Banco de Bogotá

# Q1-2023 Results

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## CORPORATE PARTICIPANTS

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***Operator:***

Welcome to the Q1-0.2023 consolidated results conference call. My name is Karen and I will be your operator for today's conference call.

At this moment all participants are in a listen-only mode. At the end of the presentation, we will have 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. Alejandro Figueroa, CEO of Banco de Bogotá, will be the host and speaker today. Mr. Figueroa, the floor is yours.

***Alejandro Figueroa:***

Thank you, Karen.

Good morning, ladies and gentlemen and welcome to Banco de Bogotá's Q1-2023 earnings call. Thank you all for joining us today.

I would like to start by recapping the transactions regarding BAC Holding International, which began last year. As we mentioned in previous calls, Banco de Bogotá executed the spin-off of 75% of BAC Holding International to shareholders in March 2022, retaining a direct stake of 25%. In December 2022 the Bank sold 20.89% of the remaining shares of BAC Holding International through a tender offer, lowering its participation to 4.11%. Finally, on March 16, 2023, the Bank sold its remaining stake on BAC Holding International for $520 billion pesos. Consequently, our Financial Statements no longer include any participation in BAC Holding International.

Now, I will make a summary of the Bank's main results for the first quarter of 2023:

- Attributable Net Income for the quarter was $493 billion pesos, resulting in annualized profitability ratios of 1.4% for ROAA and 12.7% for ROAE.

- Total NIM increased this quarter by 20 basis points to 4.7%, explained by a 280-basis point increase in investment NIM, partially offset by a reduction of 30 basis points in lending NIM.

- Gross fee income totaled $480 billion pesos this quarter, 4.3% higher than in Q4-2022, given increased fees from banking services and fiduciary activities. Fee income ratio stood at 24.4%, at similar levels to the 2022 average and 2.6% higher than in Q1-2022.

- Cost to assets was 2.6% in Q1-2023 and cost to income was 46.6%, both in line with previous guidance.

- Regarding our balance sheet performance:

    - Gross loan portfolio amounted to $97 trillion pesos, growing 16.9% annually and 1% quarterly. The commercial loan portfolio contributed the most in absolute terms to this increase, while Consumer and Mortgage lending growth slowed down in line with a more conservative origination strategy in a riskier credit environment.

    - Deposits represent 76% of the funding mix, reaching $90 trillion pesos. The Deposits to net loans ratio was 0.98x, close to our target of 1x.

    - The quality of the loan portfolio somewhat deteriorated, in terms of 90-day PDLs, to 3.8%, driven by higher NPLs in the consumer portfolio as households have felt a reduction in payment capacity.

    - This quarter's net cost of risk is 1.7%, having increased by 12 basis points quarterly, explained mostly by the Consumer portfolio, in line with my previous comments.

    - Finally, total capital adequacy for the quarter was 12.6%, distributed in a Tier 1 of 9.7% and a Tier 2 of 3.0%. These ratios remain well above 2023's regulatory minimums.

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

***<u>Germán Salazar:</u>***

Thank you, Alejandro, and good morning, all.

During the first quarter of 2023, our digital business showed a strong and steady performance, both in balance and new product' sales.

Regarding products the main highlights are:

- We sold over 645,000 products, 50 thousand more than Q4-2022. Digital sales represented nearly 80% of total sales, reaching 6 million sold since our digital lab started. Balance increased by $570 billion pesos to a total of $6.7 trillion.

- Digital time deposits increased 23% in the quarter, with a total of over 18 thousand products sold. In terms of deposit balance, they grew 36% in the quarter to a total of $192 billion pesos. This result came about from marketing campaigns and from our links tool, which enhanced digital acquisition and renewal via email and SMS. Even though interest rates lowered during the quarter, growth rate in Time Deposits did not slow down.

- Regarding Saving Accounts, over 232 thousand new digital accounts were opened, representing a growth of 19% vs. Q4-2022, mostly in payroll account sales. Payroll accounts represented 55% of digital account sales during the quarter, with over 127 thousand accounts.

