# CREDIVALORES-CREDISERVICIOS QUARTERLY RESULTS REPORT[1]

## AS OF MARCH 31, 2018

**Operator:** Welcome to the Credivalores 4th quarter 2017 and fiscal year results conference call. My name is Sylvia and I will be your operator for today's call**.**

Please be aware that if you're in the web part only, you cannot interact verbally but still we can receive your questions via web.

Please note that this conference is being recorded.

I will now turn the call over to Patricia Moreno, Director of International Funding and Investor Relations. Patricia, you may begin.

**Patricia Moreno (Director of International Funding and Investor Relations):**

Good morning and thank you for joining us today in our 1Q 2018 results investor conference call.

My name is Patricia Moreno, I am the Director of International Funding and Investor Relations, and here with me is Hector Chaves, our CFO. We will have a Q&A session at the end of this presentation. You will also be able to download the presentation from our new Investor Relations website.

**Credivalores at-a-glance**

Credivalores is the leading non-bank financial institution in Colombia targeting mid- to low-income clients. We offer a diversified portfolio of consumer credit solutions with innovative collections channels through three main products: payroll loans, branded credit cards and insurance premium financing. The Company has a track record of over 15 years and more than 821,000 clients, having issued more than US$2.4 bn in loans.

As of March 2018, we had a managed loan portfolio of US$465 million and a broad geographic footprint with 84 branches and points of sale in retail locations and 94 customer centers across the country in alliance with telecom companies in Colombia. Our sizable exclusive sales force with more than 2,500 sales representatives, allows us to reach almost 80% of the municipalities in 34 cities in Colombia. We have consolidated a strong network for disbursements and collections through partnerships with more than 16,100 bank correspondents with a wide presence throughout the country.

Also, as of March 2018, we maintained a strong balance sheet position with a shareholders' equity of US$84 million.

Credivalores' business model is supported by four pillars including our unique collection channels that mitigate credit risk, the robust yield of our loan portfolio given our niche market, our key partnerships with employers, retailers and utility companies granting us access to more than 7.6 million potential clients and our customer segment.

[1] The following transcript should be read in conjunction with our Financial Statements as of March 31, 2018. Our Annual Financial Statements have been prepared in accordance with IFRS for non-financial entities.

**Credivalores' Client Base Breakdown**

Our customer segment is comprised of those clients that traditional banks cannot or do not serve, more specifically mid- to low-income clients in Colombia's small and medium sized cities, where banks have a more limited presence.

About 75% of Colombian population, which stands at about 50 million people, corresponds to socio economic segments 1 through 3, with the lowest income levels especially in small and medium cities. Precisely, 89% of our client base corresponds to these segments with 70% of the loan portfolio in small and medium cities with populations between 200,000 and 2 million inhabitants.

By gender, we ensure equitable access to payroll loans, credit cards and insurance financing to men and women within the segments in which we are present. By age, there is a clear differentiation among our products. Whereas about 80% of clients of the insurance financing and the credit card products are younger than 55 years old, more than 50% of our clients under the payroll loan product are older than 55 years old.

**Overview of Product Portfolio**

Our innovative products are designed to appeal to our target market segment and mitigate repayment risk as you can see in the overview of our product portfolio.

− We manage a portfolio of US$465 million, from which 53.4% correspond to payroll loans, 37.6% to Credit Cards and 8.6% to insurance premium financing.

- We also operate a retail insurance business through which we have contacted 365,500 homes using our alliances with public utility companies issuing 35,400 insurance policies during 2017. Moreover, we sold 45,500 insurance policies through our sales platform, becoming one of the leading distributors of micro insurance policies in the country.

− As we previously noted, the payroll loan product collections are made through monthly deductions from our clients' payrolls through a contract with the employer and an irrevocable mandate given by the borrower at subscription.

− For the credit card product, collections are made by adding the monthly installment of our credit card to the client's utility bills, which they are required to pay in full, achieving a higher priority of payment over any other consumer loan

− And finally, for the insurance financing product, the borrower of this product issues an irrevocable mandate to cancel coverage if installments are not paid on time.

