1Q 2021 Results
Banco de Bogotá

Information reported in COP and under IFRS.

Monday, May 24th, 2021.

CORPORATE PARTICIPANTS

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Operator:

Welcome to the 1Q 2021 consolidated results conference call. My name is Karen 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, Karen.

- Good morning ladies and gentlemen and welcome to Banco de Bogotá's Q1-2021 earnings call. Thank you all for joining us today – we hope that you and your families have continued to stay safe.

- Our primary commitment has always been, and continues to be, our clients, our employees and our broader communities. We've played an active role in fostering development in the jurisdictions where we operate, as evidenced by our more than 150 years in business, and as such I'd like to begin by commenting on economic growth in Colombia in the first quarter of 2021, which brought a much welcomed surprise by returning to positive growth of 1.1% after three contractionary quarters. In particular, the segments that contributed to this result were Other Services, mainly Industrial Production, Artistic activities, and Financial Services. This outcome has led us to revise our projected growth for the year upward from 4.7% to 7.0%, assuming the recovery continues.

- Now, I would like to share the highlights of our quarterly results. Banco de Bogotá's Attributable Net Income for Q1-2021 amounted to $709.9 billion pesos, increasing 31.3% from Q4 2020. As a result, our profitability levels rebounded to a 1.4% return on average assets and a 13.5% return on average equity. A combination of factors led to these results, including steady Net Interest and Fee income as well as a reduction in provision and operating expenses. Compared on an annual basis, which is against pre-COVID Q1 2020, net income was only lower by approximately 4%, illustrating almost a full reversion to previous returns.

- Moving to our key performance ratios:

    - Net Interest Margin came in at 4.6% for the quarter, mainly impacted by lower yields on our investment portfolios and lower central bank interest rates.

    - Fee income came in just below $1.3 trillion pesos for the quarter, signaling recovery towards pre-pandemic levels and leading to a fee income ratio of 34.2%.

    - And thirdly, continued expense control led to a 6.1% annual reduction in operating expenses when excluding FX and MFG impacts. This resulted in a 49.3% efficiency ratio, which is more than 200 basis points better than Q1 2020.

- Moving to the Balance Sheet, gross loans amounted to $142.7 trillion pesos, representing an annual increase of 5.8%, or 1.4% when excluding MFG and FX fluctuations. Deposits presented a 7.9% yearly growth, or 5.2% excluding FX and MFG. Our deposits to net loans ratio for the quarter was 1.15x reflecting our prudent liquidity position.

- Regarding credit quality, our 90 days Past Due Loan ratio increased 38 bps annually, which was expected as forbearances expired gradually throughout the past year.

- We closed Q1-2021 with a 2.4% Net Cost of Risk, sharply contracting from the 3.9% level registered last quarter. Our prudent approach to provisioning led to high levels of expense throughout 2020, closing last year with a reserve that should permit our cost of risk in 2021 to converge towards historical levels, assuming no further deterioration of our operating environment.

- Finally, on Capital Adequacy, Q1-2021 marks the transition to reporting solvency ratios under Basel 3 standards. Total Tier 1 came in at 10.4%, presenting a 144-bps quarterly increase, in line with the top-end of our previously shared estimated range. Total Solvency was 12.8%, reflecting our robust capital position.

- In terms of our guidance for 2021:
    - For loan growth we expect around 8%
    - Our net interest margin target is around 5%.
    - Cost of Risk should start normalizing towards levels between 2.25% and 2.5%.
    - Our fee income ratio should be close to 35%.
    - Our Efficiency ratio should be around 50%
    - And in terms of profitability, our ROAA and ROAE should come in at around 1.2% and 11%, respectively.

Now, I would like to hand over the presentation to our Executive Vice-president, Mr. Julio Rojas Sarmiento, who will provide an overview of our results.

Julio Rojas Sarmiento:

Thank you, Alejandro and good morning to everyone who has joined our call today.

I would like to take a few minutes to go over two key dimensions: Digital and ESG.

- As we have previously shared, one of our business pillars is the continued transformation and digitalization of our operations. On the next slide we'll provide some quantitative metrics, but here I'd like to mention a few key initiatives at a higher-level.