- Digital Consumer loans kept up their pace in disbursements, $497 billion pesos in the quarter, an 11% growth vs. Q4-2022, albeit being cautious in our risk appetite in the current economic environment.

- Credit cards reported total sales of over 149 thousand products, with a balance of $165 billion pesos which represent a quarterly increase of 18%. This was achieved given stronger point-of-sale strategies that, for example, allow customers to obtain credit cards through a QR code. Also, we relaunched our LATAM Cobranded card, of which we sold 4,600 new cards, thanks to our digital marketing.
- Digital insurance has become the perfect ally in our cross-selling strategies with consumer loans. Also, tailor made life insurance kept increasing at a rate of 60% quarterly.

- Our digital product portfolio expanded with the inclusion of our "Buy Now Pay Later" solution called "CeroPay". It is aimed to provide users with an easy and hassle-free shopping experience by allowing immediate purchases without any interest charges. With advanced fraud controls, top-quality code and user recognition features, "CeroPay" ensures a seamless purchasing process and a better user experience.

- Our Buy Now Pay Latter offer expanded thanks to our partnership with Colombia's most important music festival Estéreo Picnic. We will strengthen our offer with other industries that fit with the Buy Now Pay Later value offer such as fashion, cultural, retail and technology, among others.

- In the corporate segment we also had great results, with the recent digital promissory note that allowed over 224 disbursements for a total balance of $15 billion pesos, thanks to improvements in the digital signature which takes up only 15 minutes on average.

In terms of digital channel' performance and customer metrics in Q1-2023 we can underscore the following:

- We now have 2.5 million digital users.

- Improvements to our banking webpage and mobile app experience included the following:
    - Transfiya processed over 2.4 million out-bound transactions and 281 thousand in-bound transactions, representing quarterly growth of 26% and 21% respectively. This is a major step to achieve interoperability among banks for free P2P transactions.
    - Cel2Cel functionality reported over 46 thousand transactions between AVAL banks and dale!, a growth of 142% vs. Q4-2022. This functionality provides customers an option for money transfers with a friendlier experience.
    - On our website and mobile app we introduced faster ways for transactions and bill payments through the main dashboard. Additionally, we introduced a new feature called "Transfers without inscriptions," which allows our users to transfer funds to their most recent accounts, without adding the account number.
    - Lastly, we implemented a new feature that allows clients to customize their profiles, by changing their name, uploading a profile picture and also providing access to a personal banking advisor with just one click.
    - All in all, we have improved user experience through our mobile app confirming it as one of the highest ranked mobile banking apps in stores.

Now, moving to ***slide 5***, I am proud to share with you an important milestone on our Sustainability strategy. On March 24th, Banco de Bogotá issued its first subordinated sustainable Colombian bond in international markets, with BID Invest, Findev Canada, Finance in Motion and the IFC.

The $230 million dollar issuance, with a ten-year maturity, will allow us to broaden our sustainable and green loan portfolios, financing initiatives that have a positive impact on:

- Renewable energy, energy efficiency, sustainable agribusiness, hydroelectric efficiency, circular economy, sustainable transport, green construction, sustainable infrastructure and climate resilience.

- Also, under the social scope, lending will be focused on categories such as: gender, micro, small and medium sized companies and social housing.

These funds will allow us to leverage projects that contribute to consolidate a low carbon emission economy, develop entrepreneurships and provide access to better opportunities for Colombians.

As of March 31st, Banco de Bogotá's green loan portfolio reached $1.7 trillion pesos and the social loan portfolio amounted to $7.4 trillion pesos.

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

- The economy has surprised in the first months of the year, due to transitory factors, which do not reverse the expectation of a slowdown for 2023. Economic activity in the first months benefited from a better performance in the services sector, while primary and secondary activities remained weak. The economy grew 3.0% annually in the first quarter, maintaining significant momentum and most likely with the highest growth rate of 2023. Preliminary information suggests a more pronounced economic slowdown in the coming months. Our Economic Research team reaffirms its growth estimate of 1.5% for all of 2023. This estimate is amongst the upper part of the consensus, but we acknowledge the downward bias in the forecast.