- These features allow us to have a well-diversified product portfolio with low concentration by loan size, geographical location and economic sector. The average term at origination is 50 months among all products, the average interest rate is 25.7% (not including fees) and our NLPs are lower than those of the Colombian financial system at 4.5% for the overall portfolio.

Please join me in slide 7 to review the main highlights of the company in the first quarter of 2018.

**Opening Remarks**

In terms of our funding, we reopened our senior unsecured notes due July 2022 for an additional US$75 million, taking the outstanding principal of the bond to US$325 million. The proceeds of the retap were used mainly to prepay unsecured foreign currency debt under the ECP Program due in September 2018. During 1Q 2018, we disbursed a portion of a secured syndicated loan with local financial institutions to fund loan origination during the first quarter of the year. As a result, we could extend the average life of our total debt from 3.4 years to 3.8 years by the end of March 2018.

All of our foreign currency debt is hedged to Colombian pesos through derivative instruments including non-delivery forwards, cross currency swaps and options with international financial institutions. As previously explained, since June 2016 we decided to suspend loan portfolio sales as a source of funding to strengthen our balance sheet position.

Regarding the credit ratings, our international issuer rating was confirmed by S&P at B+ (stable) in December 2017. In March 2017 S&P upgraded our local rating as originator and servicer from AA- (positive) to AA (stable) and in March 2018 this rating was confirmed by the rating agency. During 1Q 2018, Capital Finance International (CFI), a London based print journal and online resource reporting on business, economics and finance, announced Credivalores as the winner of the 2017 Best Social Impact Credit Provider in Colombia Award due to our differentiated business model, which allows us to introduce small entrepreneurs and independent workers to credit cards to stablish credit records which, in turn, unlock access to commercial banks for these clients. About 70% of the applications we process are from customers who seek to obtain their first ever credit card, which is one of our major strengths to consolidate growth.

As per our growth and profitability, our managed and owned portfolios grew 15.7% and 13.1%, respectively year over year compared to the 6.2% portfolio growth of the financial system. As of March 2018, we had important improvements in the operating and financial results. On a year over year basis, our net interest income grew 17% and our operating income grew 87%. Our gross financial margin also improved 15.4%. Finally, our net income of the period had a 221% growth compared to the 1Q 2017.

We maintained a strong equity position to support the expected growth of our loan portfolio in 2018, which ranges between 1.7x to 2.0x the financial system. Currently, our shareholders' equity stands at US$84 million. Our leverage and solvency ratios remained relatively stable compared to the 2017 results. As of March 2018, we complied with all the covenants included in the Description of the Notes of our international bond.

**1Q 2018- Main Highlights- Macro Conditions**

Regarding the business environment in Colombia, inflation remains under control within the target of the Central Bank and market consensus expects to end 2018 with a 3.3% inflation rate. Interest rates have been decreasing since December 2016 when the Central Bank adopted an easing cycle considering lower economic growth expectations for the country in 2017 because of the impact of oil prices in the fiscal accounts. Therefore, DTF, which is the 90-day CDs average rate, and the overnight repo rate have decreased consistently since August 2016.

The reduction in interest rates from the Central Bank was not reflected completely in the interest rates from the financial system in 2017. Thus, in August 2017, the government announced changes in the calculation period of the usury rate from a quarterly to a monthly basis starting on September 1st, 2017. Although the calculation formula remained unchanged at 1.5 times the average lending interest rate from banks, the usury rate has decreased 255 basis points since the adoption of this measure. However, we have not had a similar adjustment in the average interest rate of our portfolio, since we maintain an important gap compared to the usury rate.

Government officials and representatives from the banking sector have expressed publicly the need to deregulate the maximum interest rate for consumer loans among the low and middle-income part of the population to increase the access to financial services. However, no specific regulatory measures have been announced.

The financial system in Colombia has witnessed an increase in the NPLs as a result of the slowdown in the economy and low growth rates in terms of loan portfolio balance.

As of March 2018, the average systems' NPLs stood at 4.87% and NPLs from consumer loans increased to 6.2%. The system remained well capitalized showing a solvency index of 16.5%, above the 9% minimum regulatory.