- In particular, we've focused on improving the user experience of our clients in order to increase digital adoption and facilitate 24x7 access to our financial products and services. In Q1-2021 we launched our new mobile banking app in Colombia, which was entirely developed in-house. Not only is this a more efficient solution from a cost perspective, but more importantly, it permits significantly quicker time-to-markets and differentiated product offerings. New features include enhanced security, a more user-friendly interface with over 80 transaction possibilities, the integration of products held by our customers in other Grupo Aval banks and access to our digital attention channels. In Central America, we have implemented a new virtual banking interface for both our retail and corporate segments, which was redesigned to improve self-service and access to digital products in addition to continued enhancement of our mobile banking platform.

- We also take pride in offering one of the most comprehensive digital portfolios, to which we are constantly adding new products. In 2020 alone we launched 7 new products and we are currently piloting several ideas, such as a savings account targeted to the base of the pyramid and SME-oriented savings and credit products.

- Additionally, we are prioritizing the development of digital ecosystems. Both in Colombia and Central America we released a mobility platform that integrates dealerships' offers, financing alternatives from our banks, and insurance coverage. BAC has also already implemented a real-estate platform, and we are in the process of developing something similar in Colombia through Grupo Aval's digital lab. Moreover, in Central America our ecommerce platforms have supported merchant and customer penetration through initiatives as Mipromo and Compra-Click, while in Colombia we are increasing our presence in virtual marketplaces.

- Lastly, we've continued to make progress in the digitalization of our back-office operations, allowing us to streamline expenses and reallocate capital. For example, by rolling out our "digital client folder" initiative, we were able to shift almost 10% of the in-branch work force from internal operations towards more client-facing responsibilities.

- We feel fortunate that the aforementioned efforts have been recognized by international publications, with Global Finance naming us the Best Digital Consumer Bank in 2020 and World Finance naming BAC Credomatic the Best Consumer Digital Bank in the countries where it operates.

- Another important focus I'd like to highlight is our ESG strategy, which has a few prongs:

  - First, through our sustainable development credit lines, we are financing endeavors that positively impact our environment and society. We have originated more than $81.5 billion pesos in Colombia and $780 million dollars in Central America through these lines, as we continue to see sustainable financing as a growth opportunity.

  - We are also committed to making our own operations greener, aiming to achieve carbon neutrality by the implementation of several programs. To give you just a few examples, in Colombia and Central America we have installed more than 650 solar panels across different headquarters. We have also joined the Saving the Amazon organization in their reforestation efforts, by financing the planting of one tree for each digital term deposit opened in Colombia.

  - Third, our social outreach programs are incredibly important to us. In Colombia we've far exceeded expectations with our co-branded UNICEF debit card supporting Colombian children's welfare. To date, we've issued over 155,000 cards. In Central America, through BAC's "Yo Me Uno" initiative, we have donated over $4 million dollars to 280+ NGOs supporting social programs throughout the region.

  - A fourth component of our strategy is focused on financial education. In Colombia, in addition to providing education tools, we recently launched our "Mejores Empresas Colombianas" program with the Competitiveness Center of Universidad Javeriana in which we seek to advise and support SMEs in their growth plans. In Central America, over 22.000 SMEs have participated in our entrepreneurial educational sessions and we continue to offer virtual programs aimed at increasing financial inclusion.

  - Finally, both Banco de Bogota and BAC Credomatic have adhered to several international ESG frameworks, such as the UN Global Compact, in order to support the movement towards meeting Global Sustainable Development Goals. BAC is a signatory of the United Nations Environment Finance Initiative while Banco de Bogota has adhered to the Equator Principles and was included in S&P Global's Sustainability Yearbook for 2021.

Turning to ***slide five***, you can see some of the key results around our digital efforts.

- Since the conceptualization of our strategy approximately 5 years ago, we opted for making the Bank's digitalization a core competency, as opposed to outsourcing it or creating a separate entity. Incorporating digital capabilities into our organization presented its challenges initially, but the successful results we've achieved over the past years, as well as the increasing importance of digital on a day-to-day basis, have proven that our initial thesis was correct. This wasn't a nice to have, this was a must have.

- During 2020 our digital solutions, both from a sales and customer support standpoint, were our most important distribution channels. In Q1-2021, we sold 452,000 units digitally, representing a 64.3% CAGR when compared to Q1 2019. You can see that in Colombia, our digital sales' share is over 70%, well above the 50% market average, a result that we attribute to our comprehensive portfolio and the implementation of a leading point-of-sale financing platform across several merchants. In Central America, our digital sales' share reflects a tailored strategy to the particularities of each of the 6 countries where we operate. While the figure is much lower than where we are in Colombia, we nonetheless are leading the digital banking transformation of the region.