- Inflation continued to surprise upwards in the first quarter, displacing expectations of a peak in the indicator, which was only reached in March, when inflation was 13.4%, the highest since 1999. Since April, inflation began to ease, reaching 12.8%, but lagged compared to the region, where most Latin American countries have shown an improvement in prices. Food inflation is improving and in April moderated to 18.5% annually, from 27.8% at the end of 2022. Meanwhile the classification without food, a proxy of core inflation, reached 11.5%. This is a sign that the general pressure on prices continues, with 94% of goods and services with inflation above the ceiling of the Central Bank's target range of 4.0%. Our Economic Research team projects inflation of 8.9% for 2023.

- The upward trend in inflation, the un-anchoring of expectations and the good performance of the economy at the start of the year, led the Central Bank to continue with the increases in the reference rate, the highest this century. The persistence of inflation has displaced the expectation of the start of the downward cycle. Our Economic Research team estimates that interest rate cuts will begin in the last quarter of 2023, with an expectation of 11.25% by the end of the year.

- The international context was determinant to the exchange rate in the first part of the year, due to the adjustments in interest rate expectations from central banks and the turbulence in the banking sector of advanced economies. In the first months of 2023, the exchange rate neared the figure of $5,000 pesos per dollar, with a maximum of $5,015 pesos. But in March and April, tax flows and a less challenging external context favored a correction in the exchange rate, taking it below $4,500 pesos. With this, the exchange rate reached levels not seen since September of last year, with a minimum of $4,407 pesos.

- The current account deficit closed 2022 at 6.2% of GDP, a level not seen since 2015 when the economy faced the fall in oil prices. The first months of 2023 have been framed by a correction of the trade imbalance, which will favor the adjustment of the current account. The slowdown in demand has impacted imports, with levels moving away from the all-time highs they reached in 2022. Our Economic Research team projects a current account deficit of 4.2% of GDP for 2023.

- Fiscal accounts had positive news in 2022. The deficit closed the year at 5.3% of GDP, improving even when compared to the expectation that the Government had in the Financial Plan, at 5.5% of GDP. The net debt of the National Central Government fell to 57.7% of GDP, also better than the Government's target of 59.6%. Good fiscal results are proof of the superlative performance of tax collection and the good dynamics of the economy with two years of exuberant growth. In the short term, the announcements of the rating agencies will most likely be neutral, without changes in rating or outlook.

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. Let me begin on ***slide 7***, where we present our consolidated asset structure.

- Consolidated assets totaled $137.6 trillion pesos at the end of Q1-2023, showing a yearly 12.8% increase, or 0.2% quarterly reduction.

- In terms of composition, the net loan portfolio continues to be our main asset, representing 67.9% of consolidated assets, followed by other assets, with 14.6%. Investment portfolios in fixed income and equity represent 10% and 7.4% of total assets respectively, increasing by 4.3% and 6.9% YoY. Equity investments mainly include our participation in Corficolombiana and Porvenir.

- The gross loan portfolio closed at $97 trillion pesos in Q1-2023, increasing 1% in the quarter and 16.9% yearly. When excluding FX fluctuations, the gross loan portfolio grew 12.5% annually and 1.6% quarterly.

- Loan mix continues in line with last quarter's figure showing a variation in composition in annual terms towards retail lending, as the Consumer and Mortgage portfolios have increased their participation to 22.7% and 12%, respectively.

- Commercial loans, amounted to $63.1 trillion pesos, increasing by 0.9% in the quarter and 14.2% annually, led by corporate loans and commercial credit cards.

- Consumer loans increased by 1.4% in the quarter and 19.2% year on year, amounting up to $22.1 trillion pesos. Although still positive, as we have been reviewing origination standards given the current economic environment, growth pace has decelerated in this segment.

