Banco de Bogotá

Q3-2023 Results

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CORPORATE PARTICIPANTS

César Prado: Banco de Bogotá – CEO

Germán Salazar: Banco de Bogotá – Executive Vice-president.

Javier Dorich Doig: Banco de Bogotá – Head of IR and Corporate Development.

Operator:

Good morning.

Welcome to Banco de Bogotá's Q3-2023 consolidated results conference call. My name is Karen, and I will be your operator for today´s conference call.

At this time, all participants are in a listen-only mode. Afterwards, management will be available for a Q&A session. Please note that this conference is being recorded.

We also advise you to read our disclaimer available on slide number 2. When applicable in this webcast, we refer to trillions as millions of millions and to billions as thousands of millions.

Thank you for your attention.

Mr. César Prado, CEO of Banco de Bogotá, will be the host and speaker today. Mr. Prado, the floor is yours.

César Prado:

Thank you, Karen.

Good morning, everyone, and welcome to Banco de Bogotá's third quarter 2023 earnings call. Thank you all for joining us today.

This has been a difficult quarter, not just for Banco de Bogotá and the banking sector, but for the country in general. The Colombian economy has shown signs of deceleration this year and although the outlook is not too alarming, we do expect a slow end of the year and a still difficult 2024. Inflation remains stubbornly high, yet it has receded 2.9% since its peak in March. Interest rates have had a stronger and longer peak than anticipated, and doubts arise as to the timing and level of policy easing.

Colombian banks have had several problems: in general, a faster increase in cost of funds than asset yields has contracted net interest margins. Likewise, several banks face pressure from loan deterioration, which has been especially strong for consumer loans. Efficiency has been somewhat lower in general, as operating expenses may be linked to inflation or foreign currency.

In our case, net interest margin did contract slightly, as we had anticipated a reduction in central bank rates earlier. Regarding loan quality, while 90-day PDLs deteriorated slightly, 30-day PDLs remained at the same level. This is a good omen for better times to come. As stated in previous calls, we expect this third quarter to be our peak in loan quality deterioration.

As for my role in Banco de Bogotá, my main focus is to get acquainted with every aspect of the Bank, while conducting an extensive revision of our strategy. In the meantime, I would like to emphasize the Bank's strong commitment to improve profitability going forward, approaching our cost of capital in the shortest time possible.

Now, let me summarize the Bank's consolidated third quarter results:

- Profitability was abnormally low this quarter, with an attributable net income of $146.4 billion pesos, which resulted in annualized profitability ratios of 3.8% for return on average equity and 0.4% for return on average assets.

- Net Interest Margin decreased 16 basis points this quarter to 4.5%, driven mainly by a 94 basis point lower investment NIM, while lending NIM remained relatively stable.

- Fee income ratio increased by 152 basis points, to 29.1%, driven by a 1.5% increase in fee income during the quarter.

- Efficiency, measured by Cost to Income, continued at 50.6% this quarter. Cost to assets ratio stands at 2.6%, in line with past figures.

- Gross loans amounted to $100 trillion pesos, which is a 2.3% quarter-on-quarter increase or an 8.4% year-on-year increase. When excluding FX fluctuations, quarterly and annual loan growth was 2.8% and 10.8%, respectively. Consumer loans led the increase in relative terms. It's important to point out that this segment's growth was mainly in payroll loans, which show improving behavior in PDLs and cost of risk.

- Deposits totaled $91.2 trillion pesos this quarter, a 1% quarterly increase. When excluding FX movements, deposits show a 1.4% quarterly growth. The ratio of deposits to net loans remains almost unchanged, at 0.97x.

- Deposits decreased their share of funding, reaching 76.5%, losing 1.2 percentage points in the quarter. Deposits lost ground this quarter to funding from interbank and other Bank borrowings.

- Loan quality is showing signs of stabilizing this quarter, as the 30-day PDL ratio remained stable at 5.6%. Some products, such as working capital loans, overdrafts, and payroll loans have shown improvements on the 90-day PDL ratio.

