both 30 and 90-days PDL ratios improved, quarterly contracting 109 and 86 bps, respectively. This is explained by the commercial and consumer portfolios; the first, partly supported by Avianca's syndicated loan returning to performing status, and the latter in line with increased charge-off activity on unsecured exposures. Furthermore, better payment performance, than initially expected, also contributed to improvement in delinquency ratios.

- Net Cost of Risk for the Colombian operation remained at 2.5% as loan deterioration is improving and pressure to increase reserves has eased.

- As noted earlier, charge-off activity picked-up pace in Q3-2021, with ratios of 0.64x over 90-day PDLs and 3.1% over average loans, very much in line with historical averages and pre-pandemic levels.

- Regarding coverage, allowances in Colombia reached 1.24x over 30-day PDLs and 1.6x over non-performing loans, resulting in 7.2% of the gross loan book.

Now, moving to Central America:

- 30-day PDLs increased 23 bps in the quarter mainly due to the end of relief measures in Panama; we are already seeing positive results from our strategies to restore payment culture in that market-place. 90-days PDL ratio remained at 1.6%, contracting 22 bps annually, illustrating stability on PDL formation, in line with normalized economic activity levels.

- Net Cost of Risk stands at 1.9%, supported by improved loan quality ratios and repressed provision expense.

- Charge-offs' ratio for Q3-2021 decreased to 1x, representing 1.6% of average loans.

- Coverage over 30-day PDLs converged to 1x due to the aforementioned increase of delinquent loans in Panama's retail portfolio. Coverage over 90-day PDLs continues above 2x, while allowances as a percentage of Central American loan portfolio presented no variations, closing the quarter at 3.3%.

Moving to ***slide 11***, we show our consolidated loan portfolio quality by segments.

- Starting with the commercial portfolio, 30-days PDL ratio improved 71 bps quarterly, to 3.3%, while its 90-days PDL ratio reached 2.8%, a reduction of 62 bps in Q3-2021.

- 30-days and 90-days PDL ratios for the consumer portfolio registered a 17 and 18 bps quarterly contraction, respectively. Improved performance in Colombia was offset by delinquency increases in Central America, mainly in Panama, as previously explained.

- Mortgage loans' 30-day PDLs increased 37 bps in the quarter as a result of Panama's relief expirations, while 90-days PDL ratio continued at 2.6%.

On ***slide 12***, we present an update on loan relief programs.

- Q3-2021 marks the last quarter when borrowers could apply for a relief measure in Colombia and in Panama, which ended their relief programs in August and September, respectively. As for the remaining countries, programs ended throughout the first half of the year.

- As a result, active forbearances represented 2.0% of our consolidated loan portfolio at the end of the quarter, down from 4.3% as of June 30th. Loans with current grace periods are all from our Panamanian portfolio, accounting for 8.9% of its total loan balance.

- Regarding structural agreements or second relief measures, these were 10.3% of our consolidated portfolio, contracting from 10.6% at Q2-2021. Reduction is explained by the end of the application period as well as loan amortization, given that loans under these agreements have an active payment schedule.

- Presented at the bottom half of the slide, consolidated current loans are 93.6% of the total portfolio, increasing from 90.9% in Q2-2021, as borrowers resume loan payments either after a forbearance expiration or being under a credit renegotiation. This speaks to the adequacy of the relief measures which are leading to suitable loan performance from those most impacted by the pandemic.

On ***slide 13***, our funding evolution in Q3-2021 is presented:

- Total funding reached $194.2 trillion pesos, increasing 2.0% and 1.5% in annual and quarterly terms. Excluding the FX effect, growth was 2.8% and 0.6% respectively.

- Our prevailing funding source is Deposits, with an 81.5% share of consolidated funds. These slightly contracted from an 83.1% level at Q2-2021, as Interbank Borrowings increased their participation by 180 bps in the quarter, due to market conditions in Colombia. Additional sources, such as Banks and Others and Long-Term Bonds, represent 8.5% and 7.1% of total funding, respectively.

- Deposits amounted to $158.4 trillion pesos, growing 4.3% annually and slightly decreasing quarterly, by 0.4%. Isolating FX impacts, annual growth was 5.1% while we observed a quarterly contraction of 1.3%, as economic reactivation has led to liquidity usage.

- In terms of Deposit' composition, Time Deposits increased 98 bps quarterly their share of total deposits, to 40.6%, counterbalancing a decrease in Saving Accounts, to 29.3%. Checking accounts contribute with the remaining 29.9% of the deposit mix.