Out of the total loan portfolio of the financial system as of March 2018, about 28% were consumer loans totaling US$45 billion. The consumer loan portfolio grew 8.6% year over year and payroll loans continued to represent the largest portion of this portfolio with a 36% share. Among the consumer loan portfolio, payroll loans and credit cards grew 9.4% and 6.6% year over year, respectively.

Now, please join me in slide 11 to review our first quarter 2018 results.

**1Q 2018 Operating Results**

Our client base increased 4.1% between December 2017 and March 2018 and grew 8.7% year over year.

The loan portfolio origination decreased 10.9% between the fourth quarter of 2017 and the first quarter of 2018, because of lower origination in payroll loans and credit cards due to the normal seasonal cycle of the product resulting from the vacation period of public entities. Furthermore, between December 2017 and the first quarter of 2018 we extended the average term at origination of payroll loans from 78 to 88 months with higher interest rates, to preserve the balance of the loan portfolio while developing clients' loyalty. During this period, pensioners increased their debt capacity as their pensions are indexed to CPI and the adjustment is usually performed during the first quarter of each year. Therefore, we increased the average payroll loan size maintaining the same installment over time. We expect to see the benefits from this strategy during the second quarter of the year.

Loan portfolio origination totaled $188 billion pesos during the first quarter of 2018 showing a 31.9% increase compared to the same period of 2017. During the first quarter of 2018 we increased disbursements in payroll loans and credit cards by 66% and 20%, respectively, compared to the first quarter of 2017 because of a strong liquidity position of the Company during the first three months of 2018.

Regarding our owned portfolio, which includes the portfolio on balance and in free standing trusts, we had a 1.6% decrease between the last quarter of 2017 and the first quarter of this year and a 13.1% growth year over year reaching a total of $1 trillion pesos.

Our managed loan portfolio, which includes our owned portfolio and the payroll loan portfolio sales, also decreased 0.7% quarter over quarter totaling $1.29 trillion pesos as of March 2018.

The annual growth in the owned portfolio resulted in a 15.7% growth in the managed portfolio due to a 22.3% increase in the insurance financing portfolio and an 18.8% increase in the payroll loan portfolio. The former result obeys to our decision to suspend portfolio sales of our payroll loans portfolio since June 2016. With these results we confirm our origination capabilities and the strong demand for loans in our market segment when compared to the 8.6% nominal growth of consumer loans in the Colombian financial system.

If we review our managed loan portfolio by product type as of the end of the first quarter of 2018, our three main products maintained their share of the total managed loan portfolio between the fourth quarter of 2017 and the first quarter of this year.

Our business model results in a high degree of portfolio diversification, minimizing concentration risk. Our payroll loan portfolio is highly diversified, minimizing concentration across geography and clients. Our top 25 clients represent only 0.7% of the portfolio and the average single exposure represents only 0.11% of the total portfolio.

In addition to our diversification, 84% of the payroll loan portfolio and 45% of the overall portfolio ultimately come from clients on the government's payroll, which increases the stability of their cash flows.

Geographically, Bogota represents only 23% of the portfolio and the remaining is well distributed among other regions and cities, as opposed to a 50% share that Bogota, the capital of Colombia, represents within the loan portfolio of traditional banks.

Regarding our NPL levels we have been able to manage a trajectory of rapid growth of loan portfolio with an 18% growth rate (CAGR) over the last 5 years, while still maintaining low rates of non-performing loans compared to the industry average. Our low NPL levels result from our enhanced proprietary underwriting standards and credit review systems.

Our NPLs, calculated between 60 and 360 days, increased between December 2017 and March 2018 from 4.2% to 4.5%, due to the general slowdown of Colombian economy and a slight decrease in the loan portfolio, which continued affecting the performance of our credit card business. Our origination standards for payroll loans remained focused on top credit profiles among government employees. These credit policies and the extension of the duration of our funding sources, allowed us to extend the duration of payroll loans to 88 months and to increase the average loan size by 1.5%.

