CREDIVALORES-CREDISERVICIOS QUARTERLY RESULTS REPORT[1]

AS OF MARCH 31, 2020

Operator: Welcome to the Credivalores first quarter 2020 results conference call. My name is Eric and I will be your operator for today's call**.**

At this time, all participants are in listen only mode. Later we will have a question and answer session. 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 Mister David Seinjet. Mister Seinjet, you may begin.

David Seinjet (CEO):

Good morning and thank you for joining us today in our investor conference call to present our results for the 1Q 2020.

My name is David Seinjet, I am the CEO and founder of Credivalores and I am joined in the conference by Patricia Moreno our Investor Relations Officer, Héctor Cháves our CFO and Juan Camilo Mesa, our CRO. We will have a Q&A session at the end of this presentation. You will also be able to download the presentation from our Investor Relations website.

Credivalores at-a-glance

Let me start this conference call by saying that we hope that you and your loved ones are keeping safe and healthy at home. We are living through one of the most challenging times in recent history and we can only hope that we can overcome this unprecedented situation resulting from the COVID-19 pandemic by working together. As many of you, we are working from home so please be patient in case we have any technical difficulties with the call.

To start the presentation please join me in slide 3 for an overview of our company.

We have consolidated our competitive position as the leading non-banking financial institution in Colombia targeting mid-to low-income clients. We offer a diversified portfolio of consumer credit solutions with innovative collections channels through the following products: payroll loans, branded credit cards, insurance premium financing and retail micro insurance. The Company has a track record of over 16 years and more than 846,000 clients, having issued more than US$2.9 billion in loans.

As of March 2020, we had a managed loan portfolio of US$393 million and a broad geographic footprint with 90 branches and points of sale in retail locations and 120 customer centers across the country in alliance with telecom companies in Colombia. Our sizable exclusive sales force with more than 1,700 sales representatives, allows us to reach almost 80% of the municipalities in 34 cities in the country. We have consolidated a strong network for disbursements and collections through partnerships with more than 20,000 points of collection with a wide presence throughout the country.

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[1] The following transcript should be read in conjunction with our unaudited Financial Statements as of March 31, 2020. Our Annual Financial Statements have been prepared in accordance with IFRS for non-financial entities.

Our shareholders' equity totaled US$88 million as of March 2020.

Credivalores' business model is supported by four main 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 7.5 million potential clients and our customer segment.

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$393 million, out of which payroll loans represent 57%, credit cards represent 39% and insurance premium financing represents around 4%.

- Our product portfolio is well diversified with low concentration by loan size, geographical location and economic sector. The average term at origination of the whole loan portfolio is 74 months among all products nonetheless the average life of the portfolio is about 36 months, including prepayments. The average interest rate is about 28% (not including fees) and total yield is about 39.5% including fees and other commissions. Our average NPLs for the managed portfolio stood at 5.2%, slightly higher than the 4.7% level we had as of December 2019.

− As 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 premium financing product, the borrower of this product issues an irrevocable mandate to cancel coverage if installments are not paid on time.

Competitive Advantage and Target Market

Commercial banks are traditionally focused on the upper income segment of the population; however, most of Colombia's population is concentrated in the mid- to low-income segment. Credivalores' strategy is based on reaching clients located in the segments 1 through 3, which represent around 80% of the country's population. We also have a special emphasis on small- and mid-sized cities, in addition to rural areas where banking penetration is considerably lower. About 89% of our client base corresponds to segments 1 through 3 and 70% of the loan portfolio is originated in small and medium cities with populations between 200,000 and 2 million inhabitants.

Average access to credit in these areas is below 5% of the population, meanwhile for Colombia's main cities this figure stands at around 31%. As these regions continue to develop, we will be the primary beneficiary thanks to our existing relationships, unique business model and strong market share.

We differentiate from traditional banks in the following ways:

- On the commercial point of view, branch networks represent still the largest channel for commercial activity for banks, as opposed to our model, which approaches customers on-site through our proprietary sales teams.

- On the product stance, traditional banks focus on a broad portfolio and cross-selling strategies, while our portfolio is exclusively composed of three specialized credit products tailor-made for our market segment.
- On the market segment approach, our customization starts with the understanding of risk and the uniqueness of our target population and their financial needs.
- In terms of processes, we are focused on providing agile and simple products that suit our clients, while commercial banks have more complex internal processes.

We will continue the presentation with the recent developments of the first quarter 2020.

Recent Developments

Regarding our growth and profitability, during the 1Q 2020 we had mixed operational and financial results. Our total portfolio origination grew 20% year over year, especially in credit cards which exhibited a 96% recovery year over year. Regarding our financial results, on a year over year basis, the net interest income decreased 31% and our gross financial margin fell by 62% mainly due to the increase in the cost of funding resulting from the US$300 MM bond issuance in February and the negative carry of the proceeds. Consequently, our operating income and net income fell considerably on a year over year basis.

In February 2020, before the COVID-19 pandemic unfold, we successfully completed a tender offer for 47.6% of the outstanding principal of the 2022 notes, funded through a new 5NC3 note for US$300 MM. We were able to price the new 2025 notes with a coupon 90 bps below the original notes issued in July 2017 and we extended the average life of our debt from 2.2 to 3.2 years.

After the legal corporate transformation of 2019 Credivalores obtained access to the domestic capital market. We obtained approval from the local regulator to launch a securitization of payroll loans portfolio for up to $150 billion rated AA- locally by Fitch Ratings during 2020. Due to our strong cash position, and current market conditions due to the COVID-19 pandemic, we decided to postpone the issuance of this securitization for the second half of the year. Our liquidity position remains strong in 2020, with cash on hand of about US$125 million, allowing us to be in a better position to face market volatility and uncertainty for this year. In addition to our cash position we secured sources of funding for our payroll loan origination through the recent renewal of a secured syndicated loan with local financial institutions from COP$223 billion to COP$310 billion pesos, and through payroll loan portfolio transfers to BTG's mutual fund. As of March 2020 we maintained $331 billion in committed credit lines with financial institutions and 45% of these lines were available to use in the next 12 months.

