Banco de Bogotá

Q2-2023 Results

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CORPORATE PARTICIPANTS

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Operator:

Good morning.

Welcome to Q2-2023 consolidated results conference call. My name is Juan Pablo, 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 question-and-answer 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, Juan Pablo.

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

As you probably know, I was recently appointed by Banco de Bogotá's Board of Directors as the Bank's CEO. Formally, I began last week in this new position, after having successfully completed the appointment process before the Financial Superintendence. I would like to begin this call by thanking Mr. Alejandro Figueroa on behalf of all our staff, for a lifetime of dedication to this institution. His steadfast leadership has been crucial in leading Banco de Bogotá for the past 35 years as CEO.

My purpose is to lead the Bank through the everchanging and challenging future. We will continue on the pathway of modernization and digitization, while preserving our prudent risk approach.

This year has brought on a series of challenges for the banking sector as households and companies have faced economic deceleration, mixed with high inflation and interest rates. Looking forward, Central Bank interest rates, which rose to 13.25%, are expected to start reducing in the following months. Inflation, although receding from a level of 13.34% in March, remains high at 11.78% in July. Most analysts foresee an upcoming second semester of lower inflation, diminishing rates, and low, yet positive, economic growth, while employment remains high. Germán will expand on our economic outlook later in the call.

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

- Attributable Net Income for the quarter was $277.3 billion pesos which translates into annualized Return on Average Equity and Return on Average Assets of 7.2% and 0.8%, respectively. Higher net cost of risk and lower equity method income had an effect on profitability.

- Net Interest Margin, at 4.6%, remained similar to the first quarter - 2023, decreasing 5 basis points quarterly and increasing 21 basis points annually. Lending NIM was 42 basis points higher this quarter, while Investment NIM decreased by 3.1 percentage points, since Interbank and investment income was abnormally high in the first quarter – 2023.

- Fee income ratio increased by 324 basis points, reaching 27.6%, as a result of higher banking and credit card fees.

- Efficiency stands at 50.6%, slightly above 2022's average, and Cost to assets was 2.7%, a 3-basis point increment versus the first quarter.

- Gross loans amounted to $97.7 trillion pesos, which is a 0.7% quarter-on-quarter increase. Nevertheless, when excluding the effect of the 10.1% peso appreciation, quarterly loan growth stands at 2.6%. Commercial and consumer loans lead the increase in absolute and relative terms.

- Deposits totaled $90.3 trillion pesos this quarter, a 0.8% quarterly increase. When excluding FX movements, deposits show a 2.4% quarterly growth. The ratio of deposits to net loans remains unchanged at 0.98 times.

- Finally, deposits increased their share of funding, reaching 77.7%, gaining 1.8 percentage points in the quarter. Conversely, funds from Banks and others decreased by 2.8%.

- Loan quality continued to deteriorate this quarter, although at a slower pace. The 90-day PDL ratio reached 3.9%, increasing by 11 basis points. We believe loan deterioration is showing signs of peaking, though the peak could be during the third quarter.

- Net cost of risk stands at 2.2%, a quarterly increase of 52 basis points, mainly due to the Consumer portfolio in Colombia.

Now, let me summarize our guidance for the year 2023:

- Loan growth is projected 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 1.8% and 1.9%.
- Fee income ratio should come in at 25%.
- Cost-to-income ratio should be around 48%.
- And regarding profitability, Return on Average Assets should be around 1.2% and Return on Average Equity should be between 9% and 10%.

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

<u>Germán Salazar:</u>

Thank you, César, and good morning all.

Regarding our digital strategy, please move to ***slide 4***.

During the second quarter of 2023, we kept accelerating digital transformation and started to transfer success to all our products, which has translated into enhanced business results and an agile culture.

We sold over 541 thousand digital products, reaching a total balance of $7.4 trillion pesos, which represents a 10% growth vs Q1-2023. Our digital product share is now above 76%.