- Net cost of risk stands at 2.9%, a quarterly increase of 68 basis points. We expect cost of risk to have reached its peak this quarter.

Now I will turn the presentation over to Germán Salazar, Banco de Bogotá's Executive Vice-president.

Germán Salazar:

Thank you, César, and good morning all.

Let's move to ***slide 4***, where we present highlights regarding our digital strategy.

During this quarter, due to the macroeconomic and market risk environment, we implemented a conservative risk strategy for consumer products. All efforts were focused on product enhancement and on protection of conversion levels. We are committed to improve consumer products and to digitally transform the corporate business by transferring our best practices in agile strategy to this segment.

Consequently, we saw an acceleration of digital transformation in the corporate business. For instance, by eliminating paperwork process and enabling remote loan requests for companies, our customers do not need to physically move to sign promissory notes, also reducing displacement times for our salesforce. The following accomplishments during this quarter, showcase the strengthening of our relationship with corporate customers:

- We disbursed 988 loan operations, representing an 80% growth vs. Q2, for a total of $130 billion pesos. Worth highlighting, the new promissory note for more than nine co-signers and the first Finagro´s disbursement for the Microfinance segment. This is the first step in the financing value chain, allowing credit access to small businesses.

- We initiated disbursements to medium businesses, gaining traction and relevance in that segment. These are the first results of a flow that has a large potential for growth.

Agile methodologies that were previously successfully implemented in our consumer digital strategy, were transferred to our corporate business, and are now consolidating achievements that guarantee the product value chain. Particularly, I want to mention the following:

- First, overdraft limits can now be recorded online at branches, reducing commercial times and providing a better experience and traceability.

- We are focusing on our factoring business, by launching an agile pilot for automatic approvals. We give access to supplier credit by discounting invoices from highly rated payers that have good risk profile.

Now, moving to the consumer segment, we sold over 490 thousand products, contributing to a quarter-end balance of $7.7 trillion pesos, which represents quarterly and annual growth of 3% and 56%, respectively. Furthermore, we reached a 75% digital share of the Bank's total product sales.

The following are the key outcomes for our digital consumer products:

- The recently launched digital checking account product has shown a relevant sales pace, with over 1.5 thousand units, which represent a 13% growth compared to Q2. This growth can be attributed to the product's maturity, as it has garnered significant adoption thanks to an exclusively dedicated salesforce and to the easiness of the flow, which allows opening of a digital checking account in seven minutes vs. thirty minutes in the traditional flow. Checking accounts have a digital share of 77%.

- Regarding digital time deposits, our focus was on improving consumer experience, by designing a new renewal flow in our web channel. This improvement makes the scenarios more evident, if the customer withdraws or reinvests funds, highlighting the benefit of the product renewal; time deposit renewals have increased by 5% this quarter. We sold more than 18-thousand-time deposits in the quarter, a growth of 23% vs Q2 representing $25 billion pesos.

- At the end of the quarter the “Mi Trabajo” savings account was launched, a digital payroll account that does not require a payroll agreement. This product allows the Bank to reach new niches, thus extending the value offer in products and channels to new potential customers. It is expected to increase at a rate of over 2,000 additional accounts per month. This new account has a large potential for new clients, it allows the Bank to reach new niches extending the bank value offer in products and channels to new potential customers.

- Our digital mortgage product has achieved a total of 1.5 thousand disbursements with a 4.3% growth in balance. This growth occurred amidst challenging market conditions. Notably, we've introduced a cutting-edge feature to our digital mortgage simulator, enabling customers to create personalized payment plans, empowering them to make well-informed decisions. We are currently working on a pilot with our first end-to-end 100% digital product, a pioneer initiative that extends our capabilities to proptechs and potential allies.

- Also, we created our first omnichannel strategy that involves ecommerce and in-store’ sales with one telco partner, through Ceropay.

Regarding digital channels, in Q3 we registered over 2.5 million users, a growth of 8.4% year on year that represents a digital adoption of 68%.

Highlights for Q3 include:

- We continued improving customer experience by including new transactions using QR codes for customer purchases and for fund transfers between banks. In the first four months of the pilot program for QR code operations, we have already recorded over 10 thousand and around 3 thousand users.