Our capital adequacy ratio stood at 13.9% and the leverage ratio is at 5.0x. As of March 2020, the Company was in compliance with the covenants from the Description of the Notes of both international notes.

Finally, our total NPLs remained under control at 5.2% as of March 2020, slightly above the 4.7% level of December 2019, mainly due to the growth in the origination of credit card portfolio. Our figures of the 1Q 2020, still do not reflect the expected effects of COVID-19 in our credit card business**.** However, the origination of this product was restricted due to the national quarantine stablished in most cities during the second week of March**.** YoY credit card origination surged by 96% due to the new digital underwriting platform launched in May 2019 and new agreements with utility companies, which increases our potential client base by 21%.

Our payroll loan origination continued to grow consolidating our leading competitive position among non-bank financial companies in Colombia as we reached 1.6% of total originations within the system.

1Q 2020 - Main Highlights- Macro Conditions

Regarding the business environment, after the declaration of COVID-19 as a pandemic in March 2020, all macroeconomic projections for 2020 were changed. Inflation rate reached 3.86% as of March 2020 on YoY basis but the Central Bank's latest expectation for inflation at year end is 2%, given the expected impacts of the prolonged quarantine in the Colombian economy. In line with this expectation the Central Bank has reduced its reference interest rate by 150 bps between March and May 2020 from 4.25% at the beginning of the year to 2.75% on the latest meeting on May 29th, 2020. The DTF rate, which is the 90 day CDs average rate, and the overnight repo rate have also decreased consistently in line with the IBR and the Central Bank's reference rate and it currently stands at 4.25%. According to a report from the Central Bank on macroeconomic projections from different analysts, Colombian GDP will fall by 2.4% in 2020. In line with the reduction in interest rates from the Central Bank, the maximum rate has declined during 2020 to 27.2% as of June 2020.

The macro economic environment for 2020 is challenging and still uncertain as quarantine measures remain in place in most of the country and only a few sectors are being allowed to reopen with strict measures.

The NPLs from the financial system in Colombia have improved consistently since 2017. As of March 2020 NPLs in the financial system recovered taking the average systems' NPLs to 4.3% and NPLs from consumer loans decreased to 4.5%. The financial system remains well capitalized showing a solvency index of 14.9%, above the 9% minimum regulatory.

Out of the total loan portfolio of the financial system, as of March 2020, 30% were consumer loans totaling about $161 trillion pesos. The consumer loan portfolio grew almost 16% year over year and payroll loans continued to represent the largest portion of this portfolio with a 35% share. Among the consumer loan portfolio, payroll loans and credit cards grew 12.5% and 10.6% year over year, respectively.

Now, we will present our results for the first quarter of 2020.

1Q 2020 Operating Results

Our current client base represents about 6% of the total Colombian population holding at least a credit card or a consumer loan.

Our client base increased on a quarterly basis, as a result of the recovery of credit card origination due to technological improvements and new digital platforms launched in May 2019 for our sales force. However, on a yearly basis the decline in origination in insurance financing and payroll loan clients affected the total number of clients.

Our disbursements decreased 8.5% quarter over quarter, due to a cyclical performance of the payroll loan market due to end of year vacations for government officials, teachers and military and restricted mobilization during March as many majors in different regions decreed curfews and lockdowns before the official national quarantine started on March 24th, 2020. However, on a year over year basis origination increased by 20% due to a 96% surge in the credit cards business fueled by the digital origination platform, which has also allowed us to focus on clients with improved creditworthiness despite self imposed restrictive and conservative underwriting policies to better control NPLs. Year over year, we have increased the share of pensioners of the total balance of payroll loans from 57% to 59%.

Regarding our owned portfolio, which includes the portfolio on balance and in free standing trusts, we had a 6.0% growth quarter over quarter due to the increase in origination of credit cards and payroll loans. Year over year we experienced almost an 18% growth in the owned portfolio reaching a total of $1.33 trillion pesos, due to a lower use of financing structures like the mutual fund with BTG which requires payroll loan portfolio transfers and to a pick up in credit card origination between 4Q 2019 and 1Q 2020.

Our managed loan portfolio, which includes our owned portfolio and the payroll loan portfolio sales, increased 0.5% quarter over quarter totaling almost $1.60 trillion pesos, mainly due to the recovery in the credit card business.

The managed portfolio grew 12.5% year over year, due to a 25% growth in credit cards and a 9% increase in payroll loans. Our results confirm our origination capabilities and the resilience of our business model, allowing us to grow in line with consumer loans in the Colombian financial system.

If we review our managed loan portfolio by product type, as of March 2020, payroll loans represented the largest portion of the total managed portfolio with a 57% share while credit cards increased their participation to 39%.

Our business model results in a high degree of portfolio diversification. Our payroll loan portfolio is highly diversified, minimizing concentration across geography and clients. Our top 25 clients represent only 0.57% of the portfolio and the average single exposure represents less than 0.10% of the total portfolio.

In addition to our diversification, 84% of the payroll loan portfolio and 48% of the overall portfolio ultimately come from clients on the government's payroll, which increases the stability of their cash flows. Following our strategy of focusing on high quality profiles in payroll loans, year over year we increased our portfolio balance among pensioners by 12%.

Geographically, Bogota represents only 26% 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.

Now Juan Camilo will present the NPLs behavior for the 1Q 2020.

Juan Camilo Mesa (CRO):

Since June 2019 we have seen a decrease in NPLs in the total portfolio, mainly driven by an improvement in the quality of the credit card portfolio. As of March 2020 our total NPLs stood at 5.2%, slightly above the average NPLs for consumer lending in the financial system and way below similar risk profile loans, such as the small amount consumer loans. We previously explained that the conservative and restrictive underwriting policies adopted in October 2018 and February 2019 to control further deterioration of our credit card business resulted in an increase of the NPLs of this product given the decrease in the origination and in the portfolio balance. While we maintained the underwriting policies, we were able to reduce the NPL levels in payroll loans and credit cards, remaining below the average consumer lending companies, which operate in products and market segments similar to those of Credivalores. After including write-offs of loans greater than 360 days, Credivalores reached NPLs of 12.2% showing a significant improvement year over year more in line with our historical NPLs.