Let me elaborate on the main results from our digital products:

- In Q2 we sold over 102 thousand digital insurances, thanks to the improvement of the modular life insurance experience and cross-selling results mainly from credit cards, which in turn represent 52% of total digital products. Also, we implemented a discount for the acquisition of a second digital insurance policy.
- In Digital Mortgage lending, we had a total of 1.5 thousand disbursements, with a growth of over 4X vs. Q1, with a balance increase of $82 billion pesos. This success is in line with the reactivation of subsidies for low income housing; through our digital product we offer these customers easier access and experience.
- Close to 119 thousand Credit Cards were sold digitally, with a balance growth of $111 billion pesos, a quarterly increase of 10%. Efforts were focused on the campaign with our Cobrand LATAM, selling over 21.6 thousand cards, with a two-fold increase in sales compared to the previous quarter. This result reinforces our alliance with LATAM and encourages the use of this new value offer.
- During Q2, our digital checking account product reached over 1.3 thousand products sold, with a digital share of 54% of checking accounts sales. This growth shows how our product fits customer needs and also, demonstrates the effectiveness of our salesforce support in product engagement.
- In Digital Time Deposits, despite the interest rates reduction, we sold more than 15 thousand products in the quarter, representing a growth of $43 billion pesos or 6% versus Q1.
- For Consumer Lending, total balance grew $176 billion pesos this quarter with over 97 thousand digital loans. Our main focus has been on adjusting approval rates while being responsive to market demand amidst an environment of lower demand and increasing cost of risk.
- Our digital savings account product sold over 190 thousand accounts, increasing 24% or $280 billion pesos over the previous quarter. This milestone is mainly due to

campaigns that encouraged the use of the product, including the receipt of our customers mid-year bonus payment in our bank.

The Bank's Digital Sales continue to be a main contributor to Fee Income growth, representing over 30% of Net Fees, mainly attributable to credit and debit cards and insurance.

Another highlight I'd like to share refers to digital transformation in loans for the corporate business segment:

We have successfully digitized disbursements through a 100% digital experience, using a link that authenticates the identity of the clients' legal representative by using facial recognition.

We also implemented electronic signing of documents, eliminating the need for paperwork and for in-store visits for loan applications. Now, customers can initiate the process remotely from any location.

In Q2 we registered 260 digital disbursements for a total of $28 billion pesos, an 87% quarterly increase.

Our upcoming actions involve enhancements to co-debtor electronic signature and its expansion to other products such as corporate credit cards.

Similarly, the digital loan approval process will transition into a new phase that will include not only existing customers but also new ones. This approach involves engaging new clients with usable credit limit, which will later be evaluated for potential upgrades and credit expansions.

During the last quarters, the Digital team has gradually taken on the task of overseeing and supporting both digital and traditional products, as a result of an organizational transformation. Our intention is to promote further opportunities for digitization throughout the Bank, using agile methodologies and leveraging on lessons learned from 100% digital products.

A clear example is the digital adoption by the corporate product team, which has resulted in the optimization of revolving credit lines, the relaunch of transactional credit products and the first digital processes for Finagro and Sustainable credits.

In Q2-2023, we had over 2.5 million users of our digital channels, which represents a 67% digital adoption. Highlights for Q2 include:

- Cel 2 Cel growth: Cel2Cel functionality recorded over 74 thousand transactions during this quarter, representing a growth of 59% compared to Q1-2023. This transaction growth demonstrates that users are becoming increasingly familiar with the use and experience of our free interbank transaction tools within Aval´s Ecosystem.
- Alternate Minimum Payment for credit cards - Virtual Banking: This functionality provides customers with greater flexibility in managing their monthly credit card payments. It allows them to make a payment of less than the total amount of their monthly installment and defer the remaining balance for up to 36 months, providing valuable financial relief.

- Cardless withdrawals at correspondents: This feature enables customers to withdraw cash at our authorized establishments without the need to use the actual card. By using Mobile Banking, users can generate an OTP code for secure withdrawals.
- Secure datum update in device registration: This feature empowers our customers to maintain control over their information by securely updating their registered mobile phone number and email address.
- We launched a pilot program for interbank transfers via QR codes, which already recorded its first transactions during this phase. This new functionality allows easy, free and instant payments using QR codes and also includes a "Quick Payments" button that offers various options, such as payment of utility bills, payment of credits, transfers, among others.

In this quarter, due to our digital initiatives, we have been awarded by:

- First, Global Finance, as one of the World's Best Financial Innovation Labs working with external start-ups and scale-ups. They have also recognized Banco de Bogotá as Best in Digital Consumer Lending and as Best Mobile Banking App in Latin America.
- And second, we received recognition from Asobancaria in the "We protect our users" category for our digital authentication system.

These recognitions validate our commitment to a continuous digital transformation in all our products.

