CREDIVALORES-CREDISERVICIOS QUARTERLY RESULTS REPORT[1]

AS OF JUNE 30, 2020

Operator: Welcome to the Credivalores second quarter 2020 results conference call. My name is Helga 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 Miss. Patricia Moreno. Miss Moreno, you may begin.

Patricia Moreno (International Funding and IR Officer):

Good morning and thank you for joining us today in our investor conference call to present our results for the 2Q 2020.

My name is Patricia Moreno and I am the International Funding and Investor Relations Officer, and I am joined in the conference by 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.

Let me start this conference call by saying that we hope that you and your loved ones are keeping safe and healthy at home. 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.

Credivalores at-a-glance

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 payroll loans, branded credit cards and insurance premium financing. The Company has a track record of over 16 years and more than 792,000 clients, having issued more than US$3.0 billion in loans.

As of June 2020, we had a managed loan portfolio of US$435 million and a broad geographic footprint with 73 branches and points of sale in retail locations and 130 customer centers across the country in alliance with telecom companies. Our sizable exclusive sales force with more than 1,450 sales representatives and the new digital platforms for loan origination, allow 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, which has remained strong amid the quarantines and restrictions in mobilization during 2020.

[1] The following transcript should be read in conjunction with our unaudited Financial Statements as of June 30, 2020. Our Annual Financial Statements have been prepared in accordance with IFRS for non-financial entities.

Our shareholders' equity totaled US$85 million as of June 2020.

Credivalores' proven business model is supported by four main pillars including: 1) our unique collection channels that mitigate credit risk, 2) the robust yield of our loan portfolio given our niche market, 3) our key partnerships with employers, retailers and utility companies granting us access to more than 7.5 million potential clients, and 4) our customer segment, underserved by commercial banks.

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$435 million, out of which payroll loans represent 55%, credit cards represent 40% 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 73 months among all products nonetheless the average life of the portfolio is about 36 months, including prepayments. The average interest rate is about 27% (not including fees) and total yield is about 35% including fees and other commissions. Our average NPLs for the managed portfolio stood at 4.0%, below the 4.7% level we had as of December 2019, as the forbearance measures are still in place.

− 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.

Addressable Market and Client Demographics

- 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 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%.

- In the payroll loan business, our client base is mainly composed of pensioners from government funded pension funds, within segments 1 through 4 mainly men, as a reflection of the general situation of pensioners in Colombia. For our credit card business, our client base is mainly composed by employees and self-employed workers, most of them women, closer to their 40s in segments 1 through 3.

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

Recent Developments

Regarding our growth and profitability, during the 2Q 2020 we had positive operational and financial results. Total portfolio origination fell 2.2% YoY, due to extended national quarantines and restrictions in mobilization in place for almost 5 months. Nonetheless, our owned and managed portfolio grew YoY due to lower loan prepayments.

Regarding our financial results, on a YoY basis, the net interest income increased 5.5%, driven by lower financial costs. During the 2Q Credivalores completed several liability management transactions, including Open Market Repurchases on the 2025 notes, which resulted in lower financial costs. Gross financial margin fell by 17%, mainly due to an increase in loan impairment expenses. Net income totaled COP$4.5 billion pesos, showing a 316% increase YoY.

The US$300 MM notes due 2025 allowed us to reduce the average weighted financial cost of our debt in about 150 basis points between Dec-2019 and June-2020 and to extend the average life of our debt from 2.2 to 3.1 years.

In May 2020 we amortized a US$35 MM note under the ECP Program. Even under the current challenging conditions, our investor base under this program remained interested in extending duration and maintaining the exposure to Credivalores, and thus in May 2020 we issued a new US$20 MM note due Sept-2021. After completing these transactions, the outstanding balance of the ECP Program is US$75 MM.

In April and May 2020, we carried out several Open Market Repurchases in the secondary market allowing us to repurchase an aggregate of US$32 MM of principal of the 8.875% notes due 2025 at a discount price. The notes repurchased under the OMRs were cancelled. The new outstanding principal of these notes is US$268 million.

We maintain a solid cash position to fund loan origination and debt maturities of revolving facilities during the 2H of the year. As of June 2020, we had committed credit lines available for $163 billion pesos, including a recently renovated local syndicated loan for payroll origination, and cash at hand of about US$79 million.