Our NPLs remain still below the Colombian financial system, even after including write-offs of loans greater than 360 days from commercial banks, to make the index comparable to Credivalores' figures, as we maintain a policy of not writing-off loans. As shown in the presentation, as of March 2018 Credivalores had NPLs of 10.7%, which compares well to the 15.3% of the industry average when including write-offs.

NPL coverage ratio, which has been traditionally around 90% of our managed portfolio and more than 100% of our own portfolio, improved between December 2017 and March 2018 to 117% for the managed portfolio and 129% for the owned portfolio, including FGA reserves. This was due to additional impairment expense due to adjustments in the model and internal policy to maintain coverage ratio of managed portfolio above 91%.

Our NPLs coverage ratio remains above our calculation of loss given default, which stands at 75% for the NPLs over 60 days.

Our recovery rates for loans with over 180 days overdue as of March 2018 was 19.1%, reflecting our effective recovery processes.

**1Q 2018 Financial Results- Income Statement**

With regards to our financial results, we start by presenting our income statement.

Our interest income, which includes interests, commissions and fees, increased 0.1% between the fourth quarter of 2017 and the first three months of 2018, mainly as a result of a 5.2% increase in interests and a 2.1% decline in commissions and fees due to the implementation of clients' loyalty programs. Year over year, interest income grew 15.5% due to higher average portfolio balance and a 23.5% increase in commissions and fees, offsetting revenues from portfolio sales and other items. With these results, we were able to fully offset the negative impact from not having revenue from portfolio sales.

The gross financial margin improved 23.6% between the fourth quarter of 2017 and the first quarter of 2018 due to a decrease in net impairment expenses and lower financial costs, as a result of a decrease in the IBR rate, at which we indexed the interest payments of the international bond through the cross-currency swaps executed during the first quarter of the year. Year over year, gross financial margin increased 14.3% due to higher net interest income and higher net impairment expenses.

The selling, general and administrative expenses, which are referred to as other expenses in our income statement, decreased 16.3% between the fourth quarter of 2017 and the first three months of this year due to an important decrease in legal, insurance and taxes expenses, lower depreciation and amortization expenses and lower employee benefits. During the first quarter of 2018 other expenses totaled $23 billion pesos, 0,5% less than in the same period of 2017, because of the annual cost saving program implemented to improve operational efficiency and control expenses.

With regards to the operating income, we had an important improvement quarter over quarter due to the increase in the gross financial margin and the fall of other operating expenses. Operating income grew 77.2% year over year due to higher net interest income that led to higher gross financial margin and controlled SG&A expenses.

Now moving to the non-operating results in the income statement, during the first quarter of 2018, non-recurring items, which include foreign currency rate differences income for $93.2 billion pesos was offset by the negative valuation of hedging instruments for $97.3 billion pesos, resulting in non-operating expenses for $4 billion pesos. The valuation of hedging instruments includes the accumulated impact of the compensation of forwards every time the underlying obligation matures or is prepaid, which was the case for the notes under the ECP Program prepaid during the first quarter of 2018.

As of March 2018, 100% of our foreign currency debt was hedged to pesos through short-term forwards, cross currency swaps and options. In January 2018, we executed a cross currency swap to Colombian pesos on the principal and interests on US$250 million of the principal of the 9.75% notes with international counterparties. The hedge extends until 2022 and it was structured to allow Credivalores to actively manage the gap of its assets and liabilities during this period paying a floating rate in pesos indexed to the IBR overnight. Furthermore, in March 2018, we closed a call spread on the principal of the US$75 million reopening of the notes and a coupon only swap also indexed to the IBR overnight to hedge the corresponding interests' payments until 2022.

If we eliminate the impact of non-recurring items from our income statement, our net income before taxes, would have reached $10 billion pesos as of March 2018.

When considering all the impacts from non-operating items, our net income before taxes exhibited a profit of $6 billion pesos in the first quarter of the year. Year over year, our net income before taxes showed an important recovery due to an increase in the operating income and the mitigated negative impact of FX rate differences in the P&L achieved from the hedging instruments put in place during the first quarter of the year.

During the first quarter of the year we had a net income of $5 billion pesos, also exhibiting an important recovery of more than 200% when compared to the first quarter of 2017.