Now, moving on to ***slide 5***, regarding our commitment to sustainability I want to share with you some of the recognitions we have recently received:

First, the European Union delegation and the Low Carbon Business Action program, recognized our commitment to decarbonization in Colombia.

Second, Asobancaria under the *Accessible Financial Education* program awarded the Bank's initiative that provides access to financial workshops for people with hearing disabilities.

Third, the ranking PAR by AEQUALES, highlighted our Bank's best market practices, leadership and initiative' generation on gender equality promotion.

Fourth, we won the Silver Medal on the *ConstruVerde* Award as we made our branches' energy & water consumption more efficient.

Through these recognitions, we continue to position the Bank as a referent on sustainability and climate change' best practices.

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

- After a good start of the year for the economy, the context has changed in the second quarter, with clearer signs of a slowdown. The economy returned to negative territory in April, with the biggest drop in two years. Activity picked up in May and June but continued to be weak. Growth in the second quarter was 0.3% annually, the lowest since the end of 2020. The performance by sectors is differentiated. Primary and secondary activities have been the weakest in 2023 while the service sector continues to grow and partially offset the slowdown. Financial, real estate, professional and other services allow the economy to continue to grow, albeit at a low pace. Our Economic Research team reaffirms its forecast of 1.5% growth for 2023.

- Inflation peaked in the first quarter and in the second, it has shifted down more than expected by analysts and the market, although remaining at high levels. In July, inflation was 11.8%. The slowdown in inflation is due to foodstuff, which decreased from an annual inflation of 27.8% in December 2022 to 13.2% in July. However, positive news have yet to be seen in the core metrics, which continue to rise and in July stood at 11.0%. Pushing inflation higher, are the recurring adjustments in the price of gasoline, which elevate regulated goods' prices. On the downside, indexation in rents has been lower than usual. The downward surprises of the last few months have given way to important adjustments in market and analyst expectations. Our Economic Research team projects inflation of 8.9% for this year, although with a downward bias in the projection.

- Banco de la República ended its interest rate hiking cycle in April, with a rate of 13.25%, positioning it as one of the central banks in emerging economies with the largest increases. Since then, the central bank has opted for stability at its June and July meetings. The market and the consensus have begun to ponder the scenario of possible cuts, following the trend expected for Latin America. However, in the Colombian case, these movements would occur at the end of the year. Our Economic Research team expects two cuts of 100 basis points each in the October and December meetings, to end the year with a rate of 11.25%.

- The behavior of the Colombian peso has been favorable so far in 2023, positioning itself as one of the best performing emerging market currencies. The downward trend of the exchange rate was accentuated in the second quarter, trading even below the $4,000 peso barrier, with levels not seen in more than a year. In the second quarter the trading range for the exchange rate was between a low of $4,086 and a high of $4,735. So far in the third quarter, the range has dropped to $3,912 and $4,244. As interest rates in advanced economies approach a ceiling, appetite for risky assets has thrived, including the Colombian peso. In addition, as the discussion of the reforms in Congress halted, local assets have recovered.

- The year began with positive news in the external sector. The current account deficit was 4.2% of GDP, the lowest in the last two years. In the second quarter, the adjustment of the current account would continue as domestic demand slows down. Imports have had double-digit contractions, outpacing the fall in exports. The trade balance deficit has corrected significantly and stands at around $12 billion dollars, moving away from the highs it had the previous year when it was almost $17 billion dollars. Thus, the recovery of the trade balance also supports the FX market in terms of dollar flows.

- The Ministry of Finance presented its updated forecasts and fiscal numbers in the Medium-Term Fiscal Framework, the lower oil price and higher fiscal expenditures led to an increase in the fiscal deficit target for 2023 to 4.3% of GDP (before -3.8% of GDP) and, for 2024, to a deficit of 4.5% of GDP (before -3.6% of GDP). The higher deficit implies a pause in the adjustment path of the Government's net debt in 2024, which would stabilize in the following years at around 57% of GDP.

- Finally, in the final part of the first semester, Standard & Poor's, Moody's and Fitch Ratings reaffirmed the sovereign rating at Baa2 and BB+, respectively. The three rating agencies reaffirmed the stable outlook and highlighted the strength of the institutional framework of the country amid macroprudential economic policies.

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 Q2-2023.

- Consolidated assets totaled $136.1 trillion pesos at the end of Q2-2023, presenting annual and quarterly growth of 4.3% and 0.7%, when excluding FX fluctuations.