In May 2020 S&P affirmed our long-term foreign currency debt issuer rating at 'B' and revised the outlook to negative from stable, and Fitch Ratings placed our 'B+' long-term issuer default rating on rating Watch Negative. Both rating agencies based their decisions on a deteriorating operating environment for the Colombian economy under the COVID-19 pandemic, which could negatively impact the asset quality of our credit card business.

As of June 2020, our solvency ratio stood at 12.2% and the leverage ratio at 5.2x and the Company was in compliance with the covenants from the Description of the Notes of both dollar notes.

2Q 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 1.97% as of July 2020 on YoY basis and the Central Bank expects inflation to end this year between 1% and 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 200 bps to 2.25%, following cuts in March, April, June and July. The DTF rate and the overnight repo rate have also decreased consistently in line with the Central Bank's reference rate. DTF currently stands at 3.0%, showing a reduction of 148 basis points this year. According to the Central Bank´s report to Congress on the 1H presented last week, Colombian GDP will contract between 6% and 10% in 2020, despite the 1% GDP growth reached in the 1Q. In line with the reduction in interest rates from the Central Bank, the maximum rate has declined 93 basis points during 2020 to 27.4%.

The recovery in the economic activity during the second half of the year is still uncertain, and it will depend on the evolution of the pandemic in Colombia and in the rest of the world. Nonetheless, the Central Bank expects a gradual reopening of the productive sectors during the second half of the year, which could improve the confidence from consumers and investors. In addition, we expect a positive impact in the second half of 2020 from the fiscal and monetary measures taken by the Central Bank during the 2Q.

The NPLs from the financial system in Colombia averaged 4.1% in May 2020 and NPLs from consumer loans decreased to 3.8%, mainly as a result of the measures to contain loan portfolio deterioration through forbearances and grace periods. According to the Financial Superintendence, financial institutions have extended forbearances to over 32% of the total gross loan portfolio. The solvency ratio of the financial system in May 2020 stood at 14.8%. However, the Financial Superintendence estimates aggregate losses in 2020 for the financial institutions, resulting in an average ROA of -1.7%, which will reduce the solvency ratio by 1.3% compared to the May 2020 results.

Consumer loans still represent about 30% of the total loan portfolio of the financial system totaling about $157 trillion pesos. The consumer loan portfolio grew 10% year over year. According to the latest available information from the Financial Superintendence as of March 2020, payroll loans continued to represent the largest portion of the consumer loan portfolio with a 35% share. Among the consumer loan portfolio, payroll loans and credit cards grew 12% and 9% year over year, respectively.

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

2Q 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 decreased on a quarterly and annual basis, as a result of lower loan origination.

Our disbursements decreased 35.5% QoQ due to the prolonged regional quarantines and restrictions in mobilization nationwide, above the average length of quarantines in the region.

YoY origination of payroll loans and credit cards in the financial system decreased by 25% and 15%, respectively. In contrast, our total origination decreased by 2.2% YoY. On a YoY basis, our origination fell by 17% for payroll loans but grew 48% in credit cards. The former was a result of the effect of a low base of comparison from the 1H 2019, when we decided to adopt restrictive and conservative underwriting policies for credit card origination to control NPLs. After the implementation of the digital origination platform in May 2019, the origination of credit cards recovered, especially among clients with improved creditworthiness.

We have increased the share of pensioners of the total balance of payroll loans from 58% to 59% YoY.

Regarding our owned portfolio, which includes the portfolio on balance and in free standing trusts, we had a 4.0% growth QoQ due to the increase in origination of credit cards and payroll loans. YoY we experienced a 19% growth in the owned portfolio reaching a total of $1.38 trillion pesos, due to lower prepayments and to a recovery in credit card origination after launching the digital platform in May 2019.

Our managed loan portfolio, which includes our owned portfolio and the payroll loan portfolio sales, increased 2.4% QoQ totaling almost $1.64 trillion pesos, mainly due to lower prepayments in the credit card business.

The managed portfolio grew 12.4% YoY, due to a 36% growth in credit cards and a 2% increase in payroll loans. Our results confirm our origination capabilities and the resilience of our business model, allowing us to grow above the level of consumer loans in the Colombian financial system.

If we review our managed loan portfolio by product type, as of June 2020, payroll loans represented the largest portion of the total managed portfolio with a 55% share while credit cards increased their participation to 40%.