- Regarding digital users, we have reached a milestone by achieving more than 2.6 million active users, between Banco de Bogotá and BAC, at the end of Q1-2021, increasing 78% since Q1-2019. This is the result of our continued efforts to improve our mobile and virtual banking platforms, which in turn help us reach higher levels of digital adoption.

- On the bottom left, you can see that our digital platforms continue to be our customers' preferred channel on which to perform transactions, with a 26.4% CAGR and more than 502 million digital transactions performed during Q1-2021. In fact, 86% of our total transactions are now digital.

- Regarding our omni-channel strategy, we have continued implementing digital formats in our branches, reaching 46 digital branches by March 2021. Transformation of our storefronts add to the satisfaction of our customers, evidenced by the increase in our Net Promoter Score, which correlates to brand loyalty. This has been complemented with an optimization of our branch network, where we have closed over 162 full-service locations over the last two years, ensuring sustained efficiency in our operations as our digital investments are self-funded by a cost-effective reallocation of resources.

Now, I will turn the presentation over to our Head of Corporate Development, FP&A and IR, Mr. Diego Rosas, who will provide a macroeconomic overview as well as review our financial results in further detail.

<u>Diego Rosas:</u>

Thank you, Julio and good morning everyone. I would like to start by providing a macro-overview on Colombia presented on ***slide six***.

- Colombia faced the second peak of the pandemic at the beginning of the year, affecting the recovery of the economy, although with a milder impact than in the previous peak faced in Q3-20. The reopening of the economy during February and March was enough to register annual growth of 1.1% in the first quarter. The monthly activity data showed that the biggest shock occurred in January, with growth picking up to 12% in March. For Q2-21, the high-frequency indicators started showing an impact from the third wave of the pandemic, which peaked in April and led local authorities to take new social distancing measures. However, beginning in April the statistical base effects will be observed, which should lead the economy to positive annual variations for the remainder of the year. For the month of May, real time data point towards lower activity due to road blockings around the country. The final impact will depend on the extent of these.

- Nevertheless, the good results from activity in the first quarter led to our Economic Research team to review their 2021 growth forecasts from 4.7% to 7.0%. Based on the fact that in March, both the primary and tertiary sectors, in monthly terms, reached pre-pandemic production levels, an event that was not expected to happen as soon as it did.

- Furthermore, upward revisions in growth expectations have been plenty so far this year, with entities such as the central bank, the International Monetary Fund and rating agencies, all of whom are more optimistic with the recovery of the Colombian economy in 2021.

- The second peak of infections in January also affected the labor market, pausing the recovery of the jobs lost from the pandemic. Nonetheless, the gradual reopening of the economy in February and March led to a recovery of 80% of the jobs lost during the pandemic, with the number of employed Colombians again exceeding 21 million. The seasonally adjusted unemployment rate was 13.9% in March, still higher than before the pandemic.

- Inflation continued to decline in the first quarter, closing at 1.5% annually, although the monthly results have surprised analysts and the central bank, causing an upward revision in year-end expectations. In recent months, food and utilities have explained the positive surprises in consumer prices. For April, inflation ticked up to 2.0%, reaching the lower end of the Central Bank target. Our Economic Research team forecasts inflation of 3.2% for 2021.

- The persistent weakness in activity and the relatively good behavior of inflation have led the central bank to keep the interest rate at 1.75%. Our Economic Research team and most analysts expect stability to remain in 2021 and only until the first half of 2022 will the first increases occur.

- The pandemic caused a deterioration in the fiscal accounts with a deficit of almost -8.0% of GDP last year and possibly higher in 2021, while public debt will be around 65% of GDP for the central government. To face the complex fiscal situation, the Government presented a Tax Reform to Congress that did not garner political and social support. This precipitated the resignation of the Minister of Finance, Mr. Alberto Carrasquilla, being replaced by Mr. José Manuel Restrepo, who previously served as Minister of Commerce, Industry and Tourism. The new Minister will seek consensus to build a tax reform that would raise $ 14 trillion pesos. To increase tax collection, the new Minister has mentioned surcharges on income tax rates for individuals and companies, taxes on dividends and extension of the wealth tax. The new tax reform should be accompanied by the renewal of the Fiscal Rule, seeking to maintain the sustainability of public accounts. In the short term, some uncertainty persists around the discussion of these proposals, but Colombia has always been characterized by its commitment to fulfill its obligations and by its compromise to achieve measures to improve its fiscal status.