- In terms of asset structure, the net loan portfolio continues to be our main asset, representing 68.1% of consolidated assets. Other Assets follow with 13.8%, while Investment portfolios in fixed income and equity investments represent 10.4% and 7.7%, respectively.

- Gross loan portfolio closed at $97.7 trillion pesos in Q2-2023, increasing 0.7% in the quarter and 11.7% yearly. When excluding FX fluctuations, the gross loan portfolio grew 2.6% quarterly and 11.5% annually.

- In terms of loan mix, the commercial portfolio still represents 65.0% of our consolidated loans, while consumer and mortgage segments represent 22.9% and 11.8%, respectively. The mortgage portfolio reduced its participation by 17 basis points mostly as a result of the slowdown in housing subsidies.

- Commercial loans amounted to $63.5 trillion pesos, increasing 2.3% in the quarter and 9.5% annually when excluding FX. Including FX fluctuations, this quarter's growth was 0.7%.

- Consumer loans increased 3.3% in the quarter when excluding FX, reaching $22.4 trillion pesos, mostly explained by higher credit demand in Colombia which increased its Consumer portfolio by 3.6%, without FX, in the quarter. In Panama, growth in this segment in peso terms was nullified by the peso appreciation.

- Mortgages increased 2.7% this quarter excluding FX fluctuation, to $11.6 trillion pesos, driven by a 3.8% quarterly increase in the Colombian portfolio.

- Finally, Microcredits remained at approximately the same amount of $266 billion pesos, a growth of 0.4% in the quarter.

We expect loan growth to be between 8% and 10% in 2023, in line with our 8.9% expectation for end of year inflation and 1.5% expectation for GDP growth.

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

- Starting with delinquency ratios, the 30-day PDL ratio increased by 25 basis points quarterly, standing at 5.6%. The Colombian portfolio deteriorated 32 basis points to a level of 5.8%, while in Panama it improved 20 basis points to 4.5%.

- On the bottom left, one can observe commercial 30-day PDL ratios improving by 6 basis points quarterly, to 4.8%, while the consumer and mortgage 30-day PDL ratios stood at 7.4% and 6.0%, respectively.

- On the top right, the 90-day PDL ratio reached 3.9%, showing an 11-basis point deterioration quarterly and 38 basis points yearly, mainly explained by a deterioration in the consumer portfolio. The Colombian portfolio increased 14 basis points quarterly to a level of 4.0%, while the Panamanian portfolio improved 9 basis points to 3.0%.

- Breaking down 90-day PDLs, the commercial portfolio improved to 4.0%, decreasing 6 bps in the quarter, while the consumer and mortgage portfolios deteriorated to 3.6% and 3.2%, respectively. Consumer portfolio increase in 90-day PDLs is led by personal loans and credit cards, as other consumer products show stability. Personal loans and consumer credit cards combined represent only 11.8% of total gross loans.

- Microcredits, which remain a small component of our loan portfolio, showed a 90-day PDLs ratio of 11.6% in the quarter.

- We have observed a slowdown in the loan portfolio´s impairment which suggests that we are reaching the peak in the deteriorating trend. As stated in the previous call, we expect an improvement by the fourth quarter.

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

- On the top left, our coverage ratio for 30-day PDLs is at 0.99x, 5.4% lower than the previous quarter, where the Colombian ratio stands at 1.08x and the Panamanian, at 0.41x. 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 1.43x. For Colombia this ratio decreased to 1.55x. These figures resemble those of 2021 and are within past normal ranges.

- Allowances over Gross loans decreased 4 basis points this quarter to a level of 5.5%. The Colombian figure decreased 17 basis points to 6.2%, while the Panamanian figure increased to 1.8%.

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

- On the top left, net cost of risk increased by 52 basis points this quarter and 91 basis points year-on-year, to 2.2%. Net cost of risk increased by 56 basis points in Colombia and 23 basis points in Panama to 2.4% and 1.1%, respectively.

- In Colombia, net cost of risk in the consumer loan portfolio increased by 211 basis points in the quarter, led by personal loans and credit cards. Other consumer lending products show higher stability or lower balances, thus contributing to a lesser extent to cost of risk.

- The commercial and mortgage portfolios' net cost of risk increased 30 and 27 basis points respectively, this quarter.

- In line with our expectations on PDLs, we expect this variable to peak in Q3 at the latest, showing some slight recovery towards the end of the year.