NPL coverage ratio of our managed portfolio and our owned portfolio, remained at similar levels to those of December 2019. NPL coverage ratio stood at 111% for the managed portfolio and 120% for the owned portfolio, including FGA reserves. This result was due to higher net impairment expenses resulting from credit card portfolio growth, while maintaining the calculation of impairments under the IFRS 9 model of expected losses.

We maintain in place several measures adopted in 2018 to control NPLs in our credit card business including:

-Restrictive and more conservative underwriting policies in the credit card business.

-Migration to direct billing under certain agreements with utility companies.

- Strengthening of the collections and risk areas.
- Development of new scoring models for new origination and for loan portfolio management to improve our pricing strategy according to different risk profiles.

-New agreements with utility companies increasing our client base in the credit card business by 21%.

-A new digital underwriting platform for the credit card business to significantly reduce the response time in the origination process and to get access to clients with improved creditworthiness.

- We also have implemented agreements with Huawei and Samsung to pre-install an app in the cell phones we finance under the TIGO agreement.

Redesign and Digitalization of the Origination Process for Credit Cards

As you know during 2019 we developed several initiatives for digital innovation in our business model. We started by redesigning and digitalizing our origination processes to achieve higher efficiency and agility for our clients. We prioritized the digital origination process for the credit card business through our commercial channels. We equipped our sales force with tablets to facilitate the profiling of our clients in retailers and points of sale. In this way, we obtained instant feasibility confirmation and we were able to collect data from our client with georeferencing and automatic validations of information. We also implemented digital and facial biometrics for identity validation on site.

In May 2019, we launched a 100% digital origination platform for our credit card business. As of March 2020 we were able to obtain 144% increase in the number of clients approved showing already better performance on payment habits, 45% increase in productivity of our sales teams, 51% decrease in the response time to our clients delivering the credit card on site within 12 minutes and 39% decrease in origination costs. As you have seen so far in the presentation, all the changes we implemented in 2019 in our credit card origination process allowed us to recover the growing trend in this product, while maintaining conservative underwriting policies in place.

Now Patricia will present our financial results for the 1Q 2020.

Patricia Moreno:

1Q 2020 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, decreased 3.1% quarter over quarter due to a lower maximum rate and lower fees from intermediation activities in the quarter. Year over year interest income decreased 1.7%, mainly as a result of lower interest income from the insurance premium financing and the payroll loan businesses, lower financial returns from the mutual fund with BTG Pactual and lower fees from intermediation activities.

The gross financial margin decreased almost 62% quarter over quarter, mainly due to a 29% increase in financial costs due to issuance of the US$300 million notes due 2025 in February 2020 and the temporary effect of the negative carry of the proceeds from this issuance, which will be used to pay off the amortization of a US$35 million note under the ECP Program in May 2020 and to substitute additional indebtedness from domestic sources during the second and third quarter of the year. Net impairments also increased 27% on a quarter over quarter basis due to credit card portfolio growth. Year over year, gross financial margin declined 62%, due to the same reasons.

The selling, general and administrative expenses, which are referred to as other expenses in our income statement, decreased 11.1% quarter over quarter due to lower depreciation and amortization expenses and lower expenses related to legal, insurance and taxes. Year over year, SG&A decreased 1.8% mainly due to lower temporary services, fees and operating leases.

With regards to the operating income, quarter over quarter we experienced a significant reduction due to the decline in gross financial margin in spite of lower SG&A expenses. Operating income also decreased importantly year over year, mainly due to a 31% decrease in net interest income and a 15% combined effect of higher net impairments and SG&A expenses.

Now moving to the non-operating results in the income statement, the net impact of non-recurring items, which include foreign currency rate differences, as of the first quarter of the year was a financial income of $5.5 billion pesos. Year over year peso depreciation against USD, resulted in income from FX rate differences from two main sources: first, the excess cash in USD we maintained in our accounts after the bond issuance in February 2020, and second, a higher valuation of equity investments in foreign currency.

As of the end of March 2020, 100% of our foreign currency debt was hedged to pesos through short-term forwards, cross currency swaps and options. During the first quarter of 2021 we had a positive impact from non-recurring items due to the impact of the peso depreciation against USD on USD denominated assets like the excess cash in USD we maintained in our accounts after the bond issuance in February 2020 and higher valuation of equity investments. If we eliminate the impact of non-recurring items from our income statement, we would have experienced a $13 billion pesos net loss before taxes.

When considering all the impacts from non-operating items, our net income before taxes exhibited a loss of $8.6 billion pesos as of March 2020. We had a net loss of $5.1 billion pesos, and was largely affected by higher financial costs and net impairment expenses in the operating income partially offset by non-recurring items.

1Q 2020 Financial Results- Balance Sheet

With regards to our balance sheet, we present the main financial ratios as of March 2020.

Our shareholders' equity increased to $356 billion pesos, showing a 26% growth compared to December 2019. This was mainly a result of a large increase in the OCI account resulting from the valuation of derivative instruments.

Our leverage ratio of debt to equity stood at 5.0 times, declining from the December 2019 figure. This was a result of the 26% growth in our shareholders' equity and a 21% increase in the financial debt net of the FX impact, after the issuance of the 2025 notes in February 2020. Our solvency ratio, calculated as equity to assets, stood at about 12% and the risk-adjusted capital adequacy ratio, in which the cash and cash equivalents from the Balance Sheet are not taken into consideration, stood at 13.9%. Lastly, the capitalization ratio, measured as the total shareholders' equity divided by net loan portfolio, totaled 32% as of March 2020 remaining above the 13.5% level required by the covenant of the description of the Notes of the bonds due 2022 and 2025.

Between December 2019 and March 2020, total capitalization, including the FX impact on debt, increased 48% to $2.9 trillion pesos, mainly due to the impact of the issuance of the US$300 million notes due 2025. Our ratio of unencumbered assets to unsecured debt, calculated accordingly to the Description of the Notes of the Offering Memorandum, stood at 168.9%, above the minimum 110%, required by the covenant.

Our average funding cost decreased to 12.2% during the first quarter of 2020. Our cost of funding remains low due to lower reference interest rates from the Central Bank which are quickly reflected in the IBR rate at which 74% of our debt is indexed to.