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 0.1% of the total portfolio.

In addition to our diversification, 88% 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 9.4%.

Geographically, Bogota represents 33% 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 2Q 2020.

Juan Camilo Mesa (CRO):

After the declaration of COVID-19 as a pandemic in March 2020, we decided to offer forbearance measures to our clients across all three products on a case by case basis, following the guidelines of the regulation for financial institutions in Colombia. As of June 2020, our total NPLs stood at 4.0%, reflecting the impact of the forbearance measures extended to 30% of our total managed portfolio, as we will see with more detail further in the presentation. We have also reviewed our underwriting policies to control further deterioration of our loan portfolio, including higher scores, reduction in total approved amounts for riskier clients, restriction in the origination of payroll loans among private companies and adjustments in the calculation of indebtedness capacity for government officials.

After including write-offs of loans greater than 360 days, Credivalores reached NPLs of 11.7%, below the average NPLs of consumer lending companies operating in similar products and market segments.

NPL coverage ratio of our managed portfolio and our owned portfolio, including FGA reserves, increased to 127% and 136%, respectively. This result was due to higher net impairment expenses under IFRS 9 resulting from the recognition of a higher risk of default of the overall loan portfolio arising from forbearances granted to clients affected by the macroeconomic impacts of the COVID-19 pandemic.

About 52% of the consumer loan portfolio of the Colombian financial system has received forbearances with an average tenor between 3.5 and 4 months.

For our payroll loan business, we have granted forbearance measures to around 5,100 loans totaling $75 billion pesos, which represent 8.3% of the payroll loan managed portfolio. The measures granted to clients and employers, affected by the current crisis, include grace periods by demand and change in the loan conditions such as, extension of tenors to reduce the discounted amount from the payroll or from the pension and lower interest rates. In the credit card business, we extended forbearances to more than 206,000 loans reaching $419 billion pesos equivalent to about 64% of our credit card managed portfolio. The measures implemented for the credit card business include grace periods for 2 months, extendable for 2 additional months for current and less than 30 days past due clients, restructuring of loans for clients past due more than 30 days, minimum payment alternatives for current and less than 30 days past due clients, and no collection charges or default interest rates charges for clients less than 5 days past due. These measures will remain in place during the declaration of national emergency by the Colombian government.

Digitalization Transformation

In 2019 we started a digital innovation of our business model. 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. As a result, we improved the response time to our clients delivering the credit card on site within 12 minutes.

Following our digital transformation path, in 2020 we developed a pipeline of projects to achieve 100% self-service digital origination, expand collection channels to digital platforms from specialized agents, and offer better client service.

Between April and June 2020 we implemented several projects of digital transformation.

In the client service front, we developed an online channel to request forbearances to address the needs of those clients affected by the COVID-19 crisis. We also completed new alliances with different players to facilitate digital payments for all products.

Moreover, we have dedicated a large amount of human and financial resources to innovate and transform our origination from traditional channels, that required the physical presence of our sales force, to digital channels. In this sense, in April 2020 we launched a digital loan application for our sales force to complete telephone sales for payroll loans and credit cards using a new virtual call center. In the payroll loan business, we developed an app for our sales force to facilitate their interaction with the client under current restrictions in mobilization.

We also launched an app for merchants and commercial allies so their clients could apply for a credit card at their points of sale. During the second half of 2020 we expect to launch a self-service digital platform for payroll loans and credit cards for our clients, a web-based solution to support loan origination for our sales force from remote locations and complete the digital integration through APIs with pensions funds.

We had to adapt our origination channels to the restrictions imposed to mobility and presence in retailers. We adapted the origination of our products to non-traditional channels, such as telephone sales, the use of digital platforms by our sales force, self-service digital platforms and telemarketing, which do not require the physical presence of our sales force. Total origination through non-traditional channels has grown since September 2019, currently representing 29% of total origination.

Through the development of new commercial channels and digitalization of our processes, we have been able to reduce the response times to our clients from the application to the disbursement of the loan. In payroll loans we reduced our time to disbursement by 36 hours, in credit cards by 23.75 hours and in insurance premium financing by 72 hours. Self-service channels for client service, which include the IVR, chatbot, app, virtual zone in the website, SMS and kiosks, now represent 74% of the total monthly requests we receive, reducing the waiting time for our clients, enhancing the general customer experience of them and allowing us to reduce the operating costs of call centers and client service staff.