- For the consolidated portfolio, the ratio of charge-offs over 90-day PDLs stands at 70%. In Colombia, at 78%, increasing 24 percentage points quarterly, and in Panama, at 18%, having decreased 5 percentage points quarterly.

- Charge-offs over average loans increased by 69 basis points in the year and 87 basis points quarterly, to 2.7%. Colombia's figure increased to 3.1% while Panama's figure decreased 16 basis points to 0.6% in the quarter.

- For this year, we expect net cost of risk to be between 1.8% and 1.9%.

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

- Total funding reached $116.2 trillion pesos, increasing 4.2% yearly and presenting a reduction of 1.5% in quarterly terms. Excluding the FX effect, growth was 4.1% annually and 0.4% in the quarter, as liabilities denominated in US dollars diminished in peso terms.

- Deposits continue to be our main source of funds, representing 77.7% of total funding, followed by banks and others with 11.6%, long-term bonds with 8.6%, and interbank borrowings with 2.1%.

- Deposits totaled $90.3 trillion pesos, growing 0.8% in the quarter and 7.0% annually. Isolating the FX effect, growth was 2.4% and 6.9%, respectively.

- In terms of deposit' composition, time deposits remain as the largest component, although they reduced their participation to 49.7%, in line with lower interest rates, while saving accounts increased their share to 33.9%. Checking accounts represent 16.1% of deposits.

- On the bottom right, we show the evolution of our Liquidity Coverage Ratio (or IRL in Spanish) which closed the quarter at 136.4%, while the Net Stable Funding Ratio (NSFR or CFEN in Spanish) was 103.7%.

- Deposits to net loans ratio remained at 0.98x in Q2-2023, close to our target of being fully matched.

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

- Total equity was $15.6 trillion pesos in Q2-2023, a 1.4% quarterly increase, and a 1.0% year-on-year decrease.

- Tangible common equity increased by 1.5% quarterly, to $14.2 trillion mostly explained by increased Net Profits. Consequently, the tangible common equity ratio increased from 10.2% to 10.5%. Likewise, leverage, measured as equity / assets increased from 11.2% to 11.5% this quarter.

- Total capital adequacy in the quarter was 12.8%, distributed in a Tier 1 of 10.1% and a Tier 2 of 2.7%.

- Tier 1 increased $398 billion pesos in the quarter mainly due to positive contributions of $277 billion pesos from Net Income and an improvement in the Available for Sale portfolio's valuation, of $144 billion pesos.

- Lower Tier 2, at 2.7% 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 2.6 and 2.0 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 in Q2-2023 was $1.3 trillion pesos, showing annual and quarterly growth of 12.5% and 1.0%, respectively, when excluding FX.

- Lending NIM stands at 5.4%, a 42 basis point increase this quarter, mainly explained by an increase of 7.4% in interest income from commercial loans.

- Investment NIM decreased by 311 basis points to -0.1%. Funding costs increased 26 basis points while investment yield diminished 277 basis points. As with investment yield, investment NIM in Q1-2023 was abnormally high.

- Total NIM decreased 5 basis points and is at 4.6%. The decrease in investment NIM almost perfectly offset the increase in lending NIM.

- Annualized loan' yield for the quarter stood at 13.3%, having increased by 76 basis points this quarter. Both, commercial and consumer lending yields, grew in a similar fashion.

- Annualized investment yield diminished by 2.8 percentage points to 7.9%. It is worth noting that this yield, albeit lower than in Q1-2023, is historically high. Q1 presented abnormally high interbank and investment interest income.

- The annualized cost of funds increased 26 basis points this quarter to 8.4%. We believe to be close to our peak in cost of funds, given that some types of funding are already showing signs of improvement.

- We expect total NIM to be between 4.6% and 4.7% for the entire 2023.

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

- Gross fee income in Q2-2023 grew 1.0% in quarterly terms, to $485.0 billion pesos. Banking services and credit & debit card fees explain 82% of total gross fees, while 11% is explained by fiduciary activities. Credit & debit card fees increased 4.4% this quarter, banking services increased 2.2% and fiduciary activities diminished 9.2% after an extraordinary performance in the first quarter.

- Fee income ratio was 27.6%, 3 percentage points above the Q1-2023 figure, as a result of banking and credit & debit card fees performance.

- Meanwhile, Other Operating Income stood at $157.7 billion pesos, coming from:

  - First, $153 billion pesos from Other Operating Income.