- Standard and Poor’s lowered Colombia's sovereign rating from BBB- to BB+, and changed the outlook from negative to stable, after 10 years of having investment grade with this agency. The political and social context added to concerns about the fiscal situation. The other rating agencies must also be apprehensive about this situation. Fitch could make an announcement in the short term, downgrading the rating and technically leading the country to lose investment grade. The risk is lower with Moody’s, given that it rates the country two notches above investment grade. Regarding the impact on the country's financing, the modest reaction of interest rates markets and the exchange rate confirmed that the downgrade scenario had already been discounted, also limiting the impact on the economy.

- Volatility continued in the foreign exchange market. In the first part of the year, the exchange rate traded below $3,500 per dollar, but the change in expectations for an earlier than expected normalization of US monetary policy caused a devaluation, bringing the exchange rate above $ 3,700.

- Finally, exports and imports have registered a similar behavior in the past months, keeping the trade imbalance above USD10 billion. The weakness of coal and oil production has limited the recovery of exports, while imports remain constrained by weak economic activity, although they have been recovering.

Moving to ***slide seven***, we present the macro evolution in Central America.

- The most recent estimate from the International Monetary Fund for the Central America region is that activity shrank -7.6% in 2020. This reflects the impact of harder confinement measures in Panama to contain the pandemic and the external demand weakness. However, the region benefited from the reduction in the oil bill from the previous year, with a favorable impact on its external accounts. It is worth mentioning that Panama, El Salvador and Honduras presented the largest activity contraction in the region due to their high exposure to international trade.

- However, the Central American economy started to recover in the second half of 2020. This process paused at the end of the year due to the partial renewal of the containment measures, but at the end of January 2021 the process resumed. In line with the moderation of confinement, but also with the reactivation of global activity, the Central American economy regained its footage. Besides, the vigorousness of remittance flows, which has mainly favored Honduras, El Salvador, Guatemala and Nicaragua, has also helped the recovery.

- After the challenging economic context of 2020, the IMF forecasts the region will grow 5.7% in 2021. This outlook is more favorable than the one estimated in October, when the forecast was 3.5%. An improvement in economic confidence related to the local vaccination progress is expected, as some countries pull ahead from the average of emerging economies. Besides, the countries affected by storms Eta and Iota have planned infrastructure reconstruction works, which will add to the economic growth. From the external perspective, the solid US recovery, the region's main trading partner, will be a favorable tail wind through trade and remittances. As the global vaccination process advances, a consolidation of the best external conditions for the region is expected.

- I would like to highlight the expectation of Panama’ s economic recovery, which is expected to have the best growth in the region this year coming in at 12.0%. International trade should considerably favor Panama not only because of its external openness but also because of the Canal's activity. In addition, while the spread of the virus last year pushed Panama to establish strict containment measures, this year the outlook seems more favorable as its vaccination progress exceeds that of other emerging countries relative to the size of its population.

- Moving to monetary policy, all central banks in the region kept their expansive monetary policies, the result of a significant reaction to the health emergency. In line with the global perspective of a reversal in these factors that kept inflation low during last year, an inflationary rebound is expected in Central America that could lead central banks to anticipate the normalization of their monetary policy in the medium term.

- After the pandemic hit, the fiscal outlook for most of the countries in the region deteriorated. Rating agencies changed the sovereign debt outlook to negative in most countries. However, great attention is in Panama, Costa Rica and El Salvador. Although all rating agencies downgraded Panama's sovereign debt, there is no perceived risk of investment grade loss as economic recovery supported on global trade pick-up reinforcing Canal’s activity, economic reopening and vaccination progress offsetting further downgrade risks. Additionally, Panama has been able to access financing, both from IMF and the markets, the latest being a $2.7 billion dollar loan from IMF’s Precautionary and Liquidity Line disbursed in January.

- For its part, Costa Rica was also downgraded and maintained a negative outlook. Additional rating cuts are not deemed probable as the IMF approved a $1.75 billion dollar loan to support the country's macroeconomic stabilization. Thus, an improvement or degradation in the rating depends largely on the approval of the program outlined between the economic authorities and the IMF in the National Assembly.