Consequently, our efficiency ratio has improved from 66.8% in 2017 to 44.3% as of June 2020.

Now Patricia will present our financial results for the 2Q 2020.

Patricia Moreno:

2Q 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 6% quarter over quarter mainly due to lower administration fees from the credit card business and to lower fees from collections on past due accounts. Year over year interest income decreased 5.1%, 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 collections on past due accounts.

The gross financial margin increased considerably quarter over quarter, mainly due to a 64% decrease in financial costs from lower debt balances, resulting from the amortization of a US$35 million note under the ECP Program and the repurchase and cancellation of US$32 million of principal of the 2025 bonds, and a lower IBR rate. The Open Market Repurchases on the 2025 bonds at a discount price in the secondary market, resulted in an income of $35.5 billion pesos in the quarter, which was reflected as lower financial costs in our P&L.

Net impairments increased 37% on a quarter over quarter basis, resulting from the recognition under IFRS 9 of a higher risk of default of the overall loan portfolio arising from forbearance measures granted. Year over year, gross financial margin declined 17%, due to these same reasons.

The selling, general and administrative expenses, which are referred to as other expenses in our income statement, decreased 13.9% quarter over quarter due to a resize of staff and expenses related to operations according to the new expected originations under the COVID-19 scenario.

SG&A decreased on a quarterly and yearly basis due to lower employee's benefits, resulting from an organizational restructuring that reduced the cost of administrative staff, the optimization of contracts for technical support and lower expenses for insurances, fees and temporary services.

With regards to the net operating income, quarter over quarter we had a significant improvement due to a better gross financial margin due to lower financial costs, and a reduction in SG&A expenses. Net operating income decreased importantly year over year, mainly due to higher net impairment expenses.

As of June 2020, 100% of our foreign currency debt was hedged to pesos through short-term forwards, cross currency swaps and options.

Regarding the non-operating results in the income statement, the impact of non-recurring items during the second quarter of the year, was a financial income of $2.3 billion pesos. Year over year, the result was a net financial income of $7.8 billion pesos, mainly due to two events: i) first, the net result between the income received from unwinding hedging transactions with positive mark-to-market to Credivalores, after cancelling the 2025 bonds repurchased under OMRs, and the compensation costs related to non-delivery forwards used to hedge the FX risk on the ECP Program Notes, and ii) second, the financial returns on excess cash.

If we eliminate the impact of non-recurring items from our income statement, we would have experienced a $3 billion pesos net income before taxes.

When considering all the impacts from non-operating items, our net income before taxes totaled $7.3 billion pesos as of June 2020. The net income for the first half of the year was $4.5 billion pesos and was mainly due to lower financial costs related to liability management transactions.

June 2020 Financial Results- Balance Sheet

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

Our shareholders' equity increased to $319 billion pesos, showing a 13% 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 5.2 times, in line with the December 2019 figure. This was a result of the 13% growth in our shareholders' equity and a 14% increase in the financial debt net of the FX impact, after the issuance of the 2025 notes, the amortization and issuance of notes under the ECP Program and the repurchase and cancellation of a portion of the 2025 notes under Open Market Repurchases.

Our solvency ratio, calculated as equity to assets, stood at 12.2% 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 13.8%. Lastly, the capitalization ratio, measured as the total shareholders' equity divided by net loan portfolio, totaled 27.9% as of June 202,0 remaining above the 13.5% level required by the covenant of the Notes due 2022 and 2025.

Between December 2019 and June 2020, total capitalization, including the FX impact on debt, increased 27% to almost $2.5 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, stood at 146%, above the minimum 110%, required by the covenant.

Our average funding cost, including transactions costs and fees, stood at 11.8% during the second quarter of 2020, about 100 basis points below the levels of December 2019. 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 76% of our debt is indexed to, and to the positive impact from liability management transactions carried out in 2020.

Debt Profile- June 2020

In terms of our financial obligations by source as of June 2020, 76% corresponded to the notes due 2022 and 2025, 13% to the notes under the ECP Program, 8% to the secured domestic sources and 3% to the unsecured domestic sources. We have sufficient sources of funding to serve our needs in the 2H 2020 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 ECP Program. These sources and the cash at hand we maintain, add up to $1.6 trillion pesos, and as of June 2020 we had $835 billion pesos available under these lines, including the cash at hand. About $331 billion pesos of the total approved lines are committed credit lines with financial institutions and as of June 2020 we had $163 billion pesos available to use.