- Transfiya and Cel2Cel reached more than 5 million transactions with a growth of 52% compared to the previous quarter. These features have been well received by users as they provide an easy option to transfer money with a friendly experience.

- We are providing in our Personal Finance Manager, personal advisory, customized service that depends on transactional behavior. It recommends other products such as piggy banks and utilities inscription, among others.

- In terms of user’ protection and security, we launched the non- authorized transactions functionality in our mobile App, that alerts in real time our credit card’ customers allowing them to immediately block the product. This new functionality has been used by over 1000 customers relieving our call center.

- We are also extending our digital channel’s capabilities to the SME segment through a specific portal that has 700 recurring user companies.

- And lastly, I want to highlight that Euromoney recognized Banco de Bogotá as the Best Bank for Digital Solutions in Colombia for 2023. This award reaffirms our commitment and focus us to innovate through our digital and transformation strategy.

Now, moving on to ***slide 5***, during the third quarter of 2023, Banco de Bogotá achieved various milestones regarding ESG:

Starting with the Environment dimension:

- In line with the bank's transparency commitment to disclose its progress in climate change issues, Banco de Bogotá published its second report incorporating TCFD recommendations. This report highlights the main advances related to climate change in the areas of Governance, Risk Management, Strategy, and Metrics & Targets.

- We received the "Low Carbon Business Action Latam" award for our efforts in reducing carbon emissions in the economy. Additionally, we received recognition from *Reforestamos México* and *Acción Climática* for the Amazonía Debit Card, due to its contribution to the reduction of deforestation in the Colombian Amazon region.

- As of August 2023, Banco de Bogotá recorded over $2.3 trillion pesos in green loans, a growth of 7.9x in this portfolio since December 2020.

In the Social dimension:

- We formalized our commitment to social wellbeing by signing Asobancaria's Social Protocol, which encourages financial institutions to incorporate Diversity, Equity, and Inclusion criteria into their internal and customer strategies, supporting financially underserved population groups.

- We were recognized by *Pacto Global Red Colombia* for our contribution to the Sustainable Development Goals through an accessible financial education program for individuals with hearing disabilities. This program was also awarded by Asobancaria in the "Bringing Banking Closer to Colombians" awards, specifically in the "Financial Well-being" category.

- The Bank exceeded $5 trillion pesos disbursed in 2023 in loans aligned with the social taxonomy of the Sustainable Subordinated Bond, including loans for micro, small, and medium-sized enterprises, as well as credits for social housing.

Finally, let me comment on other issues:

- The Board's Sustainability Committee welcomed two new members with relevant experience in ESG-related issues. These members are Tomás Gonzalez, former Minister of Mines and Energy, and David Salamanca, an economist with consulting experience with the World Bank and the IFC. José Fernando Isaza, who remains as member of this committee, was appointed since its inception in 2020.

- Additionally, Banco de Bogotá received the "Sustainable Bond of the Year" honorable mention from the Global SME Finance Awards 2023.

Moving on to **slide 6**, let me summarize the local macroeconomic overview:

- The economic slowdown trend consolidated in the third quarter, with a contraction of 0.3% in annual terms. This is the first fall in growth since the pandemic.

- While primary activities and services showed improvement, the weakness of manufacturing and construction remains. Indeed, agriculture has benefited from the initial effects of the *El Niño* phenomenon, especially coffee crops, while oil production is gradually recovering. Meanwhile, services continued to be supported by the adjustment of household preferences, against goods' consumption. As a matter of fact, industry has faced lower demand in some segments. Finally, construction continues with a slump in sales. Our Economic Research team reviewed its projections for growth to 1.3% and 1.1% for 2023 and 2024, respectively.

- The labor market has experienced resilience with new jobs created, despite the significant economic slowdown. This dynamic is explained by the lagged effect of employment to economic activity. Thus, the total number of employed people reached more than 23 million, a historical peak. The forecast of a decline in employment was postponed to 2024.