  - Second, Equity Method & Dividend income which came in at $87 billion pesos, primarily from Porvenir with $55 billion pesos and from Corficolombiana, with $17 billion pesos.

  - Third, a partially offset of $109 billion pesos from the effect associated with net funding cost from derivatives and foreign exchange hedges.

- Fee income ratio should be in the 25% area in 2023.

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

- Total income for the quarter was $1.8 trillion pesos, or 7.6% less than the previous quarter. Most of this variation can be explained by lower investment NIM and lower equity method income.

- Operating expenses at $914 billion, increased slightly in the quarter, by 0.5%, and 18.3% annually.

- Consequently, cost to income stood at 50.6% for the quarter, slightly above 2022 full year average.

- Total average assets decreased by $876 billion, or 0.6%. Therefore, cost to assets ratio remained stable, increasing by only 3 basis points to 2.7%.

- 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 $277.3 billion pesos this quarter.

- Annualized profitability metrics were 0.8% for ROAA and 7.2% for ROAE in Q2-2023. I would like to emphasize our commitment to improve the Bank's results and get closer to our cost of capital.

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 1.8% and 1.9%.
- Fee income ratio should come in at 25%.
- Cost-to-income ratio around 48%.
- And regarding profitability, ROAA should be around 1.2% and ROAE should be between 9% and 10%.

And now we are open to your questions.

<u>Operator:</u> Thank you.

And with that, we will begin our Q&A session.

You can press the send request button inside the On Stage widget into the platform. Then, grant the permission over your microphone in your computer and then ask your question.

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.

I repeat, press the star (*) button and number six (6) to access Q&A. Then number one (1) to raise your hand.

If you're using a speakerphone, you may need to pick up your handset first before pressing the numbers.

We have now Mr. **Julián Ausique** from Banco **Davivienda** on the line with a question by phone. Mr. Julian, your line is open. You may ask your question.

Julián Ausique: Thanks for having my question. Just to confirm, I'm from Corredores Davivienda. My question is regarding the indicators that you presented about the IRL or CFEN, as well, because we saw a really big decrease during the quarter. For example, the IRL ratio goes from 225 to 136 and the CFEN indicator also reduced during the quarter, so I would like to understand why was that?

And also, regarding liquidity, I would like to know your opinion about the situation that Colombia has right now about the liquidity that the banking system is having because the government is not expanding as we were expecting so there has been some pressures in liquidity for the whole system. How are you seeing and facing this situation? Thank you.

Javier Dorich: Hi, Julián. This is Javier. Thank you for your questions. Regarding your first question in terms of IRL or the liquidity coverage ratio, it was abnormally high at the end of 2022 and the start of 2023 due to the sale of BHI, from which we got $3.2 trillion pesos. So, we have been using that liquidity gradually because it was not efficient to keep that as liquidity. And that's the reason that our liquidity coverage ratio has been converging to some more normal ratios, around 150, for example.

And in terms of CFEN, we have been growing in the loan portfolio and you know that right now, as you already mentioned, the funding is quite expensive, so we have been trying to make a balance between getting new funds, not tapping too much or pressing the market since it's expensive right now. We feel comfortable at current CFEN level, but of course we know we shouldn't get lower than that.

Regarding your third question about liquidity, there are certain things that are happening right now. For example, the government has around $40 trillion pesos in the Central Bank and that liquidity has gone out of the market. And also, the spread between financial funding and rates against IBR swaps.

Operator: Very good. We now have Mr. **Jaskaran Singh** from **Goldman Sachs** on the line with a question via phone. Mr. Jaskaran, your line is open for your question, please.

Jaskaran Singh: Okay. I just wanted to ask one thing. You've given a loan growth guidance of 8% to 10% for this year. Just wanted to ask, what is the underlying assumption for loan growth in Colombia and loan growth in Panama?

Javier Dorich: I was mentioning that for Colombia, we expect loan growth of around 13% and for Panama, 1% to 2% in dollar terms.

Operator: It seems like we have no further questions at this time, and we'll proceed now with the final remarks from Mr. César Prado. Mr. Prado, the floor now is yours.

César Prado: Thank you, Juan Pablo.

As we have mentioned, although faced with a challenging quarter, we continued obtaining positive results for the financial sector. Looking forward, we believe that cost of risk should begin to subside and that a possible environment of rate reduction could open up the possibility for NIM improvement.

Thank you for attending today's meeting and I hope you will join us for our next Conference Call.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect, have a nice day.