- Similarly, Salvadorian authorities are in talks with the IMF to obtain financing for $1.3 billion dollars, which will surely be conditioned to a macroeconomic stabilization plan hence mitigating credit risks.

- Regarding Guatemala, Honduras and Nicaragua, stability in most of their ratings and access to financing lines of the IMF and other multilaterals as well as market resources, reduce rating downgrade risks.

Having reviewed the main economic highlights, on ***slide eight*** we move to the detail of our results for the first quarter of 2021.

- Regarding the evolution of our Balance Sheet, total assets reached $218 trillion pesos, growing 5.0% on a yearly basis and 4.5% quarterly. Excluding FX impact, assets increased 10.2% and 0.7%, respectively.

- In terms of composition, our assets breakdown is led by the loan portfolio, representing 62.8% of total assets, while other assets, fixed income investments and equity investments represent 20.1%, 13.2% and 3.9% respectively.

- The consolidated Gross Loan Portfolio amounted to $142.7 trillion pesos increasing 5.8% annually and 5.0% on a quarterly basis. Excluding Multi Financial's portfolio and FX, Gross Loans increased 1.4% yearly and 1.3% in Q1.

- Our highly diversified portfolio across economic sectors continues to benefit our quarterly results supported by the growth of our commercial, consumer and mortgage portfolios.

    - First, our commercial loan book, representing 58% of the gross loan portfolio, grew 1.5% during the quarter when excluding MFG and FX impacts. In line with economic recovery dynamics, we are observing a slight increase in corporate credit appetite which led to a 1.6% and 1.4% quarterly growth in Colombia and Central America, respectively.

    - Consumer loans quarterly increased 0.6% when isolating MFG and FX fluctuations, comprising 27% of our total loan portfolio. Conservative lending and lower demand both in Colombia and Central America have led to a more nuanced growth in this segment.

    - On the mortgage side, we continue to observe momentum with a 1.9% quarterly growth after MFG and FX, reaching a 14% share of our loan mix. Our preference for secured lending and positive reception of our digital mortgage product have supported growth.

As previously shared, for 2021 we expect loan growth to be around 8%.

Turning to ***slide nine***, we present our consolidated loan portfolio quality.

- Starting with PDLs on the top left, we see a stable 30-day PDL ratio at 4.7% and a slight quarterly improvement in 90-day PDLs which reached 3.2% as of March 2021. This behavior is mainly explained by a generalized economic reactivation supporting adequate payment performance and the implementation of renegotiations for most affected borrowers.

- Consolidated Net Cost of Risk, shown on the top right, decreased to 2.4% which represents a quarterly improvement of 146 bps driven by lower provision expense. As we have previously shared, our conservative and preemptive approach to reserve build-up led to significant provision increases throughout 2020 in order to adequately cover expected deteriorations in 2021. Net provisions totaled $834 billion pesos, a decrease of more than $500 billion pesos versus 4Q 2020 in line with our guidance of a Cost of Risk between 2.25% and 2.5% for 2021.

- On the bottom left, we observe that our Charge-Off' ratio increased to 0.88x, mainly coming from an increase in the Colombian operation. These charge-offs obey the expected portfolio performance on a portion of the loans that migrated into default after relief measures expired.

- From a coverage ratio perspective, in Q1-2021 coverage remained in line with previous quarters levels with allowances that cover more than 1.6 times our 90 days PDLs and 1.1x our 30 days past due loans. Our allowance to gross loans ratio stands at 5.2%

On ***slide ten***, we present the geographical breakdown of our loan quality ratios.

- In Colombia:

    - At the end of March, our 30 and 90 days PDL ratios grew 20bps and 5bps compared to the previous quarter mainly explained by expected arrears' migration after grace periods expired, mostly on unsecured consumer loans.

    - As we mentioned in previous calls, Avianca represents our most significant exposure with a $636.4 billion pesos principal of which 73.1% is backed by credit card receivables, 17.9% has a real-estate guarantee on the company's headquarters in Bogotá and 8.9% is unsecured. At the end of Q1-2021, we had reached a 44.5% provision level of the consolidated loan balance. As Avianca continues its reorganization proceedings, we have actively engaged in conversations and are optimistic that we are close on coming to a conclusion that is beneficial for both parties.