- Turning to prices, inflation moderated less than expected between June and October, falling from 12.1% to 10.5%, resulting in an upward adjustment of analysts' and the market's expectations. Core inflation, which excludes volatile components, declined from a high of 11.5% in March to 9.9% year-over-year in October. The persistence of services inflation is a consequence of indexation, particularly of rents, and of the resilience of services' household consumption. However, lower demand for goods and the Colombian peso appreciation have allowed for a fast drop in goods' inflation. Finally, regulated goods continued to be pressured upwards by higher gasoline prices and energy tariffs, the latter affected by the arrival of the *El Niño* phenomenon. Our Economic Research team forecasts an inflation rate of 9.8% for the end of this year, and 6.0% for 2024.

- Meanwhile, Banco de la República has maintained its reference interest rate at 13.25%, in contrast to other Latin American economies that have implemented interest rate cuts. In any case, the beginning of this process at the local level is expected in the next couple of months and would continue throughout 2024. Our Economic Research team expects a split decision at the December meeting, with the odds of a cut towards a 50 basis point reduction. For 2024, the interest rate is expected at 9% by the end of the year.

- The strong performance of the Colombian peso in the first half of the year stabilized in the third quarter due to the worsening of global financial conditions. Despite the higher interest rate differential against countries in the region, the strengthening of the dollar amid the return of risk aversion has explained this performance. Our Economic Research team expects a year-end exchange rate of around $3,950 pesos.

- During the second quarter, the current account deficit narrowed to 3.0% of GDP, the lowest since the end of 2017. The improvement continued to reflect the adjustment of economic demand. In the second half of the year the current account correction would have continued. This is evidenced by the improvement in the trade balance deficit, which dropped below $12 billion dollars, compared to more than $14 billion dollars by the end of 2022. The recovery of the trade balance would continue to support the exchange rate in terms of dollar flows.

- Congress approved the National General Budget for 2024 for $503 trillion pesos, 19% higher than that of 2023. With this, the Central National Government expects a primary surplus of 0.2% of GDP and a fiscal deficit of 4.4% of GDP in 2024. Although compliance with the Fiscal Rule is projected for 2024, there are challenges on the revenue side. As indicated by the Ministry of Finance, if needed, this would be offset by public spending adjustments.

Now, I will hand over the presentation to our Head of Corporate Development, Financial Planning and Investor Relations, Javier Dorich, who will provide details on our financial results for the quarter.

Javier Dorich:

Thank you Germán and good morning, everyone. Starting on ***slide 7***, we present our Balance Sheet evolution during Q3-2023.

- Consolidated assets totaled $138.6 trillion pesos at the end of Q3-2023, presenting annual and quarterly growth of 5.4% and 2.3%, when excluding FX fluctuations.

- In terms of asset structure, the net loan portfolio continues to be our main asset, representing 68.4% of consolidated assets. Other Assets follow with 13.0%, while Investment portfolios in fixed income and equity investments represent 11% and 7.7%, respectively.

- The gross loan portfolio closed at $100.0 trillion pesos in Q3-2023, increasing 2.3% in the quarter and 8.4% yearly. When excluding FX fluctuations, this portfolio grew 2.8% quarterly and 10.8% annually. Banco de Bogotá was able to grow at a higher pace than the Colombian banking system, gaining market share in this challenging macroeconomic environment.

- In terms of loan mix, the commercial portfolio represents 64.6% of consolidated loans, while consumer and mortgage segments represent 23.2% and 11.9%, respectively. The consumer portfolio increased in relative terms, led by payroll loans, which have been showing diminishing PDLs and cost of risk.

- Commercial loans amounted to $64.6 trillion pesos, increasing 2.2% in the quarter and 9% annually when excluding FX. This quarter´s growth was led by working capital loans, rediscounted facilities and general-purpose loans.

- Consumer loans increased 4.2% in the quarter, without FX, reaching $23.2 trillion pesos. As I mentioned, this is explained by payroll loans, which increased 10.4% in the quarter. Personal loans decreased 1.5% while credit cards grew by 2.3%, the same as the total loan portfolio, maintaining last quarter's 30-day PDL level of 10.1%.