Below, we present the debt maturity profile as of December 2019 and June 2020. Average life of our debt stood at 3.1 years in June 2020. The average life of our domestic debt is 1.9 years, as most of these credit lines are revolving and short-term, and the average life of our external debt is 3.2 years. The secured debt amortizations include an IFC facility, with about $9.1 billion pesos outstanding, and a local syndicated loan for payroll loans, which is revolving for the following 18 months. After paying the $132 billion pesos amortization of the ECP Program notes due in May 2020, the remaining debt amortizations for the year correspond to revolving loan facilities with local financial institutions.

Current total financial obligations also reflect a new US$20 MM ECP Program note due September 2021 and the repurchase of US$32 million of principal of the notes due 2025, resulting in a new outstanding amount of US$268 million.

Financial Obligations- June 2020

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

Total financial obligations, net of the FX impact, increased 14% to $1.67 trillion pesos between December 2019 and June 2020, mainly as a result of the US$300 million issuance of the 2025 notes, the amortization and new issuance of notes under the ECP Program and the Open Market Repurchases of the notes due 2025. By the end of June 2020, 92% of our total debt was unsecured and only 8% was secured. 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, 12% of maturities were due in less than 12 months and 88% 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, NPLs as of June 2020 are impacted by forbearance measures granted to clients across all products and by more restrictive underwriting policies implemented since March 2020. The resilience of our business model allowed us to significantly improve the NPLs in the credit card business, through digital platforms for origination, resulting in reduced costs and improved efficiency and quality of the loan portfolio. Under IFRS 9 we are currently increasing the net impairment expenses to recognize a higher risk of default of the overall loan portfolio, arising from forbearance measures granted to clients affected by the COVID-19 crisis. Regarding our financial results, our net income of $4.5 billion as of June 2020 was as mainly due to lower financial costs, higher net impairment expenses and lower operational expenses.

The US$300 million bond issuance and the sources of funding secured in the last months, allowed 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 are developing new funding sources for 2021 including: secured loans backed by payroll loan portfolio, domestic bonds and loans from multilateral agencies. 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 3.0 years.

Finally, we have adapted our origination capabilities to new non-traditional commercial channels under the COVID-19. Currently, origination through non-traditional channels accounts for 29% of total origination. We expect to launch a self-service digital platform for credit card and payroll loan origination in August 2020, allowing us to recover the dynamics of these products under conditions of restricted mobilization.

As discussed in our previous conference calls this year, we include additional details on our action plan to cope with the COVID-19 effects in 2020 in the following section. 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 the questions coming from the web. If you have a question, please press star (*) then one (1) on your touchtone phone. If you wish to be removed from the queue, please press the pound sign or the hash key (#). If you are using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again, if you have a question please press star (*) then one (1) on your touchtone phone. And we're standing by for questions.

Our first question online comes from Mr. Nick Dimitrov, from Morgan Stanley. Please go ahead.

Nick Dimitrov:

Hi there. Good morning. I have a couple of questions. So when we look at your earnings on a sequential basis with Qs soaring back to a profit, which is a good thing, and then there were two main positive drivers. One is very kind of intuitive. You cut costs by about 14% quarter over quarter so that helped. However, the other actually bigger driver is the fact that your interest expense declined by about 65% quarter over quarter. And this is where I kind of struggle because your interest expense in Q2 swelled to 20 billion. I scooped Q1 2020, where you issued your bonds, you had elevated expenses and stuff like that, so I go back to 2019, and in any given quarter in 2019 your interest expense was around COP 45 to 50 billion. So in other words, interest expense declined more than 50% in Q2 versus any given quarter in 2019. So I have a hard time reconciling the numbers because your overall amount of debt actually went up. And you can give some rationale that maybe the cost of funding declined but still doesn't explain such a steep reduction in the interest expense. So maybe you can kind of give us some color on exactly what's happening with that number.

Patricia Moreno: Sure. The main impact is coming from the open market repurchases that we carried out on the 2025 bond. We repurchased the bond at a discount price. And the result of this was an income of about COP 35.5 billion in the quarter, which we reflected in our P&L as a lower financial cost, following accounting standards. The gain went into lower financial interest.