    - Net Cost of Risk decreased 197 bps in the quarter to 3.0%, given a 39.5% contraction in provision expenses versus Q4-2020, as we previously explained.

    - We maintain a coverage level above 1.1x for 30-days PDLs and close to 1.5x for 90-days PDLs.

- Moving to our Central America operation:

    - Regarding loan quality in the region, we see stable 30 and 90-days PDL ratios as portfolio performance has benefited from a pickup in economic activity.

    - Moving to Net Cost of Risk, there was a significant improvement to 1.9% from 2.9% on the previous quarter as provision expense levels begin to converge to pre-pandemic figures. These levels are supported by economic reactivation, validating our macro forecasts used in our Expected Loss Model, and controlled PDL formation.

    - Charge-off ratios remained in line with historical levels as active forbearances, excluding Panama, are minimal and most impacted loans rolled-off into default.

- Coverage levels in Central America are 1.1x for 30-day PDLs and 1.9x for 90-day PDLs.

On ***slide 11***, we present a breakdown by segments of our consolidated loan portfolio quality in terms of 30 and 90 days PDLs.

- In the Commercial loan portfolio, our delinquency ratios decreased 17 bps and 28 bps in the quarter, respectively. This was partly due to the charge-offs performed during the quarter, which were atomized across exposures as there was no relevant single-name concentration.

- The deterioration in PDL ratios for consumer loans is mainly explained by Colombia unsecured products such as personal loans, credit cards and revolving lines coming off of relief measures.

- Finally, both 30 and 90-day PDLs on the Mortgage portfolio remained relatively stable, compared to the previous quarter, at 4.5% and 2.7% respectively.

On ***slide 12***, we provide an update on our Loan Relief Program.

- By the end of Q1-2021, 6.8% of our consolidated loan book is still benefiting from a grace period, down from 8.2% at the end of 2020. Most of these active reliefs belong to our Panamanian portfolio, both from BAC and MFG, as moratorium is in place until June 2021. Panama explains 11.3 percentual points of the 12.6% share of loans with an active first-generation relief in Central America.

- Regarding second-generation reliefs, where we provide structural solutions through a renegotiation of credit conditions, we had a quarterly increase from 7.1% to 8.4% at the end of Q1-2021 on a consolidated basis.

- In Colombia, these second-generation measures are granted under the Programa de Acompañamiento a Deudores, PAD. 7.3% of our local loan book has renegotiated its credit conditions, up from 6% last quarter. It is important to note that applications to the PAD program can be requested until June 30th, 2021 as mandated by the local regulator.

- In Central America, we have implemented similar initiatives, with 9.3% of our portfolio having been renegotiated, increasing from an 8.2% level registered at Q4-2020. Honduras and Costa Rica contribute with over 70% of the renegotiations.

- Finally, I would like to highlight the positive payment performance that we have observed on our loan portfolio: 88.5% is performing by the end of Q1, increasing from 87.1% at the end of 2020.

Slide 13 presents a breakdown of our funding structure.

- Total funding amounted to $188.9 trillion pesos in March 2021, which represented an increase of 5.1% versus Q4-2020. When excluding the impact of FX and MFG, quarterly growth was 1.5%.

- As of March 2021, funding was mainly comprised of deposits, which represented 82% of total funding, followed by banks and others, with 8.5%, decreasing over the last quarter as a result of a continued optimization of funding sources.

- Moving to Long Term Bonds, we note an increase due to the Ordinary Bond issuance in February 2021 that amounted to $600 billion pesos. This issuance is the second of our Bond Issuance Program in Colombia. As a result, bonds at the end of the quarter accounted for 7%. Lastly, Interbank Borrowings added the remaining 2.5% to our total funding.

- As presented on the top right, total deposits totaled $155 trillion pesos, increasing 7.9% Y-o-Y and 5.2% excluding the FX and MFG effects. Deposit compositions remained similar to Q4-2020.

- Our deposits to net loans ratio remained stable at 1.15x in the quarter.

Let's continue with ***slide 14***, where we present our equity and solvency levels.

- Total equity was $22.3 trillion pesos at March 31st, 2021, representing an annual growth of 2.3% and a 1.0% quarterly reduction. Positive accretions to our equity during the quarter include a reserves' increase, as approved by the General Shareholders' Meeting held on March 25th, and a 41.3% increase in Other Comprehensive Income to $1.37 trillion pesos. Expected seasonality on the Net Income account negatively impacted the equity as it includes only the results from the first quarter instead of the full year accumulated earnings as it was the case in Q4-20, leading to the aforementioned 1.0% quarterly decline.