- Mortgages increased by 0.8% this quarter to $11.6 trillion pesos, which represents a $95 billion peso increase. Given that the high interest rate environment does not favor this segment's growth, we don't expect pronounced increments while interest rates remain high.

- Microcredits remained stable at $265 billion pesos.

- In general, loan growth decelerated in the quarter, given the high interest rate environment and the tightening of the Bank's lending policy to preserve a healthy loan portfolio quality during the current economic environment.

We expect loan growth to be between 8% and 10% in 2023, in line with an expected soft landing in the Colombian economic activity.

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

- On the top left, 30-day PDL ratio increased by 39 basis points yearly and 67 basis points quarterly, standing at 5.3%. The Colombian portfolio's ratio increased 30 basis points yearly to a level of 5.5%, while the Panamanian portfolio's ratio increased to a level of 4.7%.

- On the bottom left, one can observe loan quality deterioration at varying degrees, especially in the Consumer loan portfolio as households have been facing a more difficult scenario that has affected payment capacity. We have seen a special effect on personal loans and credit cards. This portfolio increased its 30-day PDL ratio by 106 basis points in the quarter.

  Our largest lending portfolio, the Commercial segment, only showed an increase of 55 basis points this quarter in its 30-day PDL ratio.

- On the top right, 90-day PDL ratios remain relatively stable on a yearly basis and increased 24 basis points on a quarterly basis. The Colombian and Panamanian portfolios deteriorated 25 and 13 basis points in the quarter, respectively.

- On the bottom right, you can see that 90-day PDLs, showed a deterioration on all portfolios in the quarter. The Consumer portfolio deteriorated 46 basis points, the Commercial portfolio 19 basis points and the Mortgage portfolio by only 8 basis points. Consolidated 90-day PDLs remain stable with regards to a year before, showing only a 5 basis point deterioration.

- Microcredits, which remain a small component of our loan portfolio, comprising 0.3% of gross loans, showed large improvement on the 90-day PDLs, yearly, and a 23-basis point deterioration in the quarter.

- We expect PDL's to reach their peak in the second quarter of 2023, before improving in the second half of the year.

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

- On the top left, our coverage ratio for 30-day PDLs is at 1.05x, lower than the previous quarter, due to the increase in PDLs I just explained. Colombian portfolios reflect a higher coverage, of 1.18x, while Panamanian 30-day coverage ratios decelerated to 0.36x. Panamanian coverage is relatively low due to the high collateral value on credit exposures.

- On the top right, we observe the consolidated coverage ratio for 90-day PDLs remaining stable at 1.48x, where the Colombian figure stands at 1.65x and the Panamanian figure at 0.55x. This coverage ratio is more stable, as quality deterioration is reflected mostly in 30-day PDLs.

- On the bottom, one can observe an increase of 6 basis points this quarter in allowances over gross loans to a level of 5.6%. The Colombian figure remained stable on quarterly terms, while the Panamanian figure increased 6 basis points.

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

- On the top left, cost of risk increased by 12 basis points quarterly and decreased 30 basis points yearly, to 1.7%. Cost of risk increased by 20 basis points in Colombia to 1.8% and had a 22-basis points reduction in Panama in dollar terms, to 0.9%.

- In Colombia, cost of risk in the Consumer loan portfolio increased by 222 basis points in the quarter, while the commercial and mortgage portfolios saw reductions of 28 and 32 basis points, respectively. In Panama, both Commercial and Consumer portfolios improved cost of risk.

- For the consolidated portfolio, the ratio of charge-offs over 90-day PDLs stands at 50%, relatively stable on quarterly terms. Colombia's ratio stands at 54%, while the Panamanian ratio is 23%.

- Charge-offs over average loans decreased by 66 basis points in the year and increased 12 basis points quarterly to 1.8%. Quarterly, Colombia's ratio remains stable at 2%; Panama's ratio increased 10 basis points to 0.7%, given a slight increase in PDLs and cost of risk.