Debt Profile- March 2020

In terms of our financial obligations by source as of March 2020, the 144A / Reg S Notes due 2022 and 2025 represented 74% of our total financial obligations, the outstanding notes under the ECP Program represented 14%, the secured domestic sources represented 8% and the unsecured domestic sources represented 3%. In the past years we also secured enough sources of funding for our 2020 needs including: a local syndicated loan for payroll loan origination, a financing structure through a mutual fund with BTG Pactual, working capital lines with local financial institutions, overdraft lines and the issuance of Reg S Notes under our Euro Commercial Paper program. These sources add up to $1.34 trillion pesos, and as of March 2020 we had $455 billion pesos available under these lines. About $331 billion pesos of the total approved lines are committed credit lines with financial institutions and as of March 2020 we had $149 billion pesos available to use in the next 12 months for growth and debt amortizations.

Below, we present the debt maturity profile as of December 2019 and March 2020. Average life of our debt as of the end of the first quarter of the year stood at 3.2 years. The average life of our domestic debt is 1.8 years, as most of these credit lines are revolving and short-term, and the average life of our international debt is 3.4 years. The secured debt amortizations correspond to the IFC facility, which has about $13 billion pesos outstanding and to the local syndicated loan for payroll loans, which is revolving for the following 18 months. The US$300 MM bond issuance carried out in February 2020 allowed us to raise the funds needed to pay out the $142 billion pesos amortization of a note under the ECP Program due in May 2020 and to reduce the amortization of the 2022 notes by 47%. The other debt amortizations in 2020 are from local revolving loan facilities with local financial institutions.

Finally, we present the status of our financial obligations as of March 2020.

Total financial obligations, net of the FX impact, increased 21% to $1.77 trillion pesos between December 2019 and March 2020, mainly as a result of the US$300 million issuance of the 2025 notes. By the end of March 2020, 92% of our total debt was unsecured and only 8% was secured, represented by the IFC facility and a peso denominated syndicated loan with local financial institutions. By currency as of the same date, 89% of our debt was denominated in US dollars and 11% in pesos, with 100% of our debt hedged to pesos. By term, 10% of maturities were due in less than 12 months and 92% were due in the long-term as a result of the strategy to extend the average life of debt.

Now, please join me in the Closing Remarks section.

Closing Remarks

With regards to our closing remarks, as seen throughout the presentation the resilience of our business model allowed us to significantly improve the NPLs in the credit card business through digital platforms for origination that resulted in reduced costs and improved efficiency and quality of the loan portfolio. Adoption of IFRS 9 and the recovery in credit card origination increased our net impairment expense. Regarding our financial results, on a year over year basis, the net interest income decreased 31% and our gross financial margin fell by 62% mainly due to the increase in the cost of funding resulting from the US$300 MM bond issuance in February and the negative carry of the proceeds. Consequently, our operating income and net income fell considerably on a year over year basis.

The recent US$300 million bond issuance and the sources of funding secured in the last months, allow us to have a relative strong liquidity position to meet our 2020 debt amortizations and to fund the operation during these challenging times. In addition, we have approvals in place to issue a securitization of payroll loans for up to $150 billion pesos in the local capital market once market conditions change. The average life of our debt remains above 3.2 years, specially after the issuance of the 5NC3 bond due 2025, allowing us to mitigate refinancing risks.

The two new agreements with utility companies and our geographical expansion through our sales force to new regions with lower penetration from the traditional financial institutions, will leverage our growth in 2020, especially in pensioners under our payroll loan business.

Finally, we have adapted our origination capabilities to new non-conventional commercial channels under the COVID-19. Currently telephone sales represent 100% of total payroll loan and insurance premium financing origination. We expect to launch a self-service digital platform for credit card origination in June 2020, allowing us to recover the dynamics of this product under lockdown conditions. Our commercial team has been able to meet the 2020 revised budget under national quarantine conditions using non- conventional channels as the ones we described.

Finally, we want to present our action plan to face the potential impacts from the COVID-19 pandemic and our best estimate for the 2020 outlook.

COVID-19 Action Plan and 2020 Outlook

As many companies, we had to react quickly to adapt our business operation to the new normal under the COVID-19 pandemic in 2020. As we were getting more information from government decisions and new regulations and the expected economic and social impact of this unprecedented situation, we adjusted our action plan to do business in 2020. In the operations and IT front, we had to adjust our continuity of business plan to have most of our administrative and commercial staff working from home. We worked closely with critical suppliers for our business to guarantee coordinated contingency plans for call centers, alternative collection networks, and we secured additional hardware, VPNs and software licenses. We resized our operations and IT staff on duty, according to the new expectation in originations, postponed and cancelled non critical projects and we prioritized all projects related to digital transformation.

Regarding our people and geographic footprint, we resized all active areas during the national quarantine, which will extend until July 1st, according to the most recent announcements. Today about 77% of our staff is working from home. Considering the exemption applicable to the financial services sector under the obligatory national quarantine decree, we developed protocols for our staff working at our offices to guarantee business continuity, including: social distancing, hygiene stations, disinfection of work stations and buildings, mandatory use of masks, work shifts and obligation to report any symptoms or suspicion of contagion.

In the collections and credit risk front, we decided to apply similar financial relief measures to the ones announced by the financial institutions in Colombia. We will apply these measures by demand. For payroll loans, at the client level, we will apply grace periods of up to 2 months extendable for 2 additional months, only for current and less than 30 days past due loans and we could extend tenors to reduce the discounted amount from the payroll or the pension payment. For credit cards, we immediately adopted restrictive underwriting policies, higher score levels and a reduction in the approved amount for some credit profiles. We will also grant grace periods of up to 2 months, extendable for 2 additional months and restructuring alternatives for clients past due more than 30 days. Collection of installments through utility bills could be delayed for up to three months, depending on measures applied by each region, which could affect the cash flow of the company.