- The deposits to net loans ratio was 1.12x, decreasing 3.4 percentual points as a combination of quarterly loan growth and Deposit' contraction.

Turning to ***slide 14***, we present our equity and solvency levels.

- Total equity for Q3-2021 was $24.5 trillion pesos, increasing 4.3% quarterly and 5.6% annually. Quarterly reduction of our non-controlling interest to $71.5 billion pesos was offset by the effect of the $1.3 trillion extraordinary gain from Porvenir's deconsolidation, in Attributable Net Income. Consequently, Equity growth is explained by quarterly Net Income from continued operations, as well as a 14.8% quarterly increase in Other Comprehensive Income, to $1.9 trillion pesos.

- Accordingly, our Tangible Common Equity increased to $17.0 trillion pesos, representing an 18.3% quarterly growth, explained by the aforementioned increase in

Attributable Equity and also benefited from lower goodwill deductions related to Porvenir’s transaction. Tangible Capital ratio in Q3-2021 increased to 7.9%.

- As we shared in our last earnings call, Porvenir’s deconsolidation further strengthened Capital adequacy ratios, increasing to 13.5% for Total Solvency and 11.1% for Tier 1, in line with the previously guided increase of approximately 100 bps. Besides the effect from the $1.3 extraordinary income and lower goodwill deduction, ratios took in the effect of lower RWA’s from Porvenir’s market assets.

- A stronger capital position contributes to maintain solid buffers above regulatory minimums.

Before turning to our P&L figures, I would like to note that in order to maintain comparability with previous quarters’ financial results, we have included a scenario as if Porvenir’s deconsolidation had not occurred. In the presentation this is shown as 3Q21-Pre.

Now, turning to ***slide 15***, we present our Net Interest Margin ratios.

- In Q3-2021, Total NIM came in at 5.0%, supported by a 18 bps quarterly increase in lending NIM to 5.8%. Conversely, Investment NIM decreased to 1.3% as a result of volatile market dynamics, which mainly affected sovereign fixed-income securities.

- Yield on loans increased 17 bps as a result of growth in higher yielding products in the consolidated consumer and mortgage portfolios. Taking into account recent Central Bank rate increases, for a total of 75 bps as of October, we expect market rate adjustments to positively impact our lending NIM, as our variable-rate indexed loan portfolio reprices to the upside.

- As mentioned earlier, reduction on fixed income returns is driven by lower valuations on those investments, as well as by the impact of Porvenir’s deconsolidation.

- Regarding our cost of funds, in Q3-2021 we registered a 2 bps reduction to 2.4%. Going forward, we expect interest-bearing funding to increase in tandem with market interest rate movements.

In terms of guidance for 2021, we expect to close the year with a NIM near 5.0%.

Now, let’s move on to ***slide 16***, where we present details on our Fee and Other Income.

- Fee income for Q3-2021 was $1 trillion pesos, which took in the effect of Porvenir's deconsolidation, resulting in a fee income ratio of 28.9%. Quarterly reduction comes mainly from the effect of pension fees not being consolidated.

- Consequently, our fee income distribution changed to: 91.8% coming from banking fees; 1.4% from pension fees (from our Central America operation); 3.7% from fiduciary activities; and 3.2% from other fees.

- Now, moving to our other operating income, in Q3-2021 it reached $1.7 trillion pesos. Close to $1.3 trillion pesos come from Porvenir's investment valuation update to its fair value, as a result of the deconsolidation process.

- Derivative and investment income were impacted by the effect of no longer consolidating Porvenir's investments.

- Equity Method income for the quarter was $54.5 billion pesos, mainly affected by Corficolombiana's results. As a consequence of the recently approved tax-reform, deferred taxes needed to be recalculated at the new rate which increased 4 percentage points. In turn, this one-time event impacted net profits for the quarter, leading to a lower contribution. Isolating this impact, we would have reached an Equity Method income of $193.5 billion pesos for the quarter.

- Furthermore, starting on Q3-2021 we are including Porvenir's results in our Equity Method which contributed $47.3 billion pesos, driven by market volatilities that affect returns on assets under management.

For 2021, we expect our fee income ratio to come in around 28%, reflecting the impact of Porvenir's deconsolidation.

On ***slide 17***, we continue with our efficiency metrics.