- For this year, we expect net cost of risk to be between 1.7% and 1.8%.

Moving on to ***slide 11,*** we present our funding evolution in Q1-2023.

- This quarter, total funding reached $117.9 trillion pesos, with an increase of 13.6% YoY and a decrease of 0.3% in the quarter. Excluding FX fluctuation, growth rates were 9.4% annually and 0.3% quarterly.

- Our funding structure breakdown remained stable from last quarter, led by 76% from deposits, followed by 14.4% from banks and others, 9.4% from long-term bonds and 0.3% from interbank borrowings.

- Deposits amounted to $89.6 trillion pesos, still growing 1.8% in the quarter and 16.3% annually. Isolating the FX effect, growth was 2.4% and 12.5%, respectively.

- In terms of deposit' composition, time deposits are now the largest component with 51.4%, while saving accounts decreased their participation to 31.2% and checking accounts to 16.9%. Time deposits' increasing participation on deposits is likely to stabilize, in a lower interest rate environment after the implementation of the Net Stable Funding Ratio and possible lower Central Bank' rates in the second half of the year.

- On the bottom right, you can see the evolution of our Liquidity Coverage Ratio (or IRL in Spanish) together with our Net Stable Funding Ratio (NSFR or CFEN in Spanish), at 225.6% and 108.2%, respectively.

- Deposits to net loans ratio was 0.98x in Q1-2023, close to our target of being fully matched.

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

- Total equity was $15.4 trillion pesos in Q1-2023, decreasing 2.8% quarterly.

- Consequently, tangible common equity decreased 3.1% in the quarter to $13.9 trillion pesos. Tangible capital ratio closed Q1 at 10.2% and total equity represents 11.2% of total assets.

- Total capital adequacy for the quarter was 12.6%, distributed in a Tier 1 of 9.7% and a Tier 2 of 3.0%.

- Tier 1 ratio and Total Solvency ratios remain 2.2 and 1.8 percentage points, respectively, above regulatory minimums.

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

- Net Interest Income in Q1-2023 was $1.3 trillion pesos, showing annual and quarterly growths of 17.4% and 1.5%, respectively.

- In Q1-2023, total NIM came in at 4.7%, 20 bps higher than previous quarter, supported by a 280 bps increase in Investment NIM and a 30 basis point reduction in lending NIM. We would like to highlight the Bank's stability of total NIM even in the midst of an environment of interest rate increases.

- Yield on loans has continued its upward trend, with a 112 basis points quarterly increase to 12.6%, led by a Commercial lending yield increment of 140 basis points. As we have mentioned in previous calls, this portfolio is mostly indexed to market rates such as IBR.

- Yield on investments stood at 10.7%, increasing 639 and 422 basis points on annual and quarterly basis, respectively. Better market conditions at the beginning of the year led to enhanced income from trading investments both due to higher rates and larger volume. Furthermore, we have also benefited from recent UVR portfolio purchases.

- Funding costs increased as well, to 8.2% in Q1-2023, a 529 and 156 basis points annual and quarterly growth. Even though funding cost' increase was generalized throughout all funding types, the effect of increased time deposit rates, combined with 7 percentage point higher volume within total deposits, explain much of the increase in cost of funds.

- Total NIM is expected to be between 4.6% and 4.7% in 2023.

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

- Gross fee income in Q1-2023 grew 4.3% in quarterly terms, to $480.4 billion pesos, originating 81.3% from banking fees, 11.8% from fiduciary activities and 6.9% from other sources. Banking fees increased by 2.3% in the quarter mainly from credit and debit card activity while positive returns from AUMs led to a 30.5% expansion in the quarter in fees from fiduciary activities.

- Fee income ratio was 24.4%, close to the full year 2022 figure. It's important to mention that the decrease in fee income ratio in quarterly terms is explained by higher income, as gross fees did increase by 4.3%.