Financial and Liquidity Position

With regards to our financial and liquidity position, as previously explained our liquidity position remains strong during 2020, after the US$300 million bond issuance carried out in February 2020, which increased our cash on hand to about US$125 million as of March 2020, allowing us to be in a better position to face market volatility and uncertainty for this year. We already paid the amortization of a US$35 million ECP Note due in May 2020 and we will monitor market conditions to decide whether to prepay or not the US$40 million ECP Note due in April 2021. The available sources of funding for growth in 2020, include the renewal of the local syndicated loan for payroll loan origination for $310 billion pesos, working capital lines for $18 billion pesos and an overdraft line for $21 billion pesos. Moreover, as you have heard in the presentation we have approvals in place to issue a securitization of payroll loans for up to $150 billion pesos in the local capital market once market conditions improve.

The interest and principal of the dollar bonds due in 2022 and 2025 are completely hedged to pesos until maturity through different instruments that you can see in the slide. The average cost after hedging is IBR + 9.18% for the bond due in 2022 and IBR + 7.47% for the bond due in 2025.

Origination and Business Development

We also had to adapt our origination channels to the restrictions imposed to mobility and presence in retailers. We consider our payroll loan portfolio a defensive asset under current market conditions, considering our concentration among pensioners and government officials. Nonetheless, we also adapted the payroll loan origination to telephone sales between March and the fist week of April using data analytics from our Data Warehouse to provide our sales force, returning to work, with attractive commercial offers to a list of pre approved clients following recent changes in underwriting policies. Telephone sales surged 100% between January and May 2020 mainly for payroll loan renewals, becoming the main channel of origination.

Our credit card business is also leveraging on this new channel, as sales representatives are focusing on increasing the number of active credit cards, which will increase average loan portfolio and commissions and fees from credit card with outstanding balance. Our insurance premium financing product is expected to be impacted by COVID-19 as clients decide to cancel insurance policies given change in economic and employment conditions. Life and burial insurance policies remain still attractive for our clients. As we explained, we prioritized all projects related to digital transformation and currently we have a strong pipeline of projects for the following months to achieve 100% self-service digital origination, expand collection channels to digital platforms from specialized agents, and offer online responses to our clients requests for financial reliefs. Between April and May 2020 we implemented several projects of digital transformation including: 100% digital platform for payroll renewal, new alliances for digital payments, digital format for telephones sales for the credit card, online request for financial forbearances, virtual call center, collections bot and the app available to merchants for credit card origination.

2020 Outlook

We have taken some time to assess and adapt our business model and financial expectations to the uncertainty and volatility we are living through. Based on scenario analysis we presented our best estimate with the current available information for the 2020 outlook of our business, which has not changed since our conference call by the end of April. In terms of managed loan portfolio growth, we expect a lower result under a post-COVID base scenario reaching a 12% to 18% growth compared to 2019, especially driven by payroll loans among pensioners and government officials. Since payroll loans will probably represent the largest portion of the loan portfolio and loan origination, we expect total loan origination growth to fall from an pre-COVID expectation between 27% and 32% to a 5% to 6%. Given the important recovery in our credit card business during the second half of 2019, we expected to reach NPLs in 2020 between 5.3% to 5.5% for our total managed portfolio. Under a post-COVID base scenario we expect NPLs to increase to a level between 6.5% and 7.0%. Our operating income was expected to grow between 20% and 25%, but the impacts of COVID-19 will lead us to a decline compared to 2019. In our initial budget for 2020 we expected to have an efficiency ratio between 46% and 44% and the under a post-COVID scenario we expect to reach around 53% considering the strong reduction in variable expenses in origination and efficiencies of the new commercial channels in place. Our equity to assets ratio could decrease to 13% from an initial expectation to end 2020 at 14.5%. Finally, the post-COVID 19 base scenario results in an unchanged capitalization ratio, which is calculated as the shareholder's equity over the net loan portfolio, if the growth expectation for the managed loan portfolio are met.

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

Q&A Session

Operator: Thank you. We will now begin the question and answer session. First, we'll go with the audio questions and then we'll read and answer questions coming from the web.

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

And the first question comes from Nicolas Riva, from Bank of America.

Nicolas Riva: Yes. Thank you very much for taking my questions. I have got two questions. The first one, in the first quarter, based on the financial statements, we saw quite strong loan growth, 18% year on year, 6% quarter on quarter. I know that the impact of the pandemic was not seen very clearly in the first quarter, just in the second half of March, but if you can explain to us what drove that strong loan growth in the first quarter. And I guess we should expect a meaningful deceleration in the second quarter, if also given guidance for 2020 but if you can tell us a bit on what to expect for the second quarter in terms of loan growth.

And then the second question is, on the slides you mentioned some of this relief measures that you are working on with clients, and in payroll lending you mentioned grace periods, the same thing for credit cards really. And my question is, if you can maybe remind us in payroll lending how much of your business will be with government employees, with private factory employees, and with retirees, because for example, in the case of government employees, as long as we haven't seen an increase in unemployment in that sector, and given the nature of payroll lending and the collateral you have, I wouldn't see really a reason for you to do grace periods. And the same thing really for the retiree business. I mean, those clients get that pension every month so why would you need to do a lot of these relief measures in the payroll lending business? Thank you.

David Seinjet: Ok. Probably ten questions in the same question. And so the first one, loan growth for the second quarter, we implemented several digital strategies, several telemarketing strategies, that are working fairly well. We have seen, let's say, a great potential in pensioneers. Basically, pensioneers and government employees became probably the best risk profile among the household so there has been an increase in demand by this profile of clients that were doing well in payroll loans. Actually, we are going to present that in the next quarter conference call, but the adjusted budget for new loans in second quarter, we are probably around 106% over the budget. 6% of the budget. That was one question.

The second question is grace periods, yes. It doesn't apply on payroll loans and not in payroll loans in government employees so pensioneers, probably we have a very small portion of our portfolio in private companies. And there are some companies that have requested a grace period but probably only around 2% of the total payroll loan portfolio so it's not relevant. Grace periods are going to be seen mostly in our credit card business and it was a government initiative to provide grace periods for the Colombian population during the quarantine period. The quarantine period, as I mentioned in the presentation, has been extended. Now it's probably until the month of July. But yes. I don't know if I answered the question about grace periods.

Nicolas Riva: No. So basically the grace periods and the relief measures basically apply to the credit card business, not so much for payroll lending business.