Nick Dimitrov: Okay. So it's the gain. Okay. Got it.

Patricia Moreno: It's that.

Nick Dimitrov: So...

Patricia Moreno: Specifically. So you are right. We have a higher debt balance in the quarter. Going forward, as of September what we will see is probably a recovery of the financial interest to levels that are more in line with historical levels because this was a one-off effect because of the repurchase of the bond.

Nick Dimitrov: Okay. Got it. Okay.

My second question is going to be on asset quality. And I understand there is a lot of forbearance going on, right? But I was looking at your delinquency buckets and specifically the 60- to 90-days and from 90- to 180-days. There, the NPLs declined roughly around 50% or more than 50%, depending which bucket you're looking at, right? So I was under the impression that when you provide forbearance, you normally provide forbearance to borrowers that are in good standing, that are current on their payments, but because of everything that happened, you give them two months or whatever the relief measure is, right? But it does seem like you actually went and provided forbearance to loans that were already not performing. Is that the right assumption here? Because I can't find any other explanation.

Juan Camilo Mesa: It is. It is the right assumption. But it relates specifically to the credit cards that operate through the public service bill. So what happened was, these companies, when they gave forbearance to their clients, there was no bill for that month. So, we had to do the same for all the clients, independent of the delinquency. However, as we mentioned during the conference, all of these clients revealed the actual risk under the IFRS 9 model. So, although you might see the delinquency come down, the actual risk of the client is revealed in the provisions.

Nick Dimitrov: Yeah. Correct. Yes. Provision expense went up. I mean, I calculate cost of risk of about 7% in change, which makes sense. It was intuitive. That's why I'm not asking questions. It was the fact that the delinquency bucket shrunk, which I had a hard time reconciling.

What is your experience with these loans that were in forbearance? I mean, your relief measures are relatively short. A couple of months, stuff like that. Have you had any experience in terms of clients that have already come to the end of that relief period or grace period, whatever you call it? And what is the experience in terms of going back to the original payment schedule?

Juan Camilo Mesa: Yes. So on average, from the people that have come out of this forbearance, what we are seeing in credit cards is that, on average, 60 to 70% are able to make the payments that are due. The other part needs an additional forbearance or an additional measure to lower the payment that is due.

Nick Dimitrov: Okay. So but then you have another in-house developed program specifically for the guys that aren't able to go back to their original payment schedule.

Juan Camilo Mesa: Sorry? I didn't get that. Can you repeat, please?

Nick Dimitrov: No, what I was saying was that you have another program specifically targeted at borrowers that come out of the forbearance measure but aren't able to go back to the original payment schedule.

Juan Camilo Mesa: Yes. Indeed. Indeed.

Nick Dimitrov: Okay. So based on all of this, and I agree with you, I believe on cost of risk as being a much better indicator in terms of where this is going, where do you see asset quality going in terms of when are we going to see the peak? Everything is always being pushed towards, you know, late in 2020. Is it a fair assumption that 2020 is going to be probably the most difficult quarter, from an asset quality point of view? Or you might push it further into the future, into early 2021?

Juan Camilo Mesa: I would say that we expect it to happen in the last quarter of 2020 and the first of 2021.

Nick Dimitrov: Okay.

Juan Camilo Mesa: However, this is a projection. Whatever happens with the pandemic in Colombia will affect this. But that's what we are expecting right now.

Nick Dimitrov: Got it. One last question regarding capital. I know that, from a previous discussion you said that, you know, something that you considered right for just different market conditions was seeing some of your peers in Mexico either raise capital or announce plans to raise capital. Any developments on that front?

Patricia Moreno: Well, part of the measures that we took during the second quarter with the open market repurchases and the secondary effect was also additional income and, it's not really a capitalization, but of course it had a positive impact at the end for our shareholders' equity. So we consider this measure for now sufficient for what we are projecting for the rest of the year and shareholders have not discussed additional capitalization from the one that we are already securing from the open market repurchases that I told you about and in so far the results are also accompanying this decision.

Nick Dimitrov: Okay. Got it. Alright. Thank you.

Operator: Thank you. Once again, for any questions on the phone, press star (*) then one (1) on your touchtone phone.

Okay. We have no further questions at this time on the phone. Now we'll answer the questions coming from the web.

Patricia Moreno: Let me read some of the questions we have received.