**1Q 2018 Financial Results- Balance Sheet**

With regards to our balance sheet, we present the main financial ratios for the first quarter of the year.

Our shareholders' equity increased 20.7% between March 2017 and March 2018, totaling $233 billion pesos, after accounting for the US$18.6 million capitalization of April 2017. When comparing the results between December 2017 and March 2018, our shareholders' equity increased 2.1%, after including the year to date results.

Our leverage ratio of debt to equity stood at 5.2 times, slightly above the December 2017 result. This was due to an increase in the balance of financial obligations after the reopening of the international notes in February 2018 and the partial usage of the proceeds to prepay US$55 million of notes under the ECP Program in March 2018. Our solvency ratio, calculated as equity to assets, declined to 14.1% compared to the 15.4% of December 2017 due to an increase in the cash balance of the company resulting from the pace at which the proceeds of the reopening could be applied to debt prepayments.

Lastly, the capitalization ratio measured as the total shareholders' equity divided by net loan portfolio, which is defined as the owned loan portfolio less impairments of financial assets and the FGA reserve, totaled 26.6% as of March 2018, improving from the December and March 2017 figures and remaining above the 13.5% level required by the covenant of the 144 A / Reg S bond issuance.

On the evolution of the composition of our capitalization, between December 2017 and March 2018, total capitalization increased 4.4%, due to the reopening of the 9.75% international bond and the increase in net income in the shareholders' equity. Year over year, the capitalization increased 8.1%.

Our ratio of unencumbered assets to unsecured debt, calculated accordingly to the Description of the Notes of the offering memorandum of the bond, stood at 113.9%, above the minimum 110%, required by the covenant. This ratio was affected during the first quarter of 2018 by the inclusion of the net obligations under the hedging obligations as part of the unsecured debt because of the hedging transactions closed during the first quarter of the year.

Our average funding cost was 12.84% during the first quarter of 2018, 136 basis points below the December 2017 levels. As previously explained, our financial costs have benefited from a decrease in local interest rates including the DTF and IBR rates, as the interest payments of the international bond were indexed to the IBR overnight rate through the cross currency-swaps we executed during the first quarter of the year. As you also see in the graph below spread over the DTF rate has increased due to the change in funding sources from peso to US dollar denominated debt considering the cost of hedging the FX risk. The change in funding sources was driven by the decision to extend the average life of debt and substitute cash inefficient and inflexible sources like the free-standing trusts with local banks. The pricing strategy of our loan portfolio has been adjusted accordingly since June 2017 in anticipation of higher costs of funding.

**1Q 2018 Debt Profile**

After the issuance of our 144A / Reg S notes last year, the bond has performed well for investors even under the recent sell-off of assets from emerging markets.

In terms of our financial obligations by source, the issuance of the 144 A/ Reg S notes in 2017 changed our funding structure by substituting domestic secured debt for foreign currency unsecured debt. As of March 2018, the 144A /Reg S notes represent 71% of our total financial obligations, the outstanding notes under the ECP Program represent 10%, the secured domestic sources represent 12% and the unsecured domestic sources represent 6.5% of the total financial obligations of the Company.

Below, we present the debt maturity profile before and after the bond issuance in July 2017. We have been able to extend the average life of our debt from 1.14 years in June 2017 to 3.8 years as of March 2018, in line with the average duration of our portfolio. As of the end of 2017, all secured debt with local financial institutions was prepaid, except for the IFC facility, which we will maintain until maturity in 2021. In addition, we have completed two liability management transactions during the last quarter of 2017 and the first quarter of 2018, which allowed us to prepay US$80 million of notes under the ECP Program and extend debt duration through longer term issuances with more than 3 years average life. In fact, the $33 billion pesos of notes under the ECP Program maturing in the second half of 2018, have been funded already with the reopening of the international notes. With these transactions we continue to improve the debt profile of Credivalores moving towards long-term unsecured sources of funding and a diversified investor base to support our growth.

**1Q 2018 Financial Obligations**

Finally, we present the status of our financial obligations as of March of 2018.

Total financial obligations increased 4.9% to $1.27 trillion pesos between December 2017 and March 2018 and 6.1% between March 2017 and March 2018, due to the debt issuances and prepayments carried out in the last six months.