David Seinjet: Yes.

Nicolas Riva: And in payroll lending, it will probably only apply to private employees, which seem to be a small portion of your overall payroll lending business.

David Seinjet: Yes, we have received only 2% grace – 2% of the total portfolio of payroll loans have requested grace periods and was something implemented, very well coordinated with the private company. But it's not relevant, compared to –

Nicolas Riva: Ok.

David Seinjet: Ok.

Nicolas Riva: No, maybe the only thing is – If I look at your slide on the 2020 guidance, you're guiding for 12 to 18% growth in your managed loan portfolio. And I know that you are probably expecting already stronger growth this year. You issued the 2025 bond and you have that cash to put to use. However, for the situation clearly changed a lot over the last two months, let's say, so the 12 to 18% growth for this year, even though it is a meaningful deceleration from the previous one that you are projecting, still looks fairly [unintelligible] 0:52:51.8 given the economic context and the – that we are most likely going to see a contraction in the economy in Colombia this year.

David Seinjet: Yes. We – so we did a not projected, let's say, new loans origination for the coming months. It could change depending the length of the quarantine but we do expect our strong position in payroll lending in government employees and pensioners. It's going to leverage probably more grades and hopefully we are going to meet that budget of 12 to 18%.

Nicolas Riva: Ok. Thank you very much.

Patricia Moreno: And also to complement, 2019 is a low base to compare to, that's why we are confident that we can have a growth in the managed loan portfolio between the 12 and 18%. Remember that the first half of 2019 was affected by a low growth in the credit cards, we were having restricted measures in terms of risk and in terms of origination, the digital platform was only put in place as of May of last year, so only during the second half of the year of 2019 is that we saw a recovery in credit cards. That's again why we feel confident that we can grow at these levels between 2019 and 2020, even under the Covid scenario.

Nicolas Riva: Ok. Thank you very much, Patricia and David.

David Seinjet: There's one additional comment. We have seen a lot of restrictions in the local financial system. I think local or traditional banks are more concerned of keeping high liquidity levels so I think the opportunity for growth in these payroll loans it's going to be a bit higher than expected. That complements what Patricia is saying.

Nicolas Riva: Ok. Thanks

Operator: Our following question comes from Carlos Rivera, from Double Line.

Carlos Rivera: Hi. Thanks a lot for taking the question. My first question is related to asset quality. If you could give us a little more color on the deterioration, the slight deterioration on the payroll loan portfolio, especially considering that most of that is pensioneers and payroll lending. So basically quarter on quarter, that was where the deterioration was mostly concentrated. And if you could give us an update on what you've seen on April and May of the entire portfolio. You mentioned already 2% of the payroll loan portfolio. As for more support, what is the equivalent measure that you've seen in credit cards?

And my second question or third actually on your target. You have an NPL target of 6.5 to 7 by year end. If you could break down your expectation for payroll loans, for credit cards, and to confirm maybe that in that number you are assuming no forbearance on the portfolio, meaning that everyone that is late on a payment would be reflected in that 6.5 to 7% NPL. Thank you.

David Seinjet: In terms of payroll loans, we do not expect an asset deterioration. Probably it's going to be – We do not expect a major change. Actually, we do expect probably an improvement due to operational improvements that we are putting together in the company.

In terms of credit cards, there's a lot of uncertainty. Right now we are not expecting a large -- an important deterioration because we are under the grace period. So basically the people are allowed not to pay and we don't know what's going to be the behavior when we get back to normal payment requirements by the clients, even though that -- a very large percentage is done through utility bills, we do expect that there's going to be a deterioration. We have improved our, let's say, our risk profile of our clients, as we presented actually during the April conference call, the risk profile changed dramatically from last year to this year in terms of higher asset quality, let' say – higher quality of borrowers. That has changed a lot. So we do expect some changes. We feel that we are well positioned. No one expected this Covid-19 but we are much better positioned to low or to higher unemployment scenarios with a higher quality of borrowers. I don't know if Juan Camilo can complement the percentage of higher quality, let's say for risk profile the amount of clients that we had last year as March, if you can compare it to this year.

Juan Camilo: Yes, David. So as David was saying, our asset quality of our new origination has improved significantly. Last year or the start of last year before our changes in underwriting policies around 60% of our originations were of the best risk profile. Right now we have around 85% of originations of this risk profile.

Carlos Rivera: Just to understand better. I mean, I understand the risk of origination profile has improved but if I look at the NPLs for payroll loans, it went from 3.1 to 3.7, like if it's kind of catching up with the old vintage, what is driving this? Is it the private sector that is going into trouble? There's a segment of the portfolio? What is the main driver?

Juan Camilo: No. Basically, as you say, it's just catching up with the vintages. We expect the NPLs for payroll loans to end the year around 3.5 to 3.9%. It's a little bit of a big range, but with this much uncertainty, although it's a small portion what we have on the private sector, it's really hard to have an exact measure of the deterioration that we are going to have there, so that's – for payroll loans.

Carlos Rivera: Ok. That's basically then from the 3.7, it could go either a small improvement or a slight deterioration. Nothing to be worried there.

Juan Camilo: Yeah. Absolutely.

Carlos Rivera: And in terms of the credit card portfolio, what is implied on your year-end guidance?

Juan Camilo: So on the credit card portfolio we are expecting a slight decrease, not a slight, a decrease on the participation in the portfolio and NPLs, right now we have simulations around 12.5 to 13.5%. It's very important to comment here that there's a lot of uncertainty. We are being – We're being very, very hard – to call it somehow on the projections, trying to cover the different possibilities. Yeah. That's what we might be seeing.

Carlos Rivera: Ok. And then just an update in what you've seen in April and May in the credit card portfolio so much of the total loan book it required some type of support or grace period.

Juan Camilo: Yeah. So as of May, 31% of the credit card portfolio had taken a forbearance.

Carlos Rivera: Ok. Great. Thank you so much, David and Juan Camilo.

Operator: Our next question comes from Nick Dimitrov, from Morgan Stanley.