- Mortgages increased 2.8% this quarter to $11.9 trillion pesos, or 3.7% when excluding FX. In Colombia, this segment increased 5.6%, as government subsidies have partially resumed in the last months. In Panama, mortgages diminished by 0.9% in dollar terms, as Fed rate hikes mostly affect long term borrowers.

- Finally, Microcredits remained at approximately the same amount of $270 billion pesos, a growth of 1.4% in the quarter, and remain a small component of the total loan portfolio.

- We expect loan growth to be between 7% and 8% for 2023.

Moving on to ***slide 8***, we present loan quality ratios.

- Starting with delinquency ratios, the 30-day PDL ratio remains at the same level of last quarter, at 5.6%. The Colombian portfolio deteriorated 13 basis points to a level of 5.9%, while in Panama it improved 78 basis points to 3.7%.

- On the bottom left, one can observe commercial 30-day PDL ratios improving by 9 basis points quarterly, to 4.7%, while the consumer and mortgage 30-day PDL ratios stood at 7.5% and 6.2%, respectively. Working capital commercial loans and payroll consumer loans showed the largest improvement, 69 and 50 basis points respectively.

- On the top right, the 90-day PDL ratio reached 4%, showing a 15-basis point increase quarterly and 60 basis points yearly, mainly explained by a deterioration in the consumer portfolio. The Colombian portfolio increased 25 basis points in the quarter to a level of 4.3%, while the Panamanian portfolio improved 46 basis points to 2.5%.

- Breaking down 90-day PDLs, all segments showed slight deterioration. The largest was from microcredits, which reached 12.7%. 90-day delinquency for consumer loans increased by 35 basis points to 4%, mortgages increased 21 basis points to 3.4%, and commercial loans deteriorated 7 basis points, to 4.1%. Product wise, the largest deterioration was in personal loans, which increased by 108 basis points this quarter. Worth noting is the improvement of 68 basis points in commercial working capital loans.

- Given that 30-day PDLs, overall, did not increase, and the typical lag between 30-day and 90-day PDLs, we hope and expect to have reached maximum levels in credit quality deterioration. Better vintages also foretell improvement in the months ahead in terms of loan quality.

On ***slide 9***, we present coverage ratios.

- On the top left, our coverage ratio for 30-day PDLs is at 1x, 1 percentage point higher than the previous quarter, with the Colombian ratio at 1.06x and the Panamanian, at 0.44x. It is worth noting that Panama's lower coverage is explained by higher collateral levels, which translate in lower expected credit losses.
- On the top right, we observe consolidated coverage for 90-day PDLs diminishing slightly to 1.39x. For Colombia, this ratio decreased to 1.47x, while in Panama, this ratio increased to 0.64x. These figures resemble those from last quarter.
- Allowances over gross loans increased 5 basis points this quarter to a level of 5.6%. The Colombian figure increased by 4 basis points to 6.3%, while the Panamanian figure decreased by 22 basis points to 1.6%.

On ***slide 10***, we present our net cost of risk and charge-off ratios.

- Net cost of risk increased by 68 basis points this quarter and 147 basis points year-on-year, to 2.9%. Net cost of risk increased by 82 basis points in Colombia and decreased by 15 basis points in Panama to 3.2% and 1%, respectively.
- Consumer net cost of risk, a focus this year, diminished 81 basis points this quarter to 9.6%. Credit cards led the improvement, while personal loans and overdrafts continued to deteriorate. It is worth noting that both in Colombia and in Panama, credit cards lead the improvement.
- Commercial cost of risk increased 117 basis points to 0.8%, as the previous quarter had a negative figure. This quarter's cost or risk is 45 basis points higher than a year ago.
- Mortgage cost of risk increased by 85 basis points this quarter to 0.9%. This portfolio's increase was of 83 and 85 basis points in Colombia and in Panama respectively this quarter.
- Finally, microcredits experienced an increase of 43 basis points in cost of risk this quarter. Nevertheless, this segment is small, comprising only 0.3% of the total loan portfolio.
- In line with our expectations on PDLs, we expect cost of risk to be reaching its peak this quarter.
- For the consolidated portfolio, the ratio of charge-offs over 90-day PDLs stands at 58%. In Colombia, it stands at 56%, having decreased by 22 percentage points quarterly, and in Panama, it stands at 69%, increasing 51 percentage points this quarter.