- Regarding consolidated solvency ratios, our Total Tier 1 was 10.4%, which includes a CET1 of 9.1% and an AT1 of 1.2% under Basel III standards, very much in line with our previous projection and well above the minimum regulatory requirements. Tier 2 stands at 2.5%, reflecting the annual reduction in capital credit of our subordinated issuances, leading total solvency ratio to 12.8%.

- Under Basel III, our total Tier 1 capital increased mainly due to 3 elements: i) the reduction in credit RWA density, ii) the recognition of current period retained earnings and additional reserves as CET1 capital, and iii) a more efficient treatment of our non-consolidated significant investments.

- Partially offsetting that increase was:

    - First, the goodwill associated with the acquisitions of BAC Credomatic and Megabanco are no longer grandfathered as per previous regulation and in turn, have been deducted in full from our CET1 calculation.

- Secondly, over the next 3 years, our CET1 will gradually recognize our OCI's foreign currency translation adjustments. This is related to the hedging strategy of our Central American operation, which in large part was mandated by Colombian regulation. We expect that the Bank's organic generation of capital and balance sheet optimizations will replace this over time, with a current view of being around 9% or higher CET1 in the medium term.

Moving to ***slide 15***, we show the evolution of Net Interest Income.

- Net Interest Income for Q1-2021 was $2.0 trillion pesos, showing annual and quarterly growths of 0.5% and 0.7%, respectively, when excluding the effect of currency fluctuations.

- Total NIM for the quarter was 4.6%, contracting 18 bps when excluding MFG versus Q1-2020, driven by a lower lending NIM, particularly in Central America.

- Quarterly movements on Total NIM are due to a lower investment margins, primarily in Colombia, as a result of more muted rate movements and lower gains generated from the fixed income portfolio. This impacted both Banco de Bogotá and Porvenir.

For 2021, NIM is expected to be around 5%, as we expect stability of benchmark interest rates for the remainder of the year.

On ***slide 16***, we provide detail on fees and other income.

- Gross fee income in Q1-2021 remained at similar levels to those of last quarter and one year ago, at $1.3 trillion pesos. This is the second consecutive quarter that we have seen consolidated fee income at pre-pandemic levels, reflecting the strength of banking and pension fees, which had taken a toll especially in 2Q-2020. Consequently, our fee income ratio rebounded to 34.2%.

- Our fee income contribution comes mainly from Banking and from Pension fees, at 69.6% and 25.0%, respectively. The latter showed a 4.6% increase, explained by seasonality in Porvenir mainly from the severance business. On the other hand, credit card fees were impacted negatively as there was still some decline in usage present.

- In terms of guidance, we foresee a fee income ratio around 35% supported by transactionality reflecting increased economic activity.

- At the bottom of the slide you will find the details of our Total Other Operating Income, which showed a 30.2% annual increase, explained by the following:

    - Equity method income, which is mainly driven by Corficolombiana's results, increased 15.6% annually as progress on infrastructure projects and dynamics on the energy business recovered throughout 2020. Moreover, quarterly results were also supported by higher dividend income from Empresa de Energía de Bogotá.

  - Other income closed at $191.1 billion pesos, increasing 79.4% on a yearly basis, derived from net gains of investment sales in Costa Rica, Panama and Guatemala.

  - On a quarterly basis, we observe a 46% reduction in our net derivative and foreign exchange gains as in Q4-20 we repatriated dividends from our foreign subsidiaries increasing our foreign exchange gains.

Now, let's continue with our efficiency metrics, presented on ***slide 17***.

- Our efficiency ratio closed at 49.3% in the first quarter of 2021, reflecting an improvement of 216 bps over the same quarter in 2020. Excluding MFG, efficiency would have been 49.0%.

- It is important to underscore our cost control efforts, demonstrated by a 6.1% annual decrease in Operating Expenses excluding MFG and FX impacts. As we have mentioned before, improvement in our operations' efficiency is a strategic pillar, with Administrative Expense' reduction, specifically through optimization of the branch network and continued emphasis on digitalization, driving efficiency levels below our guided 50%. This is an even more important lever to generate returns in this type of environment, where revenue is facing headwinds from lower central bank rates and still reduced consumer activity.