We have a question from Rodrigo Tejada. "When do you expect to place the issue of the securitization of payroll loans?"

What we have decided so far is to postpone the issuance of the securitization in the local market for 2020. We are monitoring conditions of the market to see if we have enough appetite from institutional investors to look at this option again. But what we are doing right now is working with counterparties to see if we can move to a bilateral transaction that will be also secured for payroll loans but with conditions that are probably better under current circumstances for the local market. So this is what I can tell you. Our needs for 2020 in terms of portfolio growth and debt amortizations are completely net this year so what we are doing right now is structuring sources of funding to cover our 2021 needs. So, this is the work that we are going to finish for the rest of this year and this structure should be ready to be used probably by the end of this year, starting to finance our needs for 2021.

A question from Adrian Garcia. "Can you confirm that the loans that are benefiting from the forbearance are being included as NPLs?"

Juan Camilo Mesa: Are being excluded? Yes.

Patricia Moreno: Included. Included.

Juan Camilo Mesa: Oh, no. Included? No.

Patricia Moreno: Yeah. They're accounted as current loan portfolio, right?

Juan Camilo Mesa: Yes.

Patricia Moreno: Okay. There's another question from Frank Neiman regarding the buyback. "What price was the gain in dollars and what was the gain and unwinding of derivatives?"

So the price of the repurchase of the bond was about 61.5%. That was the average price of all the market repurchases that we carried out. As we mentioned during the call, the net income that we received from this was in pesos, COP 35.5 billion. That comes down to about USD 9 million, more or less. And the gain that we obtained for the unwinding of the derivatives was about USD 2.2 million, net of all transactions.

There's another question from Drake Morgan. "What was the one-off gain from…?" That's the same question that we just answered.

Another question from Sebastian Arango. "What is the status of the relief delivered to credit card debtors? What percentage of clients remains without service in their debt? What is the collection percentage during the last three months on the credit card product?"

Juan Camilo Mesa: So currently, during the last month, we had around 15% of credit cards that was still under the forbearance. The collections have been around 70% of what was due for that month and it's been a steady recovery since April. What was the other question, Patricia? I'm sorry.

Patricia Moreno: "What's the collection percentage during the last three months on the credit card product?"

Juan Camilo Mesa: Yeah. I'm not sure during the last three months but the latest one, we were around 75%.

Patricia Moreno: Okay.

At this point, we have no further questions from the webcast.

Operator: We have a question on the line from Natalia Corfield, from JP Morgan. Please go ahead.

Natalia Corfield: Yeah. Hi. Thank you. Actually, my question was answered. It was about how much you had purchased of the bond, which I understand was USD 9 million at the price of…

Patricia Moreno: No.

Natalia Corfield: Sorry?

Patricia Moreno: No. We repurchased USD 32 million of principal.

Natalia Corfield: USD 42 million.

Patricia Moreno: 32. 3-2. 32.

Natalia Corfield: Okay. Alright. And then, well, since you took my question, just another one then. In terms of provision expenses, what are you expecting for the next quarters? Because I'm seeing like you increased. Do you expect to increase more? Like relative to the previous quarter of this year wasn't that much. So what are you expecting in terms of provision expenses? Is the peak going to be by the end of the year as well to get to the NPLs? What are your expectations?

Patricia Moreno: We are working... I don't know, Juan Camilo, you want to take that one?

Juan Camilo Mesa: Yeah. I was just going to say that we do expect the peak to happen between the last quarter of this year and the first of 2021. Regarding the provision expenses, we do expect it to increase. However, we are still tinkering with the best prognostication of these provision expenses.

Natalia Corfield: Do you have a...

Patricia Moreno: Our internal forecast for 2020, the latest one that we have run, assumes an increase in net impairment expenses between 40 to 50%, compared to the total impairment expenses as of December 2019. This is for the whole year. For 2020.

Natalia Corfield: Okay.

Patricia Moreno: And this is, right now, I wouldn't say the base scenario, but the stress scenario.

Natalia Corfield: Okay. Thank you very much.

Operator: We have a question online from Adrian Garcia, from Invesco. Please go ahead.

Adrian Garcia: Hi. Thank you very much. I want to follow up regarding the treatment of NPLs and forbearance because when I look at the slide where you talk about your NPLs, you mention that NPLs reflect the impact of forbearance. However, in my previous question you mentioned that loans that are affected by the forbearance are being treated as performing. So I'm curious. I'm not following how the forbearance loans have impacted NPLs if the case is they are performing.