- Charge-offs over average loans decreased 39 basis points quarterly, to 2.3%. Colombia's figure decreased to 2.3% while Panama's figure increased to 1.9% in the quarter.

- For this year, we expect net cost of risk to be around 2.3%.

Moving on to ***slide 11***, we present our liability structure.

- Total funding reached $119.2 trillion pesos, increasing 4.1% yearly and 2.6% in quarterly terms. Excluding the FX effect, growth was 6.4% annually and 3.1% in the quarter.

- Deposits continue to be our main source of funds, representing 76.5% of total funding, followed by banks and others with 11.7%, long-term bonds with 8.1%, and interbank borrowings with 3.7%.

- Deposits totaled $91.2 trillion pesos, growing 1% in the quarter and 9.2% annually. Isolating the FX effect, growth was 1.4% and 11.3%, respectively.

- In terms of deposit' composition, time deposits remain the largest component, increasing their participation to 50.9%, while saving accounts decreased their share to 33.1%. Checking accounts represent 15.8% of deposits. Regarding deposits, we expect some stability going forward in rates and deposit composition, as we do not foresee more changes to NSFR regulation in the near future.

- On the bottom right, we show the evolution of our Liquidity Coverage Ratio, or IRL in Spanish, which closed the quarter at 131.8%, while the Net Stable Funding Ratio was 108%.

- Deposits to net loans ratio remained close to the 1x target, at 0.97x in Q3-2023.

Let's continue with ***slide 12***, where we present our equity and capital adequacy levels.

- Total equity was $15.6 trillion pesos in Q3-2023, decreasing 0.1% quarterly and 4.7% annually, driven by dividends and an appreciated peso.

- Tangible common equity decreased by 0.4% quarterly, to $14.1 trillion. The tangible common equity ratio decreased from 10.5% to 10.3%. Likewise, leverage, measured as equity over assets decreased from 11.5% to 11.2% this quarter.

- Total capital adequacy in the quarter was 12.6%, distributed in a Tier 1 and Tier 2 ratios of 10% and 2.6%, respectively.

- Tier 1 capital increased $20 billion pesos in the quarter, mainly due to positive contributions of $147 billion pesos from Net Income, countered by the Available for Sale portfolio's lower valuation of $110 billion pesos.

- The 12-basis points reduction in Tier 2, is the result of the peso revaluation during the quarter as our subordinated debt is dollar denominated.

- Tier 1 ratio and Total Solvency ratios are 2.5 and 1.8 percentage points, above regulatory minimums.

Now let's move to our P&L performance ratios, starting with net interest margin on ***slide 13***.

- Net Interest Income for Q3-2023 was $1.3 trillion pesos, showing a quarterly decrease of 2%, explained by the effect of increased interest expense.

- Loan yield stood at 13.7%, increasing 40 and 343 basis points quarterly and annually. The largest growth came from consumer loans, 81 basis points. On the other hand, commercial lending yield improved by 22 basis points, while mortgage yields were positively impacted as new loans were disbursed after three quarters of stability.

- Investment yields were 51 basis points lower this quarter, from lower investment income and higher average investments.

- Cost of funds increased by 48 basis points quarterly, mostly in the following funding types: Time deposits, by 63 basis points, saving accounts, by 149 basis points and banking credit, by 46 basis points.

- Consequently, loan NIM remained at 5.4%, as lending yield and cost of funds' increases offset each other. We have become more liability sensitive, as a 100-basis point reduction in the central bank rate translates into a 5 to 10 basis points increase in NIM. As central bank is expected to cut rates in December, NIM benefits will materialize for 2024.

- Investment NIM was negatively affected this quarter. Investment yield was 7.4% and cost of funds was 8.9%, rendering a -1% investment NIM. These results are somewhat lower than average figures.