Nick Dimitrov: Hi there. First, thank you very much for sending the statements yesterday. It's been incredibly helpful. I have a couple of questions. The first one is on revenues. When I look at your net income quarter over quarter, it collapsed quite dramatically. And when I look at the breakdown, interest income declined by about 10% quarter over quarter. Interest expense skyrocketed by 28% so the increase in interest expense is because of the new bond. And that one is pretty clear. However, your interest income declined by about 10% so overall net interest income declined by about 75% quarter over quarter. Where do you see margins going in the coming quarters, considering the fact that your revenues get so heavily impacted by the new bond? The fact that rates in Colombia have come down. When I look at your fee income, your fee income is mostly sluggish. I'm okay with that. You did book a gain on FX and some derivatives so that helped but it helped a little bit. So the big driver is really the decline in revenues, again, driven by lower net interest income, which obviously resulted in kind of the lower bottom line.

David Seinjet: Hello. It's David. How are you?

Nick Dimitrov: Good. How are you?

David Seinjet: Good. Basically, I think the most important impact that we had in the net interest margin is the increase in the interest expense. Basically we had all the cash from the bond and as Patricia mentioned during the presentation, we're still thinking if we are going to pay or prepay or not an ECP that was part of our initiative when we were issuing the bond. I think we discussed that during last month's presentation. But basically, the most important impact is the interest expense that increased a lot because of the cash in hand that we had.

We are adjusting the use of this cash basically but not using committed credit facilities in Colombia. Basically we only are going to prepay non-committed. Sorry. We are going to prepay the ones that are committed so that we can have the availability to use down the year.

Besides that, yes, we are expecting a decrease in cost of funding due to the fact that the total bond issuance was converted into a variable uprating COP rate at IBR and IBR reduces automatically with the reduction declared by the Central Bank. So that's going to help us improve the cost of funding in normal basis, without having so much available cash to use down the year.

An additional comment is that growth rates in payroll loans are going to be higher than in credit cards due to self-imposed restrictions in underwriting policies and payroll loans have lower interest rates than the ones of credit cards. But we do expect, first, to recover basically interest income, reduce excess cash, and basically cost of funding will go down, let's say proportionally, to the lower IBR in the local markets.

Nick Dimitrov: How long do you think is going to take for, you know, these developments to kind of normalize? Because when I look at your net interest margin right now, from my calculations it's less than 2%.

David Seinjet: Right. It all depends on how fast we accommodate the excess liquidity. Also, it all depends on how much portfolio growth we could achieve in order to move cash into productive portfolio. And probably what we see is that we are expecting very low growth rates in credit card business. There's a lot of uncertainty for employment rates in Colombia. There's a lot of mixed numbers. There are -- Some people talk about 20%, 25%. I mean, issue consumer loans, even though they're collected through public utility bills in a 25% unemployment environment is quite challenging. So I'd rather keep growing at a faster pace payroll loans, even though that interest income is lower due to lower interest rates.

Nick Dimitrov: Makes sense. Makes sense. Question on provisions. So [inaudible] 1:07:57.0 decline quarter over quarter, which is a little bit counting with everything that's happening, and then when looking at your non-performing loans in nominal terms, they increased by about 13%. What am I missing here?

David Seinjet: I'll answer first part of the question and then I'll transfer the question to Juan Camilo.

Nick Dimitrov: Ok.

David Seinjet: But I think due to this portfolio growth in credit card business, IFRS requires, even though that performing of the notes is good, due to the IFRS methodology they require higher impairment, higher provisions. And probably that's the first part of the question. And the second question – What is the second part of the question?

Nick Dimitrov: Just taking with the first part. Actually, I think your provision expense [inaudible] on a quarter over quarter basis. Again, I totally agree with you that I expected it to kind of increase but it's actually down a bit. That's why I was wondering whether I was missing something.

David Seinjet: Juan Camilo, you have any comment on that?

Juan Camilo: Yes. So just to understand. You're talking about a decrease in provisions quarter over quarter?

Nick Dimitrov: That is correct. Yes.

Patricia Moreno: You mean on a nominal basis? Because --

Nick Dimitrov: Yeah. If you – so the impairments, right? And there, there was an increase. Correct. But there was also another line. Expense and account receivable provision?

Patricia Moreno: Right. Aha.

Nick Dimitrov: And so if you add those, that gives you the total allowance from loss as an account provision that actually declined more generally by about 4% quarter over quarter. But, you know, Patricia, we can take this off, if you want.

Patricia Moreno: Yes, sure.

Nick Dimitrov: And one last quick question on capitals, if you don't mind. So I was looking at your equity to total assets currently at this Q1, is 11.6%. And your guidance says that is going to go up to 13% at year end. Do you think that this is going to be a product of profits coming in in the coming quarters, which is a little bit hard to see at this point or you have to raise equity, as you did last year?

David Seinjet: I don't know the answer for that. Can you say the question again, please?

Nick Dimitrov: Sure. So I was looking at your equity to total assets. As of now it's 11.6%. And you're kind of guiding that by year end it's going to be in the 13% area. How are we going to get up there, considering the fact that we have a few quarters, really challenging quarters that are coming. And I was wondering whether that's a reflection of your expectation of probably raising capital at one point later this year.

Patricia Moreno: No, but one of the main effects in the first quarter for the reduction in the equity to asset ratio was the increase in the total assets, especially the cash and cash equivalents because of the bond issuance. Not all of that cash is going to turn into loan portfolio. We are going to use, as you mentioned, parts of it also serves to reduce our liabilities. We already did pay the USD 35 million note.

Nick Dimitrov: Got it. Got it. Ok.

Patricia Moreno: And the other will be a reduction of other domestic indebtedness that we were going to take during the second and third quarter of the year but now that we have the resources to originate the rest of our loan portfolio, we are going to decrease our use of other sources. So it's basically a reduction in the size of the assets, more than an increase in the equity.

Nick Dimitrov: Ok. Makes sense. Ok. Yes. Thank you.

Operator: Our next question comes from Natalia Corfield, from JP Morgan.