Juan Camilo Mesa: Yeah. So what happens is in how the forbearance works, whatever credit we give a forbearance, the day past due go back to zero because of how the amortization works on the core system. However, because of this, what we do is the cost of risk reflects the actual risk of the client and not the days past due.

Adrian Garcia: Right. But do you have...

Patricia Moreno: So you have a lower amount of loans past due, in our NPLs it would be greater than 60 days, so you have a lower balance there for loans that are considered current under forbearance measures.

Adrian Garcia: So you're saying your NPLs would be understated.

Patricia Moreno: It's not capturing today the whole effect of the duration of the portfolio because of the forbearance measures. And this is what we have been explaining all along.

Juan Camilo Mesa: And it's important to mention that this is standard for the whole financial system in Colombia. Forbearances underscore the NPLs of whatever company you follow.

Adrian Garcia: Understood. Thank you.

Operator: Thank you. Our next question on the line comes from Nick Dimitrov, from Morgan Stanley. Please go ahead.

Nick Dimitrov: Hi there. Sorry. Just a follow-up. The gain from the repurchase of the Credivalores '25 notes, that 35 billion, is that pre-tax or is after tax?

Patricia Moreno: That's pre-tax.

Nick Dimitrov: Pre-tax. Okay. So because that number is buried in the interest expense, if I was to back it out, interest expense is more in line of 55 billion. That is a fair number, right? Because it's more or less in line with the previous quarters. Would you confirm that?

Patricia Moreno: Total financial cost… You mean for the quarter?

Nick Dimitrov: Currently, 20 billion.

Patricia Moreno: It's 20... Yes. 22 billion for the quarter.

Nick Dimitrov: And if you add back the gain of 35 billion, then it's 50 something. 55.

Patricia Moreno: Yes.

Nick Dimitrov: Okay. Okay.

Patricia Moreno: That's correct.

Nick Dimitrov: Thank you.

Patricia Moreno: But regarding your question on the financial cost, there is this impact, of course, during the second quarter, that's the largest one, the main effect, but we also are expecting for the rest of the year lower financial costs coming from lower interest rates. The Central Bank has reduced the reference rate by 200 basis points since the beginning of the year and this has translated quickly into a lower IBR rate and about 76% of our debt is indexed to the IBR, after doing all the cross-currency swap that we have done on our U.S. dollar bonds. They are indexed to the IBR rate. So we already in the second quarter experienced a reduction in financial costs because of this and during the second half of the year we expect greater impact from lower interest rates.

Nick Dimitrov: But then there's going to be also an impact on the revenues from your portfolio, right?

Patricia Moreno: Not necessarily. We currently have about more than 60% of our portfolio in fixed rates.

Nick Dimitrov: Fixed. Yeah. Okay. I was looking at the revenue from customer contracts' line. And that one sees obviously the fees related to your product. That one declined precipitously. It's obviously related to origination and everything, you know, impacted by forbearance and stuff like that. But what is your guidance on that line specifically?

Patricia Moreno: Our scenario also, the forecast for 2020 that we are just running this week, also assumes a recovery in commissions and fees during the second half of 2020 to levels more in line to what we had probably during the first quarter of this year.

Nick Dimitrov: Okay.

Patricia Moreno: On a quarterly basis.

Nick Dimitrov: Okay. And that assumes a pickup in origination. That line is going to recover.

Patricia Moreno: Yeah. Not necessarily. Not necessarily the pickup in origination. We know that it's still uncertain because it would depend on the lifting of restrictions in mobilization in the country and we are having regional quarantines everywhere so it's impossible to know right now exactly if we're going back to normal business conditions during the whole second half of the year now. But what we are assuming are strategies that are already being carried out in terms of pricing, in terms of optimizing also new loans versus renewed loans. When you do a new loan you are able to charge additional commissions and fees that you are not doing if you renew a loan so those types of commercial strategies that we are following up right now are the ones included in these assumptions.

Nick Dimitrov: Okay. Got it. Thank you.

Operator: At this time, I see we have no questions in the queue. Do we have any questions from the webcast?

Patricia Moreno: No. No additional questions. Thank you very much for the conference call.

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