- In quarterly terms, deterioration of the efficiency ratio is primarily explained by the denominator side of the equation.

- Our Cost to Assets ratio also reflects the results in efficiency, with a 40 bps decrease in annual terms to 3.4%.

As we continue to strictly control our expenses, our target efficiency ratio is around 50% for 2021.

Turning to the last slide, we present our net income and profitability ratios.

- During the quarter, Attributable Net Income totaled $709.9 billion pesos, decreasing only 3.9% annually versus Q1-20, which in Latin America was predominately a pre-COVID period. In particular, stability on net interest income and net fee income combined with a decreased provision expense and savings in general and administrative costs, explained the 31.3% quarterly increase of our bottom line.

- Our positive net income results led to strong profitability. During the quarter, return on assets reached 1.4% and we maintained a solid two-digit return on equity of 13.5%.

- For 2021, our ROAA and ROAE should come in at around 1.2 and 11%, respectively.

Before starting our Q&A session, our guidance for 2021 is:

- Loan growth around 8%
- Consolidated NIM around 5%
- Cost of Risk between 2.25 and 2.5%
- Fee income ratio close to 35%
- Efficiency ratio to be around 50%
- Regarding profitability, our ROAA and ROAE should come in at around 1.2% and 11%, respectively.

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 (*), 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're 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.

And we do have our first question from Daniel Mora, from Credicorp.

Daniel Mora: Hi, good morning. Thank you for the presentation. I have today several questions. The first one is regarding capital ratios. Do you feel comfortable with the current level of CET1 ratio under Basel III standards, considering that main peers in Colombia report to this indicator about 11%? Or are you planning any strategy to improve the CET1 ratio?

The second question is regarding provision expenses. We observe a strong quarterly reduction in the cost of risk. Can we expect a similar trend around these levels in the coming quarters? Or there could be any pressures, considering the current social unrest in Colombia?

And the third and last question is the profitability guidance was around 11% for 2021, this number seems low, considering the 13.5% reached in the first quarter. What will be the drivers for this reduction during the coming quarters? Thank you so much.

Julio Rojas Sarmiento: Great. Thank you, Daniel, for your questions and I'll take them in order.

Your first question was around capital and whether we feel comfortable with the approximately 9% CET1. And the answer to that is that we do, for a couple of reasons. One, when you look at our organic capital generation, as we have a higher ROE than peers have had over the recent period, that provides us with an ability to organically generate capital more quickly. Secondly, it is a reflection of the way that we want to manage capital is we want to be comfortably above regulatory minimums, but on the flip side, we don't want to be overly capitalized. And I think maybe perhaps it also reflects our outlook of how we feel on the credit situation, and this is going maybe into the second question: we don't expect significant deterioration around credit, while perhaps others do. And I don't know the answer to that. But we feel that the loan book is fairly well contained. All of that obviously depends upon how the situation, particularly in Colombia, continues to unfold. In Central America, we haven't seen anything similar, but it will depend on how the situation in Colombia continues to unfold.

So as to your question on cost of risk, as you saw for this past quarter, our cost of risk net of recoveries was 2.4%. We're guiding in the 2.25% to 2.5% range. We feel like we have a reserve established last year, which is part of the jump in the Q4 numbers in particular. And for now, as long as the situation in Colombia and the economic reactivation continues, our expectation is that it, after the current tensions die down, should provide our ability to generate a cost of risk that's roughly in that range.

To your third question around profitability guidance, you're right that our ROE for the quarter is above the ROE that we're sort of guiding towards on a full-year basis. And there's an element of seasonality, a bit around fees, there's a bit of a seasonality around operating expenses. And as we put it all together, I think that 11% is probably a conservative number to guide to. As you know, generally, we've sort of beaten that in the past. But I think 11% is a reasonable number to guide to, given what we're seeing, for the rest of the year, which to be in double digits again this year is positive, from our perspective.

Operator: Perfect. And as a reminder, if you do have a question, please, press star (*) then one (1) on your touchtone phone.

And it looks like we have no further questions at this time. Now I'll turn the call over to Mr. Figueroa for closing remarks.

Alejandro Figueroa: Thank you very much to all of you for attending the meeting and we hope that you and your families stay well. Thank you very much again.

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