- Efficiency for Q3-2021 was benefited by the one-time income from Porvenir's deconsolidation, which led to a ratio of 39.7%. Excluding this effect, as well as the impact from Corficolombiana's deferred tax adjustment, our efficiency would have been 52.2%, presenting an increase of 241 bps in the quarter.

- Quarterly growth is explained by increased operational expense related to higher core operations, in line with economic reactivation. These include advertisement campaigns, variable compensation to our sales force and investments in software development, among others.

- Regarding our Cost to Assets ratio, we observed a 7 bps increase as a result of the aforementioned.

Our efficiency guidance for 2021 is around 50%

Lastly, on ***slide 18*** we present our profitability returns for the quarter.

- Attributable Net Income for Q3-2021 is $2 trillion pesos. $1.3 trillion comes from Porvenir's deconsolidation, as explained earlier, and $709.9 billion pesos comes from our quarterly performance. If we isolate Corficolombiana's deferred tax adjustment, Attributable Net Income would have been $848.9 billion pesos.

- Net income was supported by a 6.2% quarterly increase in our NII, as well as a 15.7% reduction in our net provision expense and solid fee income contribution. On the other hand, headwinds for the quarter came in from our Equity Method income, as mentioned previously.

- As a result, profitability for the quarter came in at a 1.3% ROAA and continued with a double-digit ROAE at 12.2% reflecting our strong business fundamentals which has led to solid results. Excluding Corficolombiana's impact, returns would have been 1.6% and 14.6%, respectively.

Before starting our Q&A session, I would like to summarize our guidance for 2021 and 2022, both of which reflect our current corporate structure:

- In terms of loan growth, we expect to close 2021 around 10% and 9% for 2022.
- NIM for 2021 is expected to close just below 5% and we expect a rebound to around 5.3% for 2022, in line with market interest rate increases.
- Regarding Net Cost of Risk, we expect to be around 2.1% for 2021, lower than our previously guided range between 2.25% and 2.5%. For 2022 we expect further reductions to 1.9%.
- Fee income ratio is expected to be around 28% for both years reflecting the impact of Porvenir's deconsolidation.
- Efficiency ratio should be around 50% in the short term.
- Profitability for 2021 should be at 1.8% for ROAA and 18% for ROAE including the one-time income from Porvenir. Excluding this impact, ratios would be around 1.3% and 12%, respectively. For 2022, we expect similar levels.

And now we are open to questions.

Operator: Thank you. We will now begin the question-and-answer session.

If you have a question, please press star (*) and then one (1) on your touchtone phone. If you wish to be removed from the queue, please press the pound sign or the hash key (#). If you are using a speakerphone, you may need to pick up the handset first before pressing the numbers. At this time we ask that you limit yourself to one question only. Once again, if you have a question, please press star (*) and then one (1) on your touchtone phone.

We have a question from ***Julian Ausique***, from ***Davivienda Corredores***.

Julian Ausique: Hi, everyone. Hi, Alejandro, Germán and Javier. Thank you for having my question. I have two questions, and the first one is about the share's issuance about Grupo Aval and Banco de Bogotá for the next year. I would like to confirm if Bogotá and Grupo Aval will do the issuance or just Grupo Aval and what is the expected date for the transaction.

And my second question is about a little bit of more color about the view that you have in Central America, specifically in Panama. Thank you.

Germán Salazar: Hi, Julian, thank you so much for the questions and I would like to tell you that at this moment in time, there is no issuance in sight for Banco de Bogotá, if you are referring to a fixed-income transaction. And that is something that will be contemplated as time goes by, depending on market conditions and our need to do any particular liability operation.

In connection with our view in Panama, what I could tell you is that there is a two-part story. One is in connection with Panama being the country which waited until the latest in the year to end the forbearance or relief programs adopted out of the pandemic. So what that definitely conveyed was, on one hand, a little delay in the way that debtors began repaying their transactions and that's why we are exhibiting higher past due loans and some additional time to normalize a good portion of those consumer lending, not much commercial. In recent weeks out of the collection process that we have begun, we're beginning to see quite favorable reaction from debtors and ratios are definitely improving. What also happened in the country is that they took a little longer to apply vaccinations, on one hand, to maintain the economy closed for longer than others, and that definitely had an impact in all activity.

Recent data is showing a good recovery in most sectors of the economy. The inflation rate is behaving. Income from services is also improving, and we are positive in what is going to happen next year. It's one of the countries where we are not having any political or electoral news so that is why we are positive in what is going to happen towards 2022 and thereafter.