- Finally, total NIM, explained by all these factors was 4.5%, experiencing a 16-basis point quarterly reduction. This figure is close to recent quarters' average.

- Our NIM's improvement will be dependent on inflation and the subsequent changes in monetary policy rates. Since we are slightly liability sensitive, the expected cuts in Banco de la República's rates should have a positive impact on NIM for 2024.

On ***slide 14***, we present fee income structure and details on other income.

- Gross fee income in Q3-2023 grew 1.5% in quarterly terms, to $492 billion pesos. Banking services and credit & debit card fees explain 83% of total gross fees, while 10% is explained by fiduciary activities, from *Fidubogotá*. Card fees increased 0.8% this quarter, banking services increased 2.5% and fiduciary activities decreased by 1.1%.

- Fee income ratio was 29.1%, 1.5 percentage points above the Q2-2023 figure.
- Other operating income stood at $129-billion pesos, coming from:
  - First, $200 billion pesos from Other Income;
  - Second, equity method & dividend income came in at $31 billion pesos, primarily from Corficolombiana, with $22 billion pesos. Equity method income was not as strong as in previous quarters, mainly due to lower, yet positive results from Porvenir of $8 billion pesos;
  - Income from net investment activities was $25 billion, a 5.5% quarterly decrease;
  - Finally, the derivatives and FX position had a net expense of $127 billion, in line with past figures.
- Fee income ratio should be in the 27% area in 2023.

Slide 15 presents efficiency ratios, measured by cost to income and cost to assets.

- Total income for the quarter was $1.76 trillion pesos, 2.5% less than the previous quarter. Most of this variation can be explained by lower other income and equity method, as I just mentioned.
- Operating expenses reached $891 billion pesos, decreasing in the quarter by 2.5%, and increasing 7.6% annually.
- Consequently, cost to income stood at 50.6% for the quarter, just as in the previous quarter.
- Total average assets increased by $508 billion pesos, or 0.4%. Therefore, cost to assets ratio diminished by 8 basis point this quarter, to a level of 2.6%.
- We expect cost-to-income ratio to be around 49% in 2023.

Finally, on ***slide 16***, our profitability ratios are shown.

- Net income attributable to shareholders was $146.4 billion pesos this quarter, as net cost of risk increased while equity method income contracted.
- Annualized profitability metrics were 0.4% for ROAA and 3.8% for ROAE in Q3-2023. These ratios result from a combination of factors that we have mentioned along the call, and we will work towards improvement as surrounding circumstances also improve.

Before moving on to the Q&A session, I'd like to summarize our general guidance for 2023:

- Loan growth is expected to be between 7% and 8%;
- net interest margin is expected around 4.5%;
- net cost of risk is expected to be around 2.3%;
- fee income ratio should come in around 27%;
- cost-to-income ratio around 49%; and
- regarding profitability, ROAA should be around 0.7% and ROAE around 6%.

And now we are open to your questions.

Operator:

Thank you very much. We will now begin the Q&A session. We can take your written questions through the Q&A chatbox, live questions, or through our phone line. Please, note the following instructions:

For our Q&A chatbox, please type your question in the Q&A chatbox and we'll proceed to read them. After answering the questions in the Q&A chatbox, we will proceed with live questions.

If you wish to ask your question live, please raise your request and we'll open your microphone and call your name accordingly.

If you are connected by phone, please press the star (*) button and number six (6) to access the Q&A feature. Then press number one (1) to raise your hand. If you are using a speakerphone, you may need to pick up your handset first before pressing the numbers.

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We're standing by for questions now.

Our first question comes from **Andrea Atuesta**, from **Bancolombia**. Her question is, "Good morning and thank you for the presentation. I have some doubts regarding Corficolombiana's change of controller. What was the rationale for the change of controller? Why did Banco Popular obtain the status of controller? And what will be the impacts on solvency indicators expected for Banco de Bogotá?"

César Prado: Thank you, Andrea, for your question. Indeed, last Wednesday, we disclosed to the market material information regarding a shareholder's agreement that was made between Grupo Aval, Banco de Bogotá, Banco de Occidente, and Banco Popular.