As of March 2018, 88% of total debt was unsecured and 12% was secured, represented only by the IFC facility and a peso denominated syndicated loan with local financial institutions, which was disbursed to fund the portfolio origination during first quarter of 2018. By currency as of the same date, 85% of our debt was denominated in US dollars and 15% in pesos, with 100% of the total debt hedged to pesos. By term, 5% of maturities were due in less than 12 months and 95% were due in the long-term as result of the strategy to extend average life.

Now, please join me in slide 26 to present our closing remarks for the conference call.

## Closing Remarks

With regards to our closing remarks, I would like to mention that in terms of our funding sources we are developing several initiatives to further diversify our investor base through new sources of funding in the local market, with multilateral entities and in the international capital markets. We believe these new sources will allow us to maintain the average life of debt above 3 years to mitigate the financing risk.

On the risk management side, the new dynamic risk management strategy implemented in 2017 will allow us to maintain a dynamic hedge on our foreign currency rate and interest rate exposure, while maintaining a minimum impact in our P&L.

As anticipated, we will adopt IFRS 9 during 2018. The main impacts of this adoption include higher impairment expenses for $47 billion pesos or about US$17 million, which are reflected in the shareholders´ equity as first time IFRS adoption effects and $22 billion pesos (US$8 million) reduction in loan portfolio due to write-offs, which resulted from the impairment tests. Moreover, during this first quarter of the year we had a $2 billion pesos income in the OCI account of the shareholders´ equity due to derivatives valuations.

Our strong balance sheet position, consolidated funding structure and leading market position will support the expected managed portfolio growth between 1.7x ad 2.0x the financial system in 2018.

We are already experiencing the benefits from adjustments in our cost structure, especially in our administrative expenses, due to the annual cost saving program. This will improve efficiency ratios between 57% and 58%. These strategies are also improving our profitability during the first quarter of 2018 allowing us to recover ROE and ROA levels to the ones we had in 2015 of 18% and 3%, respectively.

Finally, we continue to strengthen our management team with the recent recruitment of Hector Chaves, as CFO. Hector has more than 20 years in the banking system in Colombia as CFO, CRO, member of strategic committees and Boards of Directors. He previously worked in the senior management of Banco de Bogotá, Helm Bank and BCSC.

This concludes our presentation for today. We will now open the call for a Q&A session.

## Q&A Session

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

First, we will go with the audio questions and then we will read and answer questions coming from the web.

If you have a question, please press * and 1 on your touchtone phone.

If you wish to be removed from the queue, please press the # sign.

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

Once again, if you have a question please press * and 1 on your touchtone phone.

The first question comes from Alvin Chew, from Trend Capital.

**Alvin Chew:** Hi, good morning. Thank you for the presentation. My first question relates to the IFRS 9 adoption. You briefly mentioned the impact on the financials, buy could you give us more color? What does that mean in terms of the impact on your leverage ratio and your capital adequacy? Could we have more color on that?

Two, we'd like to know what is your approval rate for credit cards in the first quarter of this year. Thank you.

**Patricia Moreno:** Ok. Regarding the IFRS adoption, the main impacts are the ones we mentioned in the presentation and those are the ones that we foresee as of today.

It's basically higher impairment expenses. There will be no changes in the adequacy levels or in solvency ratios in addition to what we have already stated, so the impairment expenses that we already are including in the first quarter of 2018 financial statements are about US$17 million, which are reflected in the shareholders' equity as we told you in a line that is the first-time adoption of IFRS.

Also, we had to write-off partially our loan portfolio, for about US$8 million, which resulted from impairment tests that we conducted when we were adopting IFRS 9. Those are the two main effects that we see so far on the loan portfolio.

In terms of the derivative valuation, when we started to close these derivatives during the first quarter of 2018 we were doing everything under our new policy that was elaborated under the IFRS 9 assumption, so the $2 billion pesos that you see as income in the OCI account of the shareholders' equity during the first quarter 2018 financial statements are already calculated under IFRS 9.

What we see is that going forward these are impacts that we will see in the OCI account as the derivative valuation moves ahead, but we don't expect any other.