Operator: Thank you. Once again, for any questions, please press star (*) one (1). The next question comes from ***Rodrigo Sanhueza***, from ***Pine Bridge Investments***.

Rodrigo Sanhueza: Hi, thank you for taking my questions. So, I have a couple of questions related to the transaction. First, maybe the focus would be more on the rationale and the transparency behind first on the Porvenir divestment. I understand that the valuation was done by a third party and the approach might be conservative, given that a write-off in the future would be detrimental for your future capitalization. So nevertheless, this was also a recurrent source of fees. So, my view of the transaction is that it is a positive one-off for recurring non-beneficial or non-stakeholder beneficial effect on the fees of the bank. So, I was thinking maybe this could be mitigated by the upstream of dividends in the future. I don't know if we should expect upstream of dividends from Porvenir this and next year. And also, maybe how recurring would these dividends be. And maybe also, I did a very quick back of the envelope calculation looking to the free cash flow, I understand that there may be several considerations here, but the multiple for me seems a little bit high, so I would appreciate maybe not now, but maybe in the future if we could have more information about these transactions.

Javier Dorich: Thank you. Thank you for your question. Well, about Porvenir, as you know, our share in Porvenir is going to stay the same, 46%, so we're still going to benefit from that diversification. As you mentioned, there was a benefit for us in terms of solvency and capital of around 100 basis points. And you know, our fee income ratio is going to be a little bit lower, but we think we still are going to be benefited by that diversification. In terms of valuation, yeah, we can get a deep dive on that later. But, you know, we had an independent valuator that established that there was a $1.3 trillion upside against what we had in our books.

Operator: Thank you. We have a follow-up question from Julian Ausique, from Davivienda Corredores.

Julian Ausique: Hi, sorry for asking again, but my first question was regarding about the share issuance to strengthen Banco de Bogotá's capital structure because I know the next transaction that will happen is maybe Banco de Bogotá or Grupo Aval. I just want to confirm which of those will do the shares issuance. And also, I would like to understand the rationale to list in the Colombian and the Panamanian stock exchange the shares of BAC Holding International.

Germán Salazar: Ok, Julian. Sorry if I misunderstood the question. So, first of all, there's no decision being made as to capitalization of Banco de Bogotá beginning with Aval and then with Banco de Bogotá. That's an alternative which is being considered but no decision has been made so far in that regard.

In connection with your second question, after the transaction, the new BAC Holding International Corp., is going to issue shares to the shareholders, based in the ownership of Banco de Bogotá that we have at the moment for any shareholder. There is going to be a listing of this company in Panama, to have the possibility that, number one, shareholder could own at their wish shares of Banco de Bogotá here in Colombia or have shares of BAC Holding International in Panama, which is going to be holding the whole BAC operation, which is the bank in Central America. That would be the first bank in Central America with the possibility of having shares listed in the case of Panama, the Panamanian stock exchange, in the case of Colombia, the Colombian stock exchange. So that will provide quite a flexible option to shareholders to own either one, the other, or both of them, which will really be very attractive in general terms.

Operator: Thank you. We have a follow up question from ***Rodrigo Sanhueza***, from ***Pine Bridge Investments***.

Rodrigo Sanhueza: Yes, thank you for the follow up. Again, not my intention to make any value judgment or beating a dead horse here. So now in Central America and maybe on corporate governance too. So the Porvenir divestment was announced one day after the resignation of the CFO. I know it might not very well be the explanation, all the transactions that were made, but the story being told about the bank was different a year ago, so I just want to understand maybe if you could provide more color on what guarantees do you give to stakeholders in the bank in the future and maybe share some of the main discrepancies that management or the board had at the time. I understand that there is an AT1 that the holding company has on BAC and that may be one thing, right? But I just want to have more clarity on this topic. If you could provide any color, it would be very helpful.

Javier Dorich: Well, first of all, that's a mere coincidence, because those two events that you're mentioning are not related at all. We have a very strong corporate governance here at Banco de Bogotá and also at BAC Credomatic. And that decision was made at all levels and we didn't see anyone saying the opposite to that. So as I mentioned, that's only a coincidence.

Operator: Thank you. Once again, if you have any questions, please press star one (* 1). At this moment, we show no other questions. I would like to hand the call over to Mr. Figueroa for closing remarks.

Alejandro Figueroa: Thank you very much to all of you for attending this meeting and we are open to any other questions that you may have in the next meeting. Thank you again.

Operator: Thank you. This concludes today's conference. Thank you very much for your assistance. You may now disconnect.