By virtue of this agreement, Banco Popular will be the parent company of Corficolombiana starting from Wednesday onwards. The basic purpose of this decision is to optimize capital adequacy for the three banks with stakes in Corficolombiana. According to Colombia's prudential regulation, we will no longer be required to deduct the investment we have in Corficolombiana for capital adequacy purposes. This will have a material positive impact in our Common Equity Tier 1 (CET1) and total solvency ratios starting in the fourth quarter of this year 2023. The impact of not having to deduct Corficolombiana in our CET1 will be explained in detail in our next conference call for Q4-2023 results.

Operator: Thank you very much. We will now move on to our second question. Our second question comes from **Bancolombia**, by **Andrea Atuesta**. The question is, "Could you please give us some guidance for the principal ratios for 2024?"

Javier Dorich: Hi, Andrea, and thank you for your question. Right now, we're in the middle of our budgeting process for 2024, which isn't finished yet, but we have some indication of next year's figures. We are expecting loan growth to be around 10% for 2024. And in terms of ROAE, we should improve to a range between 8% and 9%, which is better than the 6% figure this year.

Operator: Thank you very much. We will now move on to our phone line. In our phone line we have **Julián Ausique**, from **Davivienda**. Julián, please. Go ahead. The floor is yours.

Julián Ausique: Good morning, everyone. Hi, everyone. Good morning and thank you for having my question. I have two questions regarding some Superintendency decrees and some things about Basel IV.

The first one about the Superintendency, we saw last week that the Superintendency allowed the banks to start using countercyclical provision to mitigate the impact that the banks have had until now. So, can you give us more detail about that and what will be the impact for Banco de Bogotá in terms of provision? How much Banco de Bogotá has in those countercyclical provisions?

And my second question regarding Basel IV, I would like to know if you have any information about the implementation of Basel IV for the next year, because the schedule was to start implementing Basel IV in January. But we haven't heard anything about that from the Superintendency. So, if there is any update or you think the date of implementation of Basel IV will be moved for other year maybe, or for next months? Thank you very much.

Javier Dorich: Okay. Thank you, Julián, for your questions. You're right. Superintendencia Financiera recently announced some changes in the countercyclical provision. In our case, we will use that provision for consumer loans. Maybe for commercial loans. We don't know yet, but it is worth mentioning that this provision only works for COLGAAP and not for IFRS. So, you won't see any impact in our consolidated figures.

And in terms of the second question, we are on the same point as you. We haven't heard anything yet special about Basel IV, but we will tell investors and stakeholders in the short future. Thank you.

Julián Ausique: Okay. Thank you very much.

Operator: Thank you very much. Now, in our chatbox, we have a question by **Mrs. Cynthia [Huaccha] Meléndez**, from **Credicorp**. She says, "Could you give us some guidance for the CET1 ratio for 2024? Are there any plans for liability management coming, and what type of bond structure would be preferred, AT1 or Tier 2?"

Javier Dorich: Thank you, Cynthia, for your question. We don't have a specific guidance for CET1, although if you see our history or track record, you would see that in the past most of the time we have been at least 200 basis points over the minimum. But you have to take into consideration that starting in 2024, the minimum for CET1 will be 8.5%. So, I think anything over 10% is nice for us, but we don't have a specific guidance.

And in terms of your second question, we don't have any specific plan for liability management at this time, nor for Tier 2 or AT1 bonds.

Operator: Thank you very much. We're standing by for further questions.

Okay, it seems we have no further questions at this time, and we will now proceed with some final remarks by Mr. César Prado. Mr. Prado, the floor is yours.

César Prado: Thank you, Karen. As we have mentioned during the call, this quarter's results combine a slight contraction in NIM with a higher-than-expected cost of risk and lower equity method income. We will remain focused on improving profitability and maintaining a tight control on risk and expenses. Thank you for attending today's meeting, and I hope you will join us for our next conference call.

Operator: Thank you very much, Mr. Prado. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect. Have a nice day.