- Meanwhile, Other Operating Income stood at $315.7 billion pesos, coming from:

  - First, Equity Method & Dividend income which came in at $317.8 billion pesos, primarily from Corficolombiana and Porvenir. Corficolombiana´s contribution of $209 billion pesos, is explained by a positive quarter in the infrastructure business. Porvenir added $70 billion pesos, as fund management fees increased over the quarter due to higher performance-based fees.

  - Second, $124 billion pesos in Net Other Income, mainly Other Operating Income from credit card franchises and OCI realization.

- And third, the offsetting effect associated with funding cost from derivatives and foreign exchange hedges which came in at $190 billion pesos.

- Fee income ratio should be in the 24% area in 2023.

***Slide 15*** presents efficiency metrics measured as a percentage of income and average total assets.

- Efficiency ratio of 46.6% reflects an improvement vs. Q4-2022 given that the first quarter of the year is not impacted by end of year expense seasonality.

- Operational expense totaled $909.5 billion pesos, a reduction of 2.5% quarterly, favored by cuts of $10.7 billion pesos in General Administrative Expenses mainly from Marketing and Advertising, $6.7 billion in Personnel Expense and $3.6 billion in Other Operational Expenses. Furthermore, efficiency was positively affected by increased income as I have explained priorly.

- Cost-to-assets ratio is 2.6%, gradually converging to our historical average.

- We expect cost-to-income ratio to be around 48% in 2023, in line with previous guidance.

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

- Net income attributable to shareholders was $492.8 billion pesos in Q1-2023, illustrating a steady income performance, benefited by a stable NIM and fee income, as well as improving efficiency metrics.

- These results led to profitability ratios during the quarter of 1.4% for return on average assets and 12.7% for return on average equity.

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 8% and 10%.
- Net interest margin target is expected between 4.6% and 4.7%.
- Net cost of risk is expected to be between 1.7% and 1.8%.
- Fee income ratio should come in at 24%.
- Cost-to-income ratio around 48%.
- And regarding profitability, ROAA should be around 1.3% and ROAE should be between 11% and 12%.

And now we are open to your questions.

***Operator:*** Thank you. We will now begin the Q&A session.

First, we'll start with the audio questions via On Stage tool. If you have any question, please press the button request located into the On Stage box or from your phone please press *6 1.

Once again, if you have any question, please press the button request located into the On Stage box or from your phone please press *6 1.

At this moment we're standing by for any possible questions.

The first question comes from **Mr. Anibal Quintero**, from **Credicorp**. Mr. Quintero, please go ahead.

***Anibal Quintero:*** Hi. Good morning. Thank you for the presentation. I would like to ask about the cost of risk. Why is the cost of risk expected to be at 1.7% - 1.8% if the NPL is still high? I would like to know that.

***Javier Dorich:*** Hi, Anibal, and thank you for your question. As you know, there is a correlation between PDLs and cost of risk and we think between the first and the second quarter, we will have the peak of PDLs and in the second half of the year it will improve. So that is why we are forecasting that cost of risk will be between 1.7% and 1.8% this year. One thing that favors our case is that the consumer portfolio only represents around 20% of our total portfolio, and that is the only one that is showing some kind of deterioration, and that benefits us in order to have a better cost of risk. Thank you.

***Operator:*** Thank you. The second question is brought by **Mr. Daniel Mora**, from **Credicorp Capital**. Mr. Mora, please go ahead.

***Daniel Mora:*** Hi. Good morning. Can you hear me?

***Operator:*** Yes, Mr. Mora. Please proceed.

***Daniel Mora:*** Perfect. Thank you. Good morning and thank you. I have a couple of questions. The first one is regarding the long-term target of the ROAE, if you continue to believe that you will be able to reach the 15% profitability in the long term and what will be the improvement from the current situation to reach that target of 15%. Thank you so much. That would be my first question.