**Alvin Chew:** So why are you saying $47 billion pesos and $22 billion pesos? The $47 billion pesos in impairment expenses and the $22 billion pesos in write-offs? So, it's already been reflected in…

**Patricia Moreno:** In the financial statements of this first quarter. Yes.

**Alvin Chew:** So, it's already impacted the capital position, right? The equity line for this quarter.

**Patricia Moreno:** Exactly.

**Alvin Chew:** Ok.

**Patricia Moreno:** As you see, the capitalization moved slightly from the 15% that we had as of December 2017. The solvency ratio for example moved from 15.4% to 14.1% that is equity to assets, and the capitalization ratio was actually better because it is calculated on the net loan portfolio.

**Alvin Chew:** Uh-huh. Ok. Approval rate of credit cards.

**Patricia Moreno:** Yes. The interest rate of credit cards?

**Alvin Chew**: No, no. Approval rate of credit cards.

**Patricia Moreno:** Oh, the approval rate of credit cards. About 60% of the applications we receive are approved.

**Alvin Chew**: Alright. Thank you.

**Operator**: We have no further questions at this time. Now we'll answer the questions from the web.

**Patricia Moreno:** We do have some questions on the web site. Let me just read them.

From **Benjamin Rojas, BTG.** What is your NPL target? With that number the company feels comfortable.

As we mentioned during the December 2017 results conference call, for 2018 we expect to have NPLs going back to the normal levels of 4% that we had in the past, below 4%. This increase to 5.4% during the first quarter of the year was mainly due to not having the portfolio growing in the amount that we were expecting, basically because during the first quarter of this year what we had was a lot of what we call internally renewals, so for the payroll loans specifically, as we explained during the presentation, pensioners increased their debt capacity because their pensions are indexed to CPI. This adjustment takes place during the first quarter of this year, so it opens an opportunity for us to increase the payroll loan amounts, and that's what we did also by extending the duration of those loans.

That was to retain most of the clients, not really to increase the portfolio balance for the first quarter. We did increase disbursements, but it ended up being a strategy to maintain the portfolio balance that we had as of December 2017 and also because of the season cycle in payroll loans specifically, in which most of the government entities go to vacations between the last two weeks of December and the first three weeks of January, so the first quarter of the year is usually a very slow month in terms of disbursements for payroll loans and that was the main reason for the NPLs to go from 4.2% to 4.5% during the first year.

We feel comfortable with that 4% that we are giving you, especially if you compare us to the performance of the rest of the financial system, which has been increasing considerably, specifically for consumer loans.

There is another question from **Ignacio Ponce at Baffin Advisors**. What percentage of the FX exposure associated with the dollar bond is hedged with cross-currency swaps and NDFs?

We also explained this during the presentation, but to answer your question, we have 100% of the FX exposure today hedged from the bond. The first US$250 million were hedged through a full cross-currency swap on interests and principal up to 2022, up to maturity, and the US$75 million of the reopening that we did in February 2018 were hedged with a coupon only swap for the interest's payments. What we did for the principal was a call spread. It's a combination of call options for the principal in a range that will allow us to hedge the FX exposure.

This range was something that we commented with the rating agencies. We are hedging this exposure between $2,849 pesos per dollar to $3,500 pesos per dollar. That's the range we have entered into with the call spread and that's something that we are also revealing to the market in the notes of our financial statements of this first quarter.

There is another question from **Alvin, from Trend Capital**. What is the impact of IFRS as per Ernst & Young's review?

Actually, E&Y, was the company that was doing the assessment for the IFRS 9 and the numbers that we are reflecting right now in the first quarter of 2018 financial statements are already the product of this assessment, so those are the figures that they validated with us internally and that we are supposed to present to our external auditors by the end of this year.

**Alvin from Trend Capital** is also asking "What is the average cost of funds in the first quarter of 2018 and the NIM? Ok. The average cost of funding during the first quarter is 12.84% and you can see that in the presentation in slide 22.

What we have seen is an increase in the spread over the average DTF. DTF is the rate that we use usually for benchmark matters. The DTF is the average 90-days CDs rate. It has been decreasing and instead the spread for our cost of funding has been increasing, as we have moved from pesos denominated debt to US dollar denominated debt and we must include the cost of hedging to pesos. That's the answer to the first question.

The net interest margin for the first quarter of 2018. We did not include that in the presentation, but I have it here with me. I have it in absolute numbers, not in terms of percentages. It was about $20.3 billion pesos. We calculated this in the same way we calculated for the offering memorandum and the MD&A section of the offering memorandum. I could probably send a further confirmation in terms of percentages.

**Operator:** We have a question online from Mariana Villalba, from NN Investment.

**Mariana Villalba:** Hi. Thanks for taking my question. What was the increase in secured debt denominated in Colombian pesos? It went from 57 billion to 153 billion. Sorry if you already touched on that point, but I may have missed that part. Taking that increase into account, how do you see the ratio of unencumbered assets to unsecure debts going forward, since your cushion to the minimal level has reduced significantly? Thank you.

**Patricia Moreno:** Yes. We increased the secured debt portion of our debt in order to fund loan origination during the first quarter of this year. It was a product also of having committed lines from local financial institutions that had a term of probably July this year. We wanted to be able to use them in order to also optimize the cost of funding of the company, since peso sources are of course cheaper than US dollars.

We did that keeping in mind the ratio and the covenant that we have under the description of the notes. We have probably today a lower margin compared to the 117% of the covenants as of December 2017. Going forward, it's important to note that the syndicated loan with the local financial institutions is prepayable. We can do that at any time and it's an amortizing facility, so we will start amortizing principal on the second half of 2018, as you see in our debt profile, reducing the amount of secured debt that will be outstanding going forward.

**Mariana Villalba:** Ok. And those short-term maturities that you have for the rest of the year, that will be paid out of the cash you have from the retap of the 2022 notes? Or are you seeking to tap into other sources of funding?

**Patricia Moreno:** Basically, what we have due in the first half of this year, 25 billion pesos, is something that we can pay with our own sources. The 33 billion pesos that are due in the second half of 2018 that are the ECP program, those are equivalent to the US$12 million note that we are actually prepaying this month in June, with resources from the retap of the US$75 million of the bond, so that's already taken care of.

The unsecured debt that is maturing during the second half of 2018 are also revolving facilities that we have, like working capital facilities with local financial institutions, so it's not really that we have that amortization due during the second half of 2018, because we will be prepaying that and then we will be able to disburse again that amount.

**Mariana Villalba:** Ok. Understood. Thank you.

**Operator:** No further questions at this time.

**Patricia Moreno:** There is one last question that we received on the webcast from **Juan Pablo Gomez.** What are the costs related to the hedge? Do you expect it to continue in the coming years?

We were able to hedge the US$325 million of the bond outstanding at a rate of IBR + 8.87% more or less, that's the weighted average spread that we got over the IBR. That today is equivalent probably to a 13.2% in pesos and that's way below what we had budgeted for this year. It was about 14.5% what we had included in our budget for the cost of funding of the bond.

Going forward, what we will have is the flexibility, if we want to, to fix that cost that is today floating at an IBR plus a spread, to a fixed cost in pesos, if we foresee an increase in local interest rates.

That could change in any moment. Actually, expectations for next year are that rates will probably start to increase. For this year, expectations are different and the market consensus expects another cut in interest rates from the Central Bank, but next year the next cycle will include probably a pickup in rates, so we will have time between now and the beginning of next year to do something if we wanted to, in terms of flexibility.

The important thing here is that our rationale to maintain the interest rates of the bond in floating rates is that we did an analysis of our assets and liabilities and about 61% of our loan portfolio is in floating rates also indexed to DTF or having a change that is about every ten months in terms of duration. So, in terms of our liabilities, what we did with the cross-currency swap indexed to an IBR plus spread levels, is to be able to do this management of assets and liabilities during the life of the bond.

Are there any other questions?

**Operator:** No further questions in audio.

**Patricia Moreno:** Ok. Well, thank you very much for meeting us today and we hope to see you for the second quarter 2018 conference call results, which we will probably have during August.

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