Natalia Corfield: Hi. Thank you for taking my question. And I lost the beginning of your presentation, so sorry if what I am asking has already been asked. But first of all, I have one question referring to your provision expenses. Where do you think your cost of risk is going to go this year? That's my first question. And secondly, looking at your results, it seems to me that in terms of liquidity you were ok in the next two years, based on the cash that you have right now and your liabilities. That said, it seems to me that you have restructure problem, because your cross of funding is very high for the revenues that you generate. And on top of that, if your provision expenses go up, I don't really see how the business can manage that. So what are you thinking in 2020, in 2021, in order to address the revenue part of your results? Those are my two questions.

David Seinjet: Well, I think, one, first, the costs of funding for the company are under what we expected to be. Actually, even though that we managed to increase the duration of the debt, the cost of funding is going down. And it will go further down because they are set by a variable rate in COP so costs of funding are under control and they are going to keep going down.

Interest income will evolve accordingly, as we manage to increase our portfolio size. We have to spend or to work the available cash that we have in the company. Nowadays, probably it's more important excess liquidity than being in the middle liquidity, markets are pretty much close for companies like Credivalores or at least [inaudible] 1:15:16.3 so I think interest margin, which is probably the ultimate question, is going to be covered to the level that we have seen in the past.

Provisions, as Juan Camilo mentioned in the call, we feel very confident that our payroll loan portfolio is going to perform very well. Actually, it's a very defensive portfolio. It's growing, it represents already 59% of the total portfolio of the company and there's a lot of uncertainty about the credit card business, even though that the client base is better positioned for a downturn that we had in the past, but even though – we don't know what is going to be ultimately the performance. Juan Camilo answered a question, I think it was by Double Line, in terms of what will be the expected cost of risk in credit cards and Juan Camilo mentioned 13%. No?

Natalia Corfield: In the credit cards, as you mentioned, the decline collections that you've seen so far was around 31%.

David Seinjet: That was not a real decline, it's basically grace period that is given to our clients during the quarantine declared by the national government so actually we are not seeing any decline. Basically, we have seen grace periods start taking or adapted by the company to its card holders. Basically do not reflect any or do not result any increase in NPLs or reduction in collections. We are going to see probably what is going to happen in a couple of months.

Natalia Corfield: Alright. Understood. Thank you.

Operator: We have no further audio questions. At this time, I'll turn the call over to Maria Patricia for webcast.

Patricia Moreno: Thank you. We have a couple of questions from the webcast. We have a question from Juan Pardo regarding our [inaudible] 1:17:44.6 to interest rate movements from our loan book, how much is variable and how much is fixed rate.

So out of our loan portfolio, about 77% is in fixed rate and 33% is in variable rate and out of our liabilities, our financial obligations, about 85% are in variable rates like IBR basically, and 15% is in fixed rate.

We have another question regarding the total origination, how much of total origination is done through digital programs. This is a question from Maria Teresa Cruz. So currently, about 47% of the originations of our credit cards are through digital platforms and right now 100% of the origination of our payroll loans and our insurance premium financing product are done through platform sales. We are in the process of converting this channel into a more digital one, still using our sale force as an intermediary so they will get the format from an app and they will be able to close the deal through a virtual call center, which as you saw in the presentation was already implemented as of May of this year and that will allow us also to digitalize that part.

There is another question from Martin Anidjar. "Hi. On the grace periods available to clients, what are the incentives for them not to ask and continue payment? And for those who take advantage of that grace period, how likely is it that they will be able to repay the four months accumulated at the end of the period? I don't know if Juan Camilo can answer this.

Juan Camilo: Patricia, can you read the question again please?

Patricia Moreno: Yes. On the grace periods available to clients, what are the incentives for them not to ask and continue payment? And for those who take advantage of that grace period, how likely is it that they will be able to repay the four months accumulated at the end of the period?

David Seinjet: I think it's a very tough question because we don't know exactly, even though we have a very aggressive campaign to be in contact with the client base to understand their current economic status, employment, income, it's very uncertain how many of them are going through some problems. We have no idea on that. And that could change. But we have, let's say, two or three very strong campaigns. One, to keep in touch with clients, to understand their current status, to understand what are their income status, and besides that, we have an aggressive campaign giving some discounts and interest rates for the ones who pay, even though that they are in the grace period. So we have tried to implement a lot of incentives for them to be current, even though that they are on grace periods.

Patricia Moreno: Juan, I understand there are some incentives that you could explain a little bit.

Juan Camilo: Yeah. Sorry. I was on mute. Yeah. For the incentives, we are offering discounts on the interest rate for two or three months, depending if the customer keeps paying on time. So they can get a discount of 30% of the interest rates if they keep paying on time on the full amounts.

Patricia Moreno: Ok. Last questions are from Juan Pardo also. "Given the low profitability scenario that you present, do you expect any rating actions by S&P's and its ratings?" Not additional to what we already had as of May of this year. As you may have seen, the reports from S&P's and Fitch during this month, they have been very active in doing extraordinary reviews of the issuers that they rate. S&P's decided to change the outlook from stable to negative and confirmed the B rating that we have internationally. Fitch ratings, what it did was a little bit more in line with what is happening to all businesses right now, given the uncertainty for us. And it's to put a credit watch negative on our rating, still confirming our B plus rating, but this credit watch what it means is that between the next six to twelve months next to this decision, they will be watching closely all the impacts of the Covid-19, especially in our credit card business, which is the one that we expect to be most affected. Those are the decisions that the rating agencies have taken so far. We have no additional information or movements to consider in the next three to six months, besides what I just told you, that they will monitor the results of our credit card portfolio.

And there's one last question from Alonso Alcorta. "Hi, team. Can you provide a guidance on your expected cost of risk?" Juan Camilo, I don't know if you can answer that.

Juan Camilo: Yes. As I said earlier, there's a lot of uncertainty still. We are not sure on how a lot of important variables are going to behave. But what we are seeing is that we could see an increase in the cost of risk, around 20 to 30% of what we expected before the Covid for the year.

Patricia Moreno: It will mean that since we are currently or at the end of last year we were at about 4% over the average loan portfolio. That was the cost of risk that we had. We could be at a 5.2% by the end of 2020. That's the best expectation we have today.

Juan Camilo: Yes.

Patricia Moreno: We have no further comments or further questions from the webcast. I guess we can conclude the presentation for now. Thank you all for joining us.

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