And the second one is regarding loan growth. When compared to peers, you have been one of the banks that has been giving to the market a guidance of loan growth between 8% to 10%, which is well above that of peers. I would like to know what is explaining this performance that you are targeting for this year and if you feel that this is the right moment to try to gain market share and increase in loan growth, given the challenging scenario in terms of interest rates and also inflation. Thank you so much.

***Javier Dorich:*** Thank you, Daniel. In terms of your first question, yes, we are targeting still a 15% ROAE target. And in terms of the current situation, we expect, for example, to improve our NIM by expanding and improving our depositor base. Second, we think the current situation in terms of cost of risk is also temporary and that we can improve that in the long term. And third, we are always working in terms of efficiency in order to improve that metric.

In terms of your second question, yes, we are more ambitious than some of our competitors in terms of loan growth. As you mentioned, we are trying to regain market share this year. You have to take into account that we received like $3 trillion pesos from BHI sale and those sources, as we explained in previous meetings, we're using in order to regain market share. Of course, we are being very careful in order to gain the market share without deteriorating the asset quality in the bank. Thank you.

***Operator:*** Thanks a lot. Our third question is coming from **Camila Arismendi**, from **Bancolombia**. Mrs. Arismendi, please go ahead.

***Camila Arismendi:*** Good morning. Can you hear me?

***Operator:*** Yes, Mrs. Arismendi. Thank you very much.

***Camila Arismendi:*** Good morning, everyone, and thanks for taking my question. I would like to know if you have any guidance about the efficiency ratio.

***Javier Dorich:*** Thank you, Camila. And yes, our efficiency guidance is to be around 48%, which is the same as we mentioned in the previous quarter.

***Operator:*** Thank you very much. Let us proceed with the fourth question by **Mr. Julian Ausique**, from **Davivienda**. Mr. Ausique, please go ahead. The floor is yours.

***Julian Ausique:*** Can you hear me now?

***Operator:*** Yes, we can hear you. Thank you very much.

***Julian Ausique:*** Okay. I would like to ask two questions. The first one, if you can repeat the guidance that you have for the NIM for 2023. And also, I would like to know how you are feeling right now with the with the levels of solvency because as you mentioned, the transaction of BHI will increase those indicators, but we have seen some deterioration on the solvency ratios. Also, I would like to understand why you don't use the money that you get from BHI to increase, for example, the Tier 1 or the common equity instead of increasing the loan growth in this situation, when the quality of the loans is increasing as well. Thank you.

***Javier Dorich:*** Thank you, Julian. So I guess your first question was about the guidance in terms of NIM so I will repeat that. Our guidance is to be between 4.6% and 4.7%.

Regarding your second question, the thing is that we think that solvency is going to improve in the second quarter, and we are going to be closer to a 10% CET 1 and Tier 1 ratio and closer to 13% in terms of total solvency. Why is that happening? First, we are optimizing our operational risk weighted assets. And second, we are experiencing an improvement in the valuation effect in our available for sale portfolios of around $100 billion pesos. So combined, we think that will get us to a better solvency in the second quarter and that will get us to be at least 200 basis points above regulatory minimums both in CET 1 and Tier 1 and total solvency.

And lastly, in terms of your third question, remember that when we did the transaction in March, we sold the additional $500 billion pesos for our investment in BHI, it was only a change in assets for us. We sold an investment, and we got the cash, so it doesn't have to do with equity, but it was beneficial for us in terms of solvency because we had a capital deduction that is not anymore in our capital level, so it did help us to improve the capital ratios. Thank you.

***Operator:*** Thanks a lot. It seems like we have no further questions at this time, and we'll proceed now with the final remarks by Mr. Alejandro Figueroa. Mr. Figueroa, the floor is yours.

***Alejandro Figueroa:*** Thank you very much, Karen, for directing the meeting and thank you very much to all of you for attending this meeting and we hope to see you again in the second quarter conference call.

***Operator:*** Thank you very much. Ladies and gentlemen, this is the end of today's conference call. Thanks for your participation. You